

STANISLAUS COMMUNITY FOUNDATION
(A NONPROFIT CORPORATION)

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Stanislaus Community Foundation
(A Nonprofit Corporation)
Modesto, California

We have audited the accompanying financial statements of Stanislaus Community Foundation (a Nonprofit Corporation), which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities, and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 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 auditor's 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.

Members • American Institute of Certified Public Accountants
• California Society of Certified Public Accountants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stanislaus Community Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Johnson & Associates CPAs, Inc.

Johnson & Associates CPAs, Inc.

May 22, 2019
Modesto, California

STANISLAUS COMMUNITY FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents-Operating Accounts	\$ 5,509,093	\$ 6,280,161
Cash and Cash Equivalents-Investment Accounts	1,645,267	234,328
Total Cash and Cash Equivalents	7,154,360	6,514,489
Accounts Receivable	1,514	1,500
Contributions Receivable	-	1,600
Grants Receivable	1,140,370	590,000
Total Current Assets	8,296,244	7,107,589
NON CURRENT ASSETS		
Long-Term Investments at Market Value	29,232,245	22,667,330
Notes Receivable	327,403	327,403
Investment in Real Property	273,000	273,000
Deposit	6,000	-
Total Non Current Assets	29,838,648	23,267,733
FIXED ASSETS (Net of Accumulated Depreciation of \$14,941 and \$27,340)		
	8,244	13,522
Total Assets	\$ 38,143,136	\$ 30,388,844

See accompanying notes and accountant's report.

STANISLAUS COMMUNITY FOUNDATION
STATEMENT OF FINANCIAL POSITION (Continued)
DECEMBER 31, 2018 AND 2017

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Accounts Payable	\$ -	\$ 1,649
Funds Payable to Others	2,736,395	2,335,087
Grants Payable	675,000	1,000
Current Maturities of Capital Lease	1,432	1,365
Total Current Liabilities	3,412,827	2,339,101
 LONG-TERM DEBT		
Capital Lease	4,106	5,471
Less: Current Maturities of Capital Leases	(1,432)	(1,365)
Total Long-Term Debt	2,674	4,106
 NET ASSETS		
Net Assets Without Donor Restrictions		
Administrative	701,812	882,603
Donor Advised Funds	20,842,490	13,017,391
Designated Funds	722,556	273,976
Field of Interest Funds	4,251,909	5,610,471
Fiscal Sponsorship	54,947	60,300
Scholarship Funds	2,282,825	2,412,489
Special Initiative Grants	1,442,926	919,653
Total Net Assets Without Donor Restrictions	30,299,465	23,176,883
Net Assets With Donor Restrictions	4,428,170	4,868,754
Total Net Assets	34,727,635	28,045,637
 Total Liabilities and Net Assets	\$ 38,143,136	\$ 30,388,844

See accompanying notes and accountant's report.

STANISLAUS COMMUNITY FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and Support:		
Contributions	\$ 11,226,754	\$ 9,431,003
Grants	1,231,370	150,000
Interest and Dividend Income	719,086	495,760
Net Realized and Unrealized Gain (Loss) on Investments	(1,937,443)	1,393,300
Fees For Services	60,253	51,696
Miscellaneous	10,941	44,818
Net Assets Released From Restrictions	303,997	422,929
Total Revenues and Support	11,614,958	11,989,506
Expenses:		
Program Grants and Expenses	3,508,345	2,307,111
Operating Expenses	831,516	678,951
Fundraising	152,515	138,894
Total Expenses	4,492,376	3,124,956
Less: Net Assets Designated as Restricted	-	(103,830)
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	7,122,582	8,760,720
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Revenues and Support:		
Contributions	132,144	-
Miscellaneous Income	-	109
Interest and Dividend Income	151,398	124,384
Net Realized and Unrealized Gain (Loss) on Investments	(400,073)	440,234
Net Assets Designated as Restricted	-	103,830
Total Revenues and Support	(116,531)	668,557
Expenses:		
Operating Expenses	20,056	16,899
Less: Net Assets Released From Restrictions	(303,997)	(422,929)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	(440,584)	228,729
TOTAL CHANGE IN NET ASSETS	6,681,998	8,989,449
Net Assets at Beginning of Year	28,045,637	19,056,188
Net Assets at End of Year	\$ 34,727,635	\$ 28,045,637

See accompanying notes and accountant's report.

