

# Community Foundation for San Benito County

**Financial Statements and Report of Independent Auditors**

**For the year ended October 31, 2020 with comparative totals  
as of and for the year ended October 31, 2019**

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Report of Independent Auditors

To the Board of Directors of  
Community Foundation for San Benito County:

*Report on the Financial Statements*

We have audited the accompanying financial statements of Community Foundation for San Benito County, a California nonprofit corporation, which comprise the statement of financial position as of October 31, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation for San Benito County as of October 31, 2020, and the changes in its net assets and its 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 Community Foundation for San Benito County's financial statements for the year ended October 31, 2019, and our report dated March 2, 2020, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Novogradac & Company LLP*

Petaluma, California  
April 26, 2021

**COMMUNITY FOUNDATION FOR SAN BENITO COUNTY**

STATEMENT OF FINANCIAL POSITION

October 31, 2020

with comparative totals as of October 31, 2019

**ASSETS**

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 5,945,795	\$ 844,490
Investments (Note 4)	12,208,723	11,340,061
Beneficial interest in assets held by others (Note 4)	165,405	154,180
Accounts receivable	-	340
Note receivable (Note 5)	150,000	-
Construction in progress (Note 6)	987,620	223,388
Land (Note 6)	143,354	-
Fixed assets, net of accumulated depreciation of \$25,084 and \$24,390, respectively (Note 6)	<u>2,236</u>	<u>2,930</u>
Total assets	<u>\$ 19,603,133</u>	<u>\$ 12,565,389</u>

**LIABILITIES AND NET ASSETS**

Accounts payable	\$ 31,971	\$ 28,323
Grants payable	14,750	35,000
Funds held for others (Note 7)	439,324	477,213
Paycheck protection loan (Note 8)	<u>66,087</u>	<u>-</u>
Total liabilities	552,132	540,536
Net assets		
Without donor restrictions	5,932,252	3,479,335
With donor restrictions (Note 9)	<u>13,118,749</u>	<u>8,545,518</u>
Total net assets	<u>19,051,001</u>	<u>12,024,853</u>
Total liabilities and net assets	<u>\$ 19,603,133</u>	<u>\$ 12,565,389</u>

see accompanying notes

**COMMUNITY FOUNDATION FOR SAN BENITO COUNTY**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended October 31, 2020

with comparative totals for the year ended October 31, 2019

	Without donor restriction	With donor restriction	<b>2020 Total</b>	<b>2019 Total</b>
<b>REVENUE AND OTHER SUPPORT</b>				
Contributions and grants	\$ 8,837,894	\$ 4,819,730	\$ 13,657,624	\$ 3,583,617
Investment income	440,857	353,661	794,518	1,080,064
Special event revenue net of \$15,829 of expenses	9,360	2,126	11,486	41,678
Fees charged by the Foundation, net	7,771	-	7,771	8,367
Other revenue	28,155	-	28,155	26,492
Gain on sale of land	-	52,507	52,507	-
Net assets released from restrictions:				
Change of fund to endowment	(372,497)	372,497	-	-
Satisfaction of program restrictions	1,027,290	(1,027,290)	-	-
	<u>9,978,830</u>	<u>4,573,231</u>	<u>14,552,061</u>	<u>4,740,218</u>
<b>EXPENSES</b>				
Grants awarded	6,882,941	-	6,882,941	7,800,363
Program expense	303,697	-	303,697	249,516
Management and general	299,527	-	299,527	321,281
Fundraising and development	39,748	-	39,748	48,066
Total expenses	<u>7,525,913</u>	<u>-</u>	<u>7,525,913</u>	<u>8,419,226</u>
<b>CHANGE IN NET ASSETS</b>	2,452,917	4,573,231	7,026,148	(3,679,008)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>3,479,335</u>	<u>8,545,518</u>	<u>12,024,853</u>	<u>15,703,861</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 5,932,252</u>	<u>\$ 13,118,749</u>	<u>\$ 19,051,001</u>	<u>\$ 12,024,853</u>

see accompanying notes

**COMMUNITY FOUNDATION FOR SAN BENITO COUNTY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended October 31, 2020  
with comparative totals for the year ended October 31, 2019

