# Community Foundation of the Napa Valley and Subsidiary

Consolidated Financial Statements

June 30, 2019 and 2018

armanino

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Foundation of the Napa Valley and Subsidiary
Napa, California

We have audited the accompanying consolidated financial statements of Community Foundation of the Napa Valley and Subsidiary (a California nonprofit corporation) (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, 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 of the Napa Valley and Subsidiary as of June 30, 2019 and 2018, 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.

**Change in Accounting Principle**

As described in Note 2 to the consolidated financial statements, the Foundation has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Armanino LLP

Armanino$^{\text{LLP}}$
San Francisco, California

December 3, 2019

Community Foundation of the Napa Valley and Subsidiary
Consolidated Statements of Financial Position
June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| Cash and equivalents | $ 896,232 | $ 7,319,677 |
| Investments | 37,167,115 | 28,140,781 |
| Contributions receivable | 7,217,617 | 417,200 |
| Note receivable | 26,664 | 33,331 |
| Beneficial interest in split-interest agreements | 29,240 | 29,240 |
| Other receivables | 9,255 | 16,579 |
| Receivable from grantees | - | 215,750 |
| Property and equipment, net | 2,000,326 | 2,083,779 |
| Total assets | $ 47,346,449 | $ 38,256,337 |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities | | |
| Accounts payable and accrued expenses | $ 127,315 | $ 110,205 |
| Grants payable | 318,212 | 474,783 |
| Funds held as agent | 2,042,325 | 2,185,551 |
| SBA loan payable | 130,241 | 135,080 |
| Total liabilities | 2,618,093 | 2,905,619 |
| Net assets | | |
| Without donor restrictions | 13,273,164 | 14,394,487 |
| With donor restrictions | 31,455,192 | 20,956,231 |
| Total net assets | 44,728,356 | 35,350,718 |
| Total liabilities and net assets | $ 47,346,449 | $ 38,256,337 |

The accompanying notes are an integral part of these consolidated financial statements.

Community Foundation of the Napa Valley and Subsidiary
Consolidated Statement of Activities
For the Year Ended June 30, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenues, gains, and other support | | | |
| Contribution revenue | $ 4,397,777 | $ 12,483,768 | $ 16,881,545 |
| Other income | 15,811 | - | 15,811 |
| Interest and dividend income | 325,942 | 490,761 | 816,703 |
| Realized and unrealized investment gains, net | 163,382 | 547,480 | 710,862 |
| Rental income | 267,396 | - | 267,396 |
| Administrative fee income | 33,270 | - | 33,270 |
| Net assets released from restriction | 3,023,048 | (3,023,048) | - |
| Total revenues, gains, and other support | 8,226,626 | 10,498,961 | 18,725,587 |
| Functional expenses | | | |
| Program | 8,663,999 | - | 8,663,999 |
| Support services | | | |
| Management and general | 365,923 | - | 365,923 |
| Fundraising | 318,027 | - | 318,027 |
| Total support services | 683,950 | - | 683,950 |
| Total functional expenses | 9,347,949 | - | 9,347,949 |
| Change in net assets | (1,121,323) | 10,498,961 | 9,377,638 |
| Net assets, beginning of year | 14,394,487 | 20,956,231 | 35,350,718 |
| Net assets, end of year | $ 13,273,164 | $ 31,455,192 | $ 44,728,356 |