STANISLAUS COMMUNITY FOUNDATION
STATEMENT OF CASH FLOW
YEAR ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOW FROM (USED BY) OPERATING ACTIVITIES		
Change in Net Assets	\$ 6,681,998	\$ 8,989,449
Adjustment to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	4,000	4,333
Net Realized and Unrealized Losses (Gains) on Long-Term Investments	2,336,239	(1,352,972)
Loss on Disposal of Fixed Assets	1,278	-
Securities Contributions Received	(3,445,283)	(934,626)
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in Contributions Receivable	3,100	(2,260)
Decrease (Increase) in Accounts Receivable	(1,514)	-
Decrease (Increase) in Stock in Transit	-	50,205
Decrease (Increase) in Grants Receivable	(550,370)	326,000
Decrease (Increase) in Deposits	(6,000)	-
Increase (Decrease) in Accounts Payable	(1,649)	(9,037)
Increase (Decrease) in Retirement Plan Payable	-	(250)
Increase (Decrease) in Grants Payable	674,000	(22,000)
Increase (Decrease) in Funds Payable to Others	401,308	96,191
Total Adjustments	(584,891)	(1,844,416)
Net Cash Flow From (Used By) Operating Activities	6,097,107	7,145,033
CASH FLOW FROM (USED BY) INVESTING ACTIVITIES		
Purchases of Investments	(8,359,391)	(8,024,479)
Principal Received on Notes Receivable	-	53,560
Proceeds from Corporate Liquidation	-	226,494
Proceeds from Sale of Investments	2,903,520	5,248,058
Net Cash Flow From (Used By) Investing Activities	(5,455,871)	(2,496,367)
CASH FLOW FROM (USED BY) FINANCING ACTIVITIES		
Payment on Capital Lease	(1,365)	(1,302)
Net Cash Flow From (Used By) Financing Activities	(1,365)	(1,302)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	639,871	4,647,364
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,514,489	1,867,125
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 7,154,360	\$ 6,514,489

See accompanying notes and accountant's report.

STANISLAUS COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stanislaus Community Foundation (the Foundation), a California Nonprofit Corporation, is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the Code).

The vision of Stanislaus Community Foundation is that Stanislaus County is a community of choice where people live, work and thrive. To achieve this vision, Stanislaus Community Foundation's mission is to steward charitable resources and nurture partnerships to advance the common good. In addition to facilitating grant making through its charitable funds under management, Stanislaus Community Foundation leads systemic change initiatives in education, economic opportunity and civic engagement.

Classification of Net Assets

Generally accepted accounting principles requires the Foundation to report information regarding its financial position and activities in two classes of net assets – with donor restrictions and without donor restrictions - based upon the existence or absence of donor-imposed restrictions.

Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation or the passage of time, or are subject to donor-imposed restrictions that will be maintained in perpetuity are classified as net assets with donor restrictions. The investment income generated from these assets is available for general support of the Foundation's programs and operations or held within a specific fund. The Foundation's total net assets with donor restrictions as of December 31, 2018 and 2017 were \$4,428,170 and \$4,868,754, respectively.

The Board of Directors of the Foundation has the unilateral power to redirect the use of a donor's contribution to another beneficiary; however, they would exercise this authority only if the stated purpose of a contribution becomes no longer applicable and incapable of fulfillment. Accordingly, the Foundation's financial statements classify all net assets that are not permanently or temporarily restricted as unrestricted, but segregate the net assets into one of several different categories depending on intended purpose.

Cash and Cash Equivalents

Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less at the time of purchase.

The Foundation maintains cash deposits at several financial institutions. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage per depositor per financial institution. The maximum coverage as of December 31, 2018 and 2017 was \$250,000. The Foundation also had money on deposit in brokerage

STANISLAUS COMMUNITY FOUNDATION
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

accounts, which are not insured by the FDIC. At December 31, 2018 and 2017, the Foundation's uninsured cash balance was \$7,119,014 and \$6,121,103, respectively.

The balances of money on deposit by institution per the institution's statements are as follows:

	12/31/18	12/31/17
Financial Institutions:		
Bank of Stockton	\$ 5,723,747	\$ 6,136,775
Delta Bank	-	222,231
Total Financial Institutions	\$ 5,723,747	\$ 6,359,006
Brokerage Accounts:		
Charles Schwab	\$ 1,645,267	\$ 234,328

Contributions Receivable

Unconditional promises to give are recorded as contributions when received at the net present value of the amounts expected to be collected. At December 31, 2018 and 2017, the Foundation had \$0 and \$1,600 of uncollateralized contributions receivable, all of which will be received within one year. In the unlikely event all contributions were not paid, the maximum recognized loss would be \$0 and \$1,600.

Grant Awards

The Foundation receives grants from private grantors for various purposes. Grant income is reported in total in the year the grant was awarded with any amount not received accrued as a receivable. Typically, grant funds are disbursed over several years, pursuant to each individual grant terms.

Allowance for Doubtful Accounts

The Foundation uses the direct write-off method for uncollectible accounts receivable. Generally accepted accounting principles require the use of the allowance for doubtful accounts method for accounts receivable. Management believes that all accounts receivable are collectible. Therefore, the direct write-off method is equivalent to the allowance for doubtful accounts method. Bad debt expense for 2018 and 2017 was zero.

Investments

Investments in debt securities and equity securities with readily determinable market values are recorded at fair market value. Investment assets are invested under the supervision of the Finance Committee. Investments are made according to the

STANISLAUS COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Statement of Objectives and Policies adopted by the Foundation's Board. These guidelines provide for investment in equities and fixed income securities with performance measured against appropriate indices. 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 statement of financial position.