	2020					2019 Total
	Program Services		Management and General	Fundraising and Development	Total	
	Grants	Other				
Salaries	\$ -	\$ 149,650	\$ 88,086	\$ 29,131	\$ 266,867	\$ 256,913
Payroll taxes	-	12,457	7,333	2,425	22,215	21,818
Workers compensation	-	594	350	116	1,060	1,190
Employee benefits	-	29,176	17,173	5,679	52,028	41,394
Total Personnel	-	191,877	112,942	37,351	342,170	321,315
Grant disbursement	6,882,941	-	-	-	6,882,941	7,800,363
Events and education	-	15,861	10,154	114	26,129	59,185
Office rents	-	-	45,358	-	45,358	43,898
Hospitality	-	-	1,536	2,283	3,819	13,852
Data systems	-	-	39,351	-	39,351	39,074
Insurance	-	-	2,879	-	2,879	2,613
Office expenses	-	-	40,957	-	40,957	62,516
Repairs and maintenance	-	-	14,171	-	14,171	-
Marketing and advertising	-	94,209	-	-	94,209	21,163
Legal and accounting	-	1,750	31,485	-	33,235	55,011
Depreciation	-	-	694	-	694	236
Total expenses	<u>\$ 6,882,941</u>	<u>\$ 303,697</u>	<u>\$ 299,527</u>	<u>\$ 39,748</u>	<u>\$ 7,525,913</u>	<u>\$ 8,419,226</u>

see accompanying notes

**COMMUNITY FOUNDATION FOR SAN BENITO COUNTY**  
**STATEMENT OF CASH FLOWS**  
For the year ended October 31, 2020  
with comparative totals for the year ended October 31, 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 7,026,148	\$ (3,679,008)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions of stock	(366,213)	(55,059)
Contributions restricted for endowments	(4,819,730)	(825,466)
Depreciation	694	236
Net realized/unrealized gain on investments	(565,536)	(807,664)
Gain on sale of land	(52,507)	-
Decrease (increase) in assets:		
Accounts receivable	340	410
Pledges receivable	-	584
Increase (decrease) in liabilities:		
Accounts payable	3,648	(1,727)
Grants payable	(20,250)	(211,300)
Funds held for others	(37,889)	(54,138)
Net cash provided by (used in) operating activities	<u>1,168,705</u>	<u>(5,633,132)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed asset	-	(1,000)
(Purchase) sale of securities	(128,138)	2,737,307
Construction in progress	(764,232)	(223,388)
Proceeds from sale of land	82,507	-
Purchase of land	<u>(143,354)</u>	<u>-</u>
Net cash (used in) provided by investing activities	(953,217)	2,512,919
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for endowments	4,819,730	825,466
Proceeds from paycheck protection loan	<u>66,087</u>	<u>-</u>
Net cash provided by financing activities	<u>4,885,817</u>	<u>825,466</u>
Net increase (decrease) in cash and cash equivalents	5,101,305	(2,294,747)
Cash and cash equivalents at beginning of year	<u>844,490</u>	<u>3,139,237</u>
Cash and cash equivalents at end of year	<u>\$ 5,945,795</u>	<u>\$ 844,490</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Increase in note receivable from sale of land	<u>\$ 150,000</u>	<u>\$ -</u>

see accompanying notes

# COMMUNITY FOUNDATION FOR SAN BENITO COUNTY

Notes to Financial Statements

October 31, 2020

with comparative totals as of and for the year ended October 31, 2019

## 1. Organization

Community Foundation for San Benito County (the “Foundation”), a California nonprofit corporation, was organized in 1992 as a public benefit 501(c)(3) nonprofit corporation and has been determined not to be a private foundation under Section 509(a)(1) of the Internal Revenue Code (“IRC”). The Foundation engages primarily in the administration of funds, which are established by donors who describe either the general or specific purposes for which grants are to be made.