Community Foundation of the Napa Valley and Subsidiary
Consolidated Statement of Activities
For the Year Ended June 30, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenues, gains, and other support | | | |
| Contribution revenue | $ 6,372,459 | $ 22,346,130 | $ 28,718,589 |
| Interest and dividend income | 263,817 | 211,421 | 475,238 |
| Realized and unrealized investment gains, net | 229,768 | 292,033 | 521,801 |
| Rental income | 225,000 | - | 225,000 |
| Administrative fee income | 26,070 | - | 26,070 |
| Net assets released from restriction | 10,411,090 | (10,411,090) | - |
| Total revenues, gains, and other support | 17,528,204 | 12,438,494 | 29,966,698 |
| Functional expenses | | | |
| Program | 15,539,406 | - | 15,539,406 |
| Support services | | | |
| Management and general | 440,669 | - | 440,669 |
| Fundraising | 143,974 | - | 143,974 |
| Total support services | 584,643 | - | 584,643 |
| Total functional expenses | 16,124,049 | - | 16,124,049 |
| Change in net assets | 1,404,155 | 12,438,494 | 13,842,649 |
| Net assets, beginning of year | 12,990,332 | 8,517,737 | 21,508,069 |
| Net assets, end of year | $ 14,394,487 | $ 20,956,231 | $ 35,350,718 |

The accompanying notes are an integral part of these consolidated financial statements.

Community Foundation of the Napa Valley and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2019

| | Program | Management and General | Fundraising | Total |
|---|---|---|---|---|
| Staffing | | | | |
| Salaries | $ 435,631 | $ 233,060 | $ 157,233 | $ 825,924 |
| Payroll taxes | 32,181 | 17,217 | 11,615 | 61,013 |
| Employee benefits | 43,874 | 14,984 | 15,287 | 74,145 |
| Retirement plan contributions | 11,795 | 6,305 | 4,417 | 22,517 |
| Worker's compensation | 2,104 | 1,126 | 759 | 3,989 |
| Staff training and recruitment | 9,149 | 1,376 | - | 10,525 |
| Total staffing | 534,734 | 274,068 | 189,311 | 998,113 |
| Grant expenses | 7,652,055 | - | - | 7,652,055 |
| Depreciation | 84,064 | 127 | 107 | 84,298 |
| Events and meetings | 7,246 | 12,012 | 13,048 | 32,306 |
| Legal services | 104,457 | - | - | 104,457 |
| Accounting services | - | 43,335 | - | 43,335 |
| Office expense | 16,162 | 7,483 | 6,285 | 29,930 |
| Strategic Plan | 9,000 | 4,167 | 3,500 | 16,667 |
| Repairs and maintenance | 60,927 | - | - | 60,927 |
| Utilities | 24,021 | - | - | 24,021 |
| Landscaping | 3,744 | - | - | 3,744 |
| Computer and web maintenance | 31,037 | 14,369 | 12,069 | 57,475 |
| Liability insurance | 9,564 | 715 | 600 | 10,879 |
| Dues and subscriptions | 11,083 | 5,131 | 4,310 | 20,524 |
| Telephone | 7,238 | 3,350 | 2,815 | 13,403 |
| Consulting | 98,760 | - | - | 98,760 |
| Travel | 1,700 | 914 | 523 | 3,137 |
| Marketing and communications | - | - | 85,248 | 85,248 |
| Property taxes | 1,018 | - | - | 1,018 |
| Postage and shipping | 544 | 252 | 211 | 1,007 |
| Interest expense | 3,488 | - | - | 3,488 |
| Other program expenses | 3,157 | - | - | 3,157 |
| | $ 8,663,999 | $ 365,923 | $ 318,027 | $ 9,347,949 |

Community Foundation of the Napa Valley and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2018

| | Program | Management and General | Fundraising | Total |
|---|---|---|---|---|
| Staffing | | | | |
| Salaries | $ 392,282 | $ 310,268 | $ 72,953 | $ 775,503 |
| Payroll taxes | 28,514 | 22,553 | 5,303 | 56,370 |
| Employee benefits | 47,888 | 13,920 | 11,258 | 73,066 |
| Retirement plan contributions | 11,024 | 6,015 | 3,669 | 20,708 |
| Worker's compensation | 2,024 | 1,600 | 376 | 4,000 |
| Staff training and recruitment | 2,723 | 60 | - | 2,783 |
| Total staffing | 484,455 | 354,416 | 93,559 | 932,430 |
| Grant expenses | 14,523,008 | - | - | 14,523,008 |
| Depreciation | 84,513 | 127 | 82 | 84,722 |
| Investment management fees | 52,990 | - | - | 52,990 |
| Events and meetings | 4,780 | 8,995 | 17,944 | 31,719 |
| Legal services | 54,802 | - | - | 54,802 |
| Accounting services | - | 43,270 | - | 43,270 |
| Office expense | 12,602 | 5,340 | 3,418 | 21,360 |
| Strategic Plan | 12,217 | 5,176 | 3,313 | 20,706 |
| Repairs and maintenance | 30,994 | - | - | 30,994 |
| Utilities | 23,094 | - | - | 23,094 |
| Landscaping | 5,976 | - | - | 5,976 |
| Computer and web maintenance | 34,935 | 14,803 | 9,474 | 59,212 |
| Liability insurance | 8,908 | 712 | 455 | 10,075 |
| Dues and subscriptions | 8,577 | 3,635 | 2,326 | 14,538 |
| Telephone | 8,948 | 3,791 | 2,427 | 15,166 |
| Consulting | 121,903 | - | - | 121,903 |
| Travel | 1,103 | 278 | 289 | 1,670 |
| Marketing and communications | - | - | 10,606 | 10,606 |
| Property taxes | 1,092 | - | - | 1,092 |
| Postage and shipping | 299 | 126 | 81 | 506 |
| Interest expense | 3,634 | - | - | 3,634 |
| Other program expenses | 60,576 | - | - | 60,576 |
| | $ 15,539,406 | $ 440,669 | $ 143,974 | $ 16,124,049 |

The accompanying notes are an integral part of these consolidated financial statements.

Community Foundation of the Napa Valley and Subsidiary
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ 9,377,638 | $ 13,842,649 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 84,298 | 84,722 |
| Net realized and unrealized gains on investments | (782,152) | (521,801) |
| Forgiveness of note receivable | 6,667 | 6,667 |
| Changes in operating assets and liabilities | | |
| Contributions receivable | (6,800,417) | (89,000) |
| Receivable from grantees | 215,750 | (215,750) |
| Other receivables | 7,324 | 6,959 |
| Accounts payable and accrued expenses | 17,110 | 63,352 |
| Grants payable | (156,571) | 177,508 |
| Funds held as agent | (143,226) | 141,813 |
| Net cash provided by operating activities | 1,826,421 | 13,497,119 |
| Cash flows from investing activities | | |
| Purchases of investments | (27,509,323) | (18,131,413) |
| Proceeds from sales of investments | 19,265,141 | 11,387,665 |
| Purchase of construction-in-progress asset | (845) | - |
| Principal payments on loan payable | (4,839) | (4,695) |
| Net cash used in investing activities | (8,249,866) | (6,748,443) |
| Net increase (decrease) in cash | (6,423,445) | 6,748,676 |
| Cash and cash equivalents, beginning of year | 7,319,677 | 571,001 |
| Cash and cash equivalents, end of year | $ 896,232 | $ 7,319,677 |

Supplemental disclosure of cash flow information

| | | |
|---|---|---|
| Cash paid during the year interest | $ 3,488 | $ 3,634 |

The accompanying notes are an integral part of these consolidated financial statements.

## 1. NATURE OF OPERATIONS

The Community Foundation of the Napa Valley (the "Foundation"), DBA Napa Valley Community Foundation, is a nonprofit corporation organized in 1994 under the laws of the State of California. The mission of the Foundation is to mobilize resources, promote philanthropy and provide leadership on vital community issues in Napa County. We look for charitable projects that make a lasting difference. We commit our resources to these projects, and inspire others to do so as well. We believe there is strength in numbers—that by working together, we can help more people more quickly than any one donor acting alone. We multiply the impact of individual givers, pooling resources for the common good in our Community Impact Funds. We serve as a catalyst for positive change in Napa County.