The Foundation’s goals are to build a permanent endowment with funds contributed by individuals and institutions, to provide grants and assistance to develop and strengthen community organizations, to encourage and facilitate collaborations among community organizations, and to inspire and promote a spirit of philanthropy and community involvement within San Benito County.

### Programs

#### *Advised Funds*

The Foundation offers several types of funds that enable donors to identify funding opportunities aligned with their values and charitable interests. Donor advised funds allow donors to recommend grant recipients, subject to the Foundation’s due diligence and approval. These funds may be advised by an individual, family, or committee of people who desire to pool their contributions toward a common purpose.

#### *Community Endowment and Field of Interest Funds*

Through the Community Endowment fund or named endowment funds, donors can contribute funds without donor restrictions to address community needs. These funds are a permanent charitable resource that grows through community support and provides much-needed funding for local programs and services. They allow the Foundation to act strategically to improve the community by addressing the most urgent needs with one-time or multi-year grants.

Field of interest funds enable donors to identify a broad charitable purpose or a category of interest (e.g. arts, education, human services, etc.) and/or geographic area or target population (e.g. senior citizens, children and youth, and immigrants).

#### *Scholarship Funds*

The Foundation administers twelve scholarship programs. The majority are designated for residents of San Benito County.

#### *Agency Endowment Funds*

Nonprofit organizations establish agency endowments that are held and managed by the Foundation. Earnings on the funds are distributed to each of the nonprofits, providing them with a permanent source of income.

## 2. Summary of significant accounting policies

### Basis of accounting

The Foundation prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. The Foundation’s year end for tax and financial reporting purposes is October 31.

### Financial statement presentation and net assets

In order to accommodate the various alternatives for donors’ distribution objectives, the Foundation’s records are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund.

# COMMUNITY FOUNDATION FOR SAN BENITO COUNTY

## Notes to Financial Statements

October 31, 2020

with comparative totals as of and for the year ended October 31, 2019

### 2. Summary of significant accounting policies

#### Financial statement presentation and net assets (continued)

The Foundation has presented its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

#### *Net Assets Without Donor Restrictions:*

Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve, and for investment in the endowment pool with earnings to be used for general operations or discretionary grants. Donor advised funds are considered without donor restrictions since the board has variance power and the funds are available for distribution upon recommendation by the donor.

#### *Net Assets With Donor Restrictions:*

Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

#### Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

#### Concentration of credit risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of temporary cash investments. The Foundation places its temporary cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposed to any one financial institution. The Board of Directors monitors the investments and changes are made to the investment policy as conditions change. The Foundation has not experienced any losses in such accounts.

For each of the years ended October 31, 2020 and 2019, three contributors, made contributions to the Foundation, which represented 92% and 88%, respectively, of total contributions.

#### Contributions and grants

Contributions and grants are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions and grants that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions and grants are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

**COMMUNITY FOUNDATION FOR SAN BENITO COUNTY**  
Notes to Financial Statements  
October 31, 2020  
with comparative totals as of and for the year ended October 31, 2019

2. Summary of significant accounting policies (continued)

Contributions and grants (continued)

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.

Revenue recognition

Revenue resulting from special events, fees charged by the Foundation, refunded grants and other income is recorded when earned.

Investments and beneficial interest in assets held by others

Investments include those held in individual funds established by donors, supporting organizations, and a variety of investment pools made available to donor funds for investment of gifted assets. Separate asset allocations are maintained for each investment pool, the endowment and supporting organizations. The asset allocation of any individual donor fund is dependent on the donor's choice of approved investment pools.

Beneficial interest in assets held by others includes funds held with the Community Foundation of Silicon Valley to invest in a revocable nonprofit investment fund which is not subject to variance power.

Realized gains or losses on the sale of marketable securities are calculated using the average cost method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the period or since the acquisition date if acquired during the period.

Accounts receivable

Management considers receivables to be fully collectible. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Note receivable and allowance for loan losses

Note receivable is reported net of an allowance for loan losses. Management's estimate of the allowance is based on historical collection experience and a review of the current status and collections of note receivable. As of October 31, 2020 and 2019, management has determined no allowance is needed.

Fair value measurements

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

**COMMUNITY FOUNDATION FOR SAN BENITO COUNTY**

Notes to Financial Statements

October 31, 2020

with comparative totals as of and for the year ended October 31, 2019

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

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.

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 October 31, 2020 and 2019:

	October 31, 2020			Fair Value Measurements
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Beneficial interest in assets held by others	\$ 165,405	\$ -	\$ -	\$ 165,405
Social investment fund	569,636	-	-	569,636
Equity mutual funds	7,959,409	-	-	7,959,409
Bond mutual funds	3,679,678	-	-	3,679,678
<b>Total assets</b>	<b>\$ 12,374,128</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,374,128</b>
<b>Liabilities</b>				
Funds held for others	\$ 439,324	\$ -	\$ -	\$ 439,324
<b>Total liabilities</b>	<b>\$ 439,324</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 439,324</b>

	October 31, 2019			Fair Value Measurements
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Beneficial interest in assets held by others	\$ 154,180	\$ -	\$ -	\$ 154,180
Land	-	-	180,000	180,000
Social investment fund	565,022	-	-	565,022
Equity mutual funds	7,166,837	-	-	7,166,837
Bond mutual funds	3,428,202	-	-	3,428,202
<b>Total assets</b>	<b>\$ 11,314,241</b>	<b>\$ -</b>	<b>\$ 180,000</b>	<b>\$ 11,494,241</b>
<b>Liabilities</b>				
Funds held for others	\$ 477,213	\$ -	\$ -	\$ 477,213
<b>Total liabilities</b>	<b>\$ 477,213</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 477,213</b>

## COMMUNITY FOUNDATION FOR SAN BENITO COUNTY

Notes to Financial Statements

October 31, 2020

with comparative totals as of and for the year ended October 31, 2019

### 2. Summary of significant accounting policies (continued)

#### Furniture and equipment and depreciation

Acquisitions and donations of furniture and equipment with a fair market value in excess of \$1,000 are capitalized and depreciated using the straight-line method over seven years, the estimated useful lives of assets.

#### Income taxes

The Foundation is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code and therefore, is generally exempt from both federal and state income taxes, except on net income derived from unrelated business activities.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Foundation to report information regarding its exposure to various tax positions taken. Management has determined whether any tax positions have met the recognition threshold and has measured its exposure to those tax positions. Management believes that the Foundation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal tax authorities generally have the right to examine and audit the previous three years of tax returns filed. California tax authorities generally have the right to examine and audit the previous four years of tax returns filed. Any interest or penalties assessed to the Foundation are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

#### Endowment funds

In August 2008, the Financial Accounting Standards Board provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). This guidance also improves disclosures about an organization's endowed funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The Foundation is subject to the required disclosures in that the Foundation classifies its unrealized gains and losses on donor-restricted endowed funds as net assets with donor restrictions. To the extent unrealized losses exceed previous unrealized gains, the unrealized losses are recorded to net assets with donor restrictions. As of October 31, 2020, the Foundation had six endowment funds with deficiencies totaling \$8,870, which had original gift values of \$145,632, and fair values of \$136,762. As of October 31 2019, the Foundation had four endowment funds with deficiencies totaling \$5,220, which had original gift values of \$111,604, and fair values of \$106,384. These deficiencies are reflected in net assets without donor restrictions.

#### Endowment investing and spending policies

The Foundation has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowed assets. The investment and spending policies work together to achieve this objective. The investment policy established an achievable return objective through diversification of asset classes.

To accomplish the long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation with an emphasis on equity based investments, within prudent risk parameters.