The Foundation aims to multiply the impact of individual givers, pooling resources and investing in charitable projects that make a difference to the Napa Valley community. It does this by: managing charitable Funds established by donors during their lifetimes (e.g. Donor Advised Funds, Field of Interest Funds) and through their estate plans; leveraging grants from donor-directed Funds with Discretionary grants, or Community Impact Funds that focus on particular issues in the community; building the capacity of the nonprofit sector with technical assistance; and community leadership work through our initiatives in areas like immigration, disaster relief and housing. Since 1994, the Foundation has served as a bridge between philanthropic families and hard-working nonprofit agencies bringing people, ideas and resources together to enhance the quality of life for all who live in Napa County.

During 2004, the Foundation created a supporting organization named CFNV Charitable Real Estate Fund (CREF), a charitable nonprofit corporation. This entity holds title to one property: a 14,000 square foot office building located at 3299 Claremont Way in Napa, the offices of the Foundation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Change in accounting principle</u>

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entitie*s. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
    a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
    b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
    c. Methods used to allocate costs among program and support functions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

d. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.

e. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.

f. Underwater endowment funds.

3. Reporting investment return net of external and direct internal investment expenses.

4. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments have been applied on a retrospective basis in 2019, with the option to omit the disclosures about liquidity and availability of resources for the prior year comparative period.

The adoption of ASU 2016-14 has the following effect on net assets as of June 30, 2018:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Unrestricted | $ 14,394,487 | $ - | $ 14,394,487 |
| Temporarily restricted | - | 14,584,878 | 14,584,878 |
| Permanently restricted | - | 6,371,353 | 6,371,353 |
| Net assets as reported after adoption of ASU 2016-14 | $ 14,394,487 | $ 20,956,231 | $ 35,350,718 |

Basis of consolidation

The consolidated financial statements include the accounts of the Foundation and CREF since the Foundation has both an economic interest in CREF and control of the same entity through a majority voting interest in the governing board. All material intercompany transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation

The Foundation prepares its consolidated financial statements using the accrual basis of accounting. The Foundation presents its activities according to two classes of net assets: without donor restrictions and with donor restrictions.

- *Net assets without donor restrictions* - include contributions and income earned on net assets that are not subject to donor restrictions.

  In accordance with Accounting Standards Codification 958-605, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others, a contribution must be classified as net assets without donor restrictions if the governing body of an organization has the unilateral power to redirect the use of a donor's contribution to another beneficiary. The Bylaws of the Foundation include a variance power provision giving the Board of Directors of the Foundation this ability. The Board of Directors may only exercise variance power and modify the restrictions or conditions on a distribution from a component fund if the restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs designated. Accordingly, the Foundation's consolidated financial statements classify the majority of funds as net assets without donor restrictions.

- *Net assets with donor restrictions* - represents net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that may expire with time or may be satisfied by actions of the Foundation according to the intention of the donor. Donor-imposed restrictions that are temporary in nature may include the portion of donor restricted funds that are not permanent in nature, until such funds are appropriated by the Foundation. Other donor-imposed restrictions require that the funds be maintained in perpetuity by the Foundation. See Note 12.

Cash and cash equivalents

Cash and cash equivalents includes all cash balances and highly-liquid investments with original maturities of three months or less at acquisition which are not managed as part of long-term investment strategies and are not legally restricted. The Foundation strives to place its cash with high quality credit institutions. Periodically, such investments may be in excess of federally insured limits.

Investments

Investments are reported at their fair values in the consolidated statements of financial position. Investment earnings or losses are included as increases or decreases in unrestricted or temporarily restricted net assets in the consolidated statements of activities. Investments received by gift are recorded at the average of the high and low price per share on the date of the gift.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

The Foundation invests in various investment securities including equity securities, corporate bonds, government bonds and various mutual funds. The Foundation also invests in alternative investments. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near-term and such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Foundation determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Unobservable inputs reflect the Foundation's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Foundation's own data.