## COMMUNITY FOUNDATION FOR SAN BENITO COUNTY

Notes to Financial Statements

October 31, 2020

with comparative totals as of and for the year ended October 31, 2019

### 2. Summary of significant accounting policies (continued)

#### Endowment investing and spending policies(continued)

The spending policy determines the amount of money to be distributed annually from the Foundation's various endowed funds for grant making and operational support. Each endowed fund can annually expend 5% of the prior fiscal year end closing balance.

#### Funds held for others

The Foundation accepts funds from unrelated nonprofit organizations who desire to have the Foundation provide efficient investment management, programmatic expertise, and technical assistance. A liability is recorded at the readily determinable estimated fair values of assets deposited with the Foundation by nonprofit organizations.

#### Grant expense

Grants are recognized when all significant conditions are met, all due diligence has been completed and they are approved by staff or board committee. Grant refunds are recorded as a reduction of grant expense at the time the Foundation receives or is notified of the refund.

#### Fees charged by the Foundation

The Foundation charges fees to the individual funds for administration costs. For those funds investing in the asset pool, a 1.5% fee is charged each month based on an average daily balance. For funds that do not participate in the asset pool, a 7-12% fee is charged for each deposit made. For the years ended October 31, 2020 and 2019, the Foundation recorded fees charged by the operating fund to the multiple funds administration fee on a net basis, amounting to \$7,771 and \$8,367, respectively. These amounts represent the fees charged to the funds held for others. For the years ended October 31, 2020 and 2019, the total fees charged by the operating fund were \$222,385 and \$255,712, respectively.

#### Functional allocation of expenses

The costs of providing the Foundation's programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated either to direct programs or supporting services. The functional classifications are defined as follows:

- Program service expense consists of costs incurred in connection with providing services and conducting programs.
- Management and general expenses consist of costs incurred in connection with the overall activities of the Foundation, which are not allocable to another functional expense category.
- Fundraising expenses consist of costs incurred in connection with activities related to obtaining grants and activities designed to generate revenue.

Expenses that are specially associated with a programmatic activity or supporting service are allocated to that activity. Personnel expenses are allocated based on employee time attributed to each programmatic activity or supporting service. Office rent expense and depreciation are allocated based on square footage. All other expenses are allocated based on time and effort.

#### Subsequent events

Subsequent events have been evaluated through April 26, 2021, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

**COMMUNITY FOUNDATION FOR SAN BENITO COUNTY**

Notes to Financial Statements

October 31, 2020

with comparative totals as of and for the year ended October 31, 2019

3. Availability and liquidity

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity: the income generated from such endowments is used to fund grants. In addition, the Foundation receives support without donor restrictions; in fiscal year 2020 such support was represented by approximately \$8,890,529 of non-endowed grants and contributions to fund operating needs, with the remainder funded by investment income without donor restrictions and management fees.

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-related endowments, contributions without donor restrictions and contributions with donor restriction for use in current program which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, development and fund management expenses, and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term grant commitments and obligations under endowments with donor restrictions that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative, general, and development expenses, plus an amount that represents the next expected payment for grant commitments.

The table below represents financial assets available for general expenditures within one year as of October 31, 2020:

Cash and cash equivalents	\$	5,945,795
Investments		12,208,723
Beneficial interest in assets held by others		165,405
Notes receivable		150,000
Total financial assets		18,469,923
Less: Funds held for future building projects		(5,920,536)
Less: Portion of donor-restricted endowments to be retained in perpetuity		(5,547,252)
Financial assets available to meet general expenditures within one year	\$	7,002,135

**COMMUNITY FOUNDATION FOR SAN BENITO COUNTY**

Notes to Financial Statements

October 31, 2020

with comparative totals as of and for the year ended October 31, 2019

4. Investments and beneficial interest in assets held by others

Investments are stated at current market value and consist of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ -	\$ 180,000
Short-term reserves	-	1,909,155
Social investment fund	569,636	565,022
Equity funds	7,959,409	5,257,682
Bond funds	<u>3,679,678</u>	<u>3,428,202</u>
Total investments	<u>\$ 12,208,723</u>	<u>\$ 11,340,061</u>

In April 2008, the Foundation transferred \$100,000 to the Community Foundation of Silicon Valley to invest in a revocable nonprofit investment fund which is not subject to variance power. As of October 31, 2020 and 2019, the beneficial interest in assets held by others had aggregate balances of \$165,405 and \$154,180, respectively. The Foundation expects to receive distributions from earnings and principal as needed in the future.

On January 7, 2020, the Foundation sold land previously held for investment to a third party for a total consideration of \$250,000, resulting in a gain of \$52,507. The Foundation received \$82,507 in net proceeds from the sale and a \$150,000 note receivable from the buyer (see below).

5. Note receivable

On January 7, 2020, the Foundation loaned \$150,000 to a third party related to the sale of land. The note bears interest at a rate of 5% per annum. The note matures on December 20, 2022 and is secured by a Deed of Trust recorded on the real property. Note payments are as follows:

	<u>Monthly Interest Payments</u>	<u>Principal Payment in December</u>
January – December 2020	\$ 625	\$ 25,000
January – December 2021	\$ 521	\$ 50,000
January – December 2022	\$ 312	\$ 75,000

As of October 31, 2020 and 2019, the note receivable balance was \$150,000 and \$0, respectively. For the years ended October 31, 2020 and 2019, interest income earned and received was \$6,250 and \$0, respectively, and is included in investment income on the accompanying statement of activities and changes in net assets.

6. Land and construction in progress

During August 2020, land was purchased in the amount of \$143,354 for the site of the new local philanthropic community building project. Construction in progress as of October 31, 2020 and 2019 amounted to \$987,620 and \$223,388, respectively. The costs represent expenditures made for the construction of the new building. The new foundation building “Epicenter” will be a 10,000 square foot building that will house the foundation and six to nine other local non-profits. The center will house a conference room and three other meeting spaces that will be used by non-profits and community groups. The total project cost is estimated at \$7 million and is expected to be completed in fall of 2021.

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7. Fixed assets

Fixed assets, net as of October 31, consist of the following:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 27,320	\$ 27,320
Less: accumulated depreciation	(25,084)	(24,390)
Fixed assets, net	<u>\$ 2,236</u>	<u>\$ 2,930</u>

8. Funds held for others

As of October 31, 2020 and 2019, the Foundation held assets for nine nonprofit organizations. The assets are held in funds that are managed by the Foundation on an agency relationship basis. The activity in such funds is summarized as follows:

	<u>2020</u>	<u>2019</u>
Nonprofit fund balances, beginning of year	\$ 477,213	\$ 531,351
Amounts raised in contribution	4,025	2,185
Investment income	21,172	51,086
Grants	(55,315)	(99,042)
Expenses	(7,771)	(8,367)
Nonprofit fund balances, end of year	<u>\$ 439,324</u>	<u>\$ 477,213</u>

9. Paycheck protection loan

On April 20, 2020, the Foundation obtained a loan from Heritage Bank of Commerce through the Paycheck Protection Program in the amount of \$60,087 (the "PPP Loan") bearing interest at a fixed rate of 1%. The PPP Loan requires monthly principal and interest payments of \$3,381 beginning August 21, 2021. All unpaid principal and interest is due April 21, 2022. As of October 31, 2020, the principal balance of the PPP Loan was \$66,087, and accrued interest was \$0.