The following methods and assumptions were used to estimate the fair value of financial assets and liabilities:

- Investments *Level 1* - Securities traded on security exchanges are valued at closing market prices, or net asset value for mutual funds, on the date of business closest to June 30.
- Beneficial interest in split-interest agreements *Level 2* - Fair value of the Foundation's interest in the charitable lead unitrust is based upon discounted expected future cash flows from the unitrust assets.

Property and equipment

Property and equipment are stated at cost, or if donated, at the estimated fair value on the date of donation. The Foundation capitalizes all equipment and improvements valued at $2,500 or greater. Minor repairs and maintenance are charge to expense as incurred. Depreciation is computed using the straight-line method over estimated useful lives of the assets ranging from five to forty years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-lived assets

The Foundation reviews the carrying value of long-lived assets for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where the expected future cash flows are less than the carrying value, an impairment loss is recognized equal to the to an amount by which the carrying value exceeds the fair value of the assets. There was no impairment loss recognized for the years ended June 30, 2019 or 2018.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the time of contribution.

Irrevocable split-interest agreements for the benefit of the Foundation are recognized as contributions when the Foundation is notified by the donor or their estate. Contributions to be received after one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the risk-free rates adjusted for potential credit risk applicable in the years in which those promises are received. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is established based upon management's judgment including such factors as prior collection history, aging statistics of contributions, and the nature of the receivable.

Grants

Grants are made from available funds in accordance with the designation of donors, in the case of donor-advised funds, or by a rigorous competitive process in which the Foundation's professional staff invite, screen and make recommendations on applications from potential grantee organizations under the oversight of the Board of Directors in the case of discretionary funds. After a thorough review and due diligence process to determine whether grants will be approved or denied, approved grants are recorded on the payment date or on the date of approval by the Board of Directors depending upon the amount of the grant. Grants that will be paid in future years are recorded at the present value of their committed payments. The discount of these amounts is computed using the market interest rate applicable at the time the grant was authorized.

Income tax status

The Foundation is a tax-exempt Foundation under Section 501(c) (3) of the Internal Revenue Code. The Foundation is also exempt from state income taxes under provisions of the California Revenue and Taxation code. Accordingly, the consolidated financial statements contain no provision for income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status (continued)

The Foundation evaluates its tax positions taken or expected to be taken to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as an expense in the applicable year. As of June 30, 2019, the Foundation does not have any significant uncertain tax positions for which a reserve would be necessary.

Funds held as agent

The Foundation receives and distributes assets under certain agency and intermediary arrangements. Accounting Standards Codification 958-605, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others,* establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor. It is required that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The funds held as agent liability has been recorded at the fair value of the assets held on behalf of the donor.

Functional expense allocation

The costs of providing for various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Indirect or shared costs are allocated to the programs and supporting services by a method that measures the estimated benefit provided.

Use of estimates

The preparation of consolidated financial statements in conformity with Accounting Principles Generally Accepted in the United States of America ("GAAP") require management to make 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. Actual results could be different from those estimates.

Subsequent events

The Foundation has evaluated subsequent events through December 3, 2019, the date the consolidated financial statements were available to be issued. On September 19, 2019 the Foundation received $4,000,000 related to the bequest receivable of $6,575,130 that was recorded at June 30, 2019. See Note 3.

## 3. CONTRIBUTIONS RECEIVABLE

In August 2017, the Foundation was notified that they were the beneficiary of an estate bequest, the proceeds of which will be used to establish a Legacy Fund in the donor's name. The income from the fund is to be used to support organizations that seek to improve or sustain small animal welfare in Napa, California. In July 2018, a Settlement Agreement and Mutual Release was entered into by the estate beneficiaries and the Foundation which allowed for the final distribution of the estate assets. During the year ended June 30, 2019, the Foundation received cash proceeds from the estate trustee in the amount of $5,000,000. A contribution receivable of $6,575,130 was recorded as of June 30, 2019 for the remaining assets expected to be received by the Foundation under this bequest. The receivable is comprised of cash to be distributed of $4,401,630, and the estimated fair value of properties to be sold, less expected costs of sale, of $2,173,500. On September 13, 2019 the Foundation received $4,000,000 related to this bequest receivable. See subsequent events in Note 2.