10. Net assets with donor restrictions

	<u>2020</u>	<u>2019</u>
Restricted for specified purpose or passage of time	\$ 6,445,814	\$ 2,572,704
Restricted subject to spending policy on endowment	1,125,683	1,048,191
Restricted in perpetuity – endowment	<u>5,547,252</u>	<u>4,924,623</u>
Total net assets with donor restrictions	<u>\$ 13,118,749</u>	<u>\$ 8,545,518</u>

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11. Endowment disclosures

The Foundation is required to provide information about net assets which are defined as endowment, which includes endowment with donor restrictions and endowment which has been board designated. As of October 31, 2020 and 2019, endowment net assets consisted of the following:

	<u>2020</u>		
	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Donor restricted endowments	\$ -	\$ 7,047,141	\$ 7,047,141
Board designated endowments	<u>290,609</u>	<u>-</u>	<u>290,609</u>
Total	<u>\$ 290,609</u>	<u>\$ 7,047,141</u>	<u>\$ 7,337,750</u>

  

	<u>2019</u>		
	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Donor restricted endowments	\$ -	\$ 6,326,304	\$ 6,326,304
Board designated endowments	<u>292,998</u>	<u>-</u>	<u>292,998</u>
Total	<u>\$ 292,998</u>	<u>\$ 6,326,304</u>	<u>\$ 6,619,302</u>

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11. Endowment disclosures (continued)

For the years ended October 31, 2020 and 2019, the Foundation recorded fees charged by the operating fund to the multiple funds administration. The changes in endowment net assets are as follows:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Endowment net assets November 1, 2018	\$ 281,922	\$ 5,729,425	\$ 6,011,347
Investment return:			
Investment income	5,068	136,138	141,206
Net appreciation (realized and unrealized)	13,908	468,867	482,775
Total investment return	<u>18,976</u>	<u>605,005</u>	<u>623,981</u>
Contributions	3,150	200,467	203,617
Appropriation for spending	(219,643)	-	(219,643)
Satisfaction of program restriction	<u>208,593</u>	<u>(208,593)</u>	<u>-</u>
Endowment net assets October 31, 2019	292,998	6,326,304	6,619,302
Investment return:			
Investment income	12,344	141,527	153,871
Net appreciation (realized and unrealized)	3,397	192,047	195,444
Total investment return	<u>15,741</u>	<u>333,574</u>	<u>349,315</u>
Contributions	2,803	250,132	252,935
Appropriation for spending	(271,938)	-	(271,938)
Satisfaction of program restriction	251,005	(251,005)	-
Reclassification of fund type and endowment type	<u>-</u>	<u>388,136*</u>	<u>388,136*</u>
Endowment net assets October 31, 2020	<u>\$ 290,609</u>	<u>\$ 7,047,141</u>	<u>\$ 7,337,750</u>

\*Three previously unrestricted funds were found to be restricted in the current year by the Foundation and are now endowed.

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12. Office lease

The Foundation has a month-to-month operating lease that was held by an executive board member during the year ending October 31, 2019, with monthly rent payments of \$3,668. The office space was sold to a third party during the year ended October 31, 2020, with no impact to the operating lease. For the years ended October 31, 2020 and 2019, office lease expense was \$45,358 and \$43,898, respectively. As of October 31, 2020 and 2019, office lease payable was \$3,790 and \$0, respectively, and is included in accounts payable on the accompanying statement of financial position.

13. Retirement plan

In 2008, the Foundation began providing a defined contribution plan qualified under Section 457(b) of the IRC for its management employees. For the years ended October 31, 2020 and 2019, \$10,282 and \$10,178, respectively, was contributed by the Foundation and included in employee benefits on the statement of functional expenses.

14. Change in net assets

During the year ended October 31, 2020, the Foundation received gifts from three donors in the amount of \$8,405,117, which were classified as without donor restrictions. During the year ended October 31, 2019, the Foundation received gifts from three donors in the amount of \$2,345,270, which were classified as without donor restrictions.

15. Vulnerability – Impact of COVID-19

The severity of the impact of COVID-19 on the Foundation's operations will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Foundation's donors, all of which are uncertain and cannot be predicted. The Foundation's future results could be adversely impacted by delays in contributions and grant payments. Management is unable to predict with absolute certainty the impact of COVID-19 on its financial condition, results of operations or cash flows.