At June 30, 2019, contributions receivable also includes pledges of $518,487 along with an amount due of $124,000 from an estate bequest received by the Foundation in a prior year.

Future collections of contributions receivable are expected as follows:

| Year ending June 30, | |
|---|---|
| 2020 | $ 7,110,126 |
| 2021 | 107,491 |
| | $ 7,217,617 |

The accompanying consolidated financial statements do not provide for an allowance for doubtful accounts or discount to present value as management believes the value reflected on the financial statements approximates net realizable value.

## 4. INVESTMENTS

Investments consisted of the following:

| | 2019 | 2018 |
|---|---|---|
| Money market accounts | $ 8,374,299 | $ 12,330,578 |
| Mutual funds | 12,064,224 | 6,521,960 |
| Exchange traded funds | 15,158,258 | 9,288,243 |
| Hedge funds | 1,570,334 | - |
| | $ 37,167,115 | $ 28,140,781 |

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5. FAIR VALUE DISCLOSURES

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets and liabilities at fair value as of June 30, 2019:

| | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| Assets | | | | |
| Money market | $ 8,374,299 | $ - | $ - | $ 8,374,299 |
| Bond funds | 11,155,697 | - | - | 11,155,697 |
| Equity funds | 908,527 | - | - | 908,527 |
| Exchange traded funds | 15,158,258 | - | - | 15,158,258 |
| | $ 35,596,781 | $ - | $ - | 35,596,781 |
| Hedge funds measured at net asset value | | | | 1,570,334 |
| | | | | $ 37,167,115 |
| Beneficial interest in split-interest agreements | $ - | $ 29,240 | $ - | $ 29,240 |

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets and liabilities at fair value as of June 30, 2018:

| | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| Assets | | | | |
| Money market | $ 12,330,579 | $ - | $ - | $ 12,330,579 |
| Bond funds | 4,293,585 | - | - | 4,293,585 |
| Equity funds | 2,228,375 | - | - | 2,228,375 |
| Exchange traded funds | 9,288,242 | - | - | 9,288,242 |
| | $ 28,140,781 | $ - | $ - | $ 28,140,781 |
| Beneficial interest in split-interest agreements | $ - | $ 29,240 | $ - | $ 29,240 |

## 6. NOTE RECEIVABLE

The Foundation holds a note receivable from the Foundation's President as of June 30, 2019 and 2018. The Board of Directors approved an incentive compensation plan for the President during 2005. This plan was in the form of a zero interest, ten-year loan or note receivable for the express purpose of purchasing a home in Napa County, a requirement of his position. The note was to be forgiven over ten years at a rate of $20,000 per year, provided the President continues to serve the Foundation in his current position. On May 25, 2011, the Foundation amended the promissory note to extend the maturity date to May 25, 2023 and reduce the annual amount to be forgiven to $6,667 per year.

The total amount of this incentive plan is $200,000 and the related note receivable balance was $26,664 and $33,331 as of June 30, 2019 and 2018, respectively. Imputed earned interest on this loan has been recorded as interest income and as compensation for the President in the amount of $822 and $827 for the years ended June 30, 2019 and 2018, respectively. The interest rates used for the imputed interest were 2.74% and 2.26% for the years ended June 30, 2019 and 2018, respectively.

Notes receivable are expected to be reduced through forgiveness and collections as follows:

| Year ending June 30, | | |
|---|---|---|
| 2020 | $ | 6,667 |
| 2021 | | 6,667 |
| 2022 | | 6,667 |
| 2023 | | 6,663 |
| | $ | 26,664 |

## 7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Land and improvements | $ | 1,054,309 | $ | 1,054,309 |
| Buildings | | 1,878,192 | | 1,878,192 |
| Equipment and software | | 57,767 | | 57,767 |
| Construction-in-progress | | 845 | | - |
| | | 2,991,113 | | 2,990,268 |
| Accumulated depreciation | | (990,787) | | (906,489) |
| | $ | 2,000,326 | $ | 2,083,779 |

Depreciation expense was $84,298 and $84,722 for the years ended June 30, 2019 and 2018, respectively.

## 8. GRANTS PAYABLE

Future maturities of grants payable are as follows:

| Year ending June 30, | |
|---|---|
| 2020 | $ 313,290 |
| 2021 | 5,000 |
| | 318,290 |
| Less: discounts to net present value | (78) |
| | $ 318,212 |

The total has been discounted based on an expected market discount rate of 0.79%.

## 9. FUNDS HELD AS AGENT

As of June 30, 2019 and 2018, the Foundation maintained a total of $2,042,325 and $2,185,551, respectively, for other nonprofit organizations in which the organizations transferred assets to the Foundation and named themselves as beneficiaries. These balances are reported as liabilities under funds held as agent as of June 30, 2019 and 2018, respectively.

## 10. NOTES PAYABLE

On March 20, 2015, CREF entered into an agreement with U.S. Small Business Administration ("SBA") for a loan with a maximum principal of $149,700. The loan bears interest at 2.62% per year, requires principal and interest payments of $694 beginning five months from the date of the note and is due in full on March 20, 2040. Collateral for the loan is CREF's office building in Napa, California. The loan balance was $130,241 and $135,080 at June 30, 2019 and 2018, respectively.

The future maturities of the notes payable are as follows:

| Year ending June 30, | |
|---|---|
| 2020 | $ 4,965 |
| 2021 | 5,097 |
| 2022 | 5,232 |
| 2023 | 5,371 |
| 2024 | 5,514 |
| Thereafter | 104,062 |
| | $ 130,241 |

## 11. RETIREMENT PLAN

All employees are eligible to participate in the Foundation's SIMPLE-IRA retirement plan. The Foundation will contribute a dollar for dollar match up to 3% of the participating employee's gross pay.

## 12. NET ASSETS WITH DONOR RESTRICTIONS

The CREF building and improvements, as well as other Foundation-restricted net assets are restricted as to time and purpose, and the beneficial interest in the split-interest agreement is restricted as to time. The CREF building and improvements are restricted to office space for the Foundation, and to the rental of offices to other nonprofit organizations; these net assets will be released from restriction based on future depreciation expense recognition. The Foundation expects to distribute the majority of the Disaster Relief Fund in the next two to four years, focusing on programs for: healing and rebuilding; economic recovery and the workforce; and future resiliency. Other purpose restricted funds will be released from restriction when qualified expenses are incurred.

Certain donor restricted net assets represent contributions of cash and other assets in funds subject to donor-imposed restrictions that they be maintained in perpetuity by the Foundation. The CREF land is restricted for office space to the Foundation and for rental to other nonprofit organizations with a specific purpose and is to be held in perpetuity.

Net assets with donor restrictions consist of the following:

| | 2019 | 2018 |
|---|---|---|
| CREF building and building improvements | $ 1,096,682 | $ 1,179,627 |
| CREF land - held in perpetuity | 900,000 | 900,000 |
| Donor restricted endowment funds | 18,014,919 | 6,055,830 |
| Napa Valley Disaster Relief Fund | 10,558,159 | 12,463,084 |
| Other time and purpose restricted funds | 856,192 | 328,450 |
| Beneficial interest in split-interest agreements | 29,240 | 29,240 |
| | $ 31,455,192 | $ 20,956,231 |

## 13. ENDOWMENTS

The Foundation's endowment consists of 16 endowment funds permanently restricted by donors. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There were no Board-designated endowment funds as of June 30, 2019 and 2018.

13. ENDOWMENTS (continued)

Interpretation of relevant law

The Foundation's Board of Directors has interpreted the California enacted versions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Foundation to appropriate for expenditure so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be classified as net assets with donor restrictions until appropriated for expenditure by the Board of Directors.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the organization and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the Foundation

(7) The investment policies of the Foundation

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2019 and 2018.

Return objectives and risk parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the corpus of endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity unless released by donors. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the average yield results of a blend of diversified equity and bond index funds while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of at least six percent annually. Actual returns in any given year may vary from this amount.

13. ENDOWMENTS (continued)

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment composition

Changes in endowment net assets for the fiscal years ended June 30, 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance, June 30, 2018 | $ 6,955,830 | $ 6,809,462 |
| Investment return | | |
| Investment income | 258,229 | 159,018 |
| Net appreciation (realized and unrealized) | 465,857 | 281,627 |
| Total investment return | 724,086 | 440,645 |
| Contributions | 11,601,513 | - |
| Appropriation of net assets | (366,510) | (294,277) |
| | 11,959,089 | 146,368 |
| Balance, June 30, 2019 | $ 18,914,919 | $ 6,955,830 |

Investment and spending policies

The Foundation has a policy of appropriating the net investment earnings from the endowment for distribution each year. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to retain the historical cost value of all such donor restricted contributions. Real growth in the endowment is expected to occur through new donor restricted gifts in the future.

There were no unrestricted Board-designated endowment funds as of June 30, 2019 and 2018.

14. CONCENTRATIONS

The majority of the Foundation's contributions are derived from local individuals, families, organizations, and foundations. Contributions received from a single donor which are 10% or greater of total contributions for the year require disclosure. For the year ended June 30, 2019, contributions from one donor comprised 69% of total contribution revenue. For the year ended June 30, 2018, contributions from one donor comprised 17% of total contribution revenue.

14. CONCENTRATIONS (continued)

Contributions receivable from a single donor which are 10% or greater of the total contributions receivable balance at year-end require disclosure. At June 30, 2019, 91% of the contributions receivable balance was due from one donor. At June 30, 2018, 72% of the contributions receivable balance was due from two donors.

15. LIQUIDITY AND FUNDS AVAILABLE

As part of the Foundation's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To meet liquidity needs, the Foundation has cash and cash equivalents and money market fund investments available. Contributions receivable, notes receivable and other receivables that are considered current will be collected within one year.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2019 to fund general expenditures and other obligations when they become due:

| | |
|---|---|
| Financial assets at year-end: | |
| Cash and equivalents | $ 896,232 |
| Investments | 37,167,115 |
| Contributions receivable | 7,217,617 |
| Other receivables | 9,255 |
| Beneficial interest in split-interest agreements | 29,240 |
| Notes receivable | 62,806 |
| Total financial assets | 45,382,265 |
| Less: amounts unavailable for general expenditure within one year: | |
| Long-term note receivable | (19,997) |
| Grants payable | (318,212) |
| CFNV Charitable Real Estate Fund Capital Reserve Fund | (269,000) |
| Funds held as agent | (2,042,325) |
| Net assets with donor restrictions: | |
| Endowments | (18,014,919) |
| Napa Valley Disaster Relief Fund | (11,157,544) |
| All other funds restricted by time and purpose | (286,046) |
| Net assets without donor restrictions: | |
| Donor advised funds | (8,880,558) |
| Scholarship Funds (non-endowed) | (2,338,978) |
| All other funds not available for general expenditure | (786,584) |
| Financial assets available to meet cash needs for general expenditures within one year | $ 1,268,102 |

Per the Foundation's Investment Policy, the Finance Committee reviews the Foundation's financial position on a quarterly basis. The Board will authorize the implementation of investment recommendations made by the Finance Committee.

15. LIQUIDITY AND FUNDS AVAILABLE (continued)

Certain net assets without donor restrictions are not classified as net assets with donor restrictions based on a variance provision in the bylaws of the Foundation, however, those funds would not be considered as being available for general expenditures.