Fixed Assets

Fixed assets, consisting of the assets noted below, are carried at cost, net of accumulated depreciation. Asset acquisitions in excess of \$500 with a life in excess of one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Furniture	7 years
Office Equipment	5 years
Computer Equipment and Software	3 years
Leasehold Improvements	10 years (not to exceed lease term)

Grants

Grants are made from available principal and income by or under the authority of the Board of Directors. Donor-advised funds permit donors to recommend possible recipients. Grants are recorded at the date of approval by the Board of Directors or when awarded under the authority of the Board of Directors, when the grant award is communicated to the grantee.

Management Fee

The Foundation charges an annualized fee, allocated monthly to the funds, to cover the cost it incurs by administering each fund. This fee is applied to the general operating costs of the Foundation.

Income Taxes

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal and California income tax, except on net income derived from unrelated business activities. The Foundation does not currently hold an interest in any investment which would pass through unrelated business income, however, the investment policy does allow for such investments. The Foundation believes it has appropriate support for any tax position taken and, as such, does not have any uncertain tax positions that are material to the

STANISLAUS COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

financial statements. The foundation is classified as a public charity under IRC section 170(b)(1)(A)(vi). Management believes that the Foundation will continue to be exempt from taxes. The Foundation's federal returns are subject to examination by the IRS, generally for three years after they were filed.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 FAIR VALUE MEASUREMENTS

Generally accepted accounting principles provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
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Level 2	Inputs to the valuation methodology include:
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- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

STANISLAUS COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 FAIR VALUE MEASUREMENTS (Continued)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2018 and 2017.

Common stocks, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value (NAV) of shares held by the plan at the year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2018 and 2017:

	12/31/18	12/31/17
Level 1		
Common and Preferred Stocks		
Schwab - Equity Funds	\$ 14,776,965	\$ 10,321,045
Schwab – Fixed Income	2,710	-
Schwab – ETF	5,054,411	3,096,885
Mutual Funds		
Schwab – Bond Funds	9,082,229	8,933,470
Total Level 1	28,916,315	22,351,400

STANISLAUS COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 FAIR VALUE MEASUREMENTS (Continued)

	<u>12/31/18</u>	<u>12/31/17</u>
Level 2		
Other Investments		
Common Stock – Non-Publicly Traded	301,488	301,488
Stock Purchase Warrants	14,442	14,442
Notes Receivable	327,403	327,403
Real Property – Land	<u>273,000</u>	<u>273,000</u>
Total Level 2	<u>916,333</u>	<u>916,333</u>
Total Investments	<u>\$ 29,832,648</u>	<u>\$ 23,267,733</u>

The following schedule summarizes the investment return in the statement of activities:

	<u>12/31/18</u>	<u>12/31/17</u>
Interest and Dividends	\$ 870,483	\$ 620,144
Net Realized and Unrealized Gains (Losses)	<u>(2,336,239)</u>	<u>1,833,534</u>
Net Investment Return	<u>\$ (1,465,756)</u>	<u>\$ 2,453,678</u>

The significant decrease in investment value for the current year is consistent with the overall performance of comparable markets.

NOTE 3 NOTES RECEIVABLE

The Foundation was the recipient of a donor advised contribution consisting of an interest in four pre-existing notes receivable. One note matured and was appropriately collected in 2017. Two of the notes were partially exchanged for common stock and stock warrants in the underlying entity with the remaining balance consolidated into one note receivable balance. Ultimately, the result after these transactions, is the Foundation having an interest in one of the original notes receivable and one new receivable. These two remaining notes receivables are scheduled to mature in 2020 and 2022. The notes bear interest at 8% and 12% of which the Foundation has been collecting the interest only payments. The notes have been recorded at their face value which approximates their fair value.

NOTE 4 FUNDS HELD FOR AND PAYABLE TO OTHERS

The Foundation receives and distributes assets under certain agency and intermediary arrangements. Generally accepted accounting standards have established standards for transactions in which a community foundation accepts a

STANISLAUS COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 FUNDS HELD FOR AND PAYABLE TO OTHERS (Continued)

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. The liability is reflected under "Funds Payable to Others" on the accompanying statement of financial position.

The Foundation has determined that all agency funds are most appropriately considered liabilities. Pursuant to the agency fund agreement, the Foundation will hold and administer the funds of the fund holders. It is the understanding that the fund holders would be entitled to and would exercise the right to receive the funds back at a later time. Therefore, these funds, comprised of total principal and related income and expenses held for the fund holders, have been included in the amount payable to others.

Funds Held For and Payable to Others at December 31, 2018 and 2017 consisted of the following:

	12/31/18	12/31/17
Funds Payable to Others		
Book of Dreams	\$ 44,826	\$ -
City of Modesto – Parks, Recs & Neighborhoods	784,268	696,347
Center for Human Services	487,807	-
Great Valley Center	233,726	328,601
Modesto Rotary Club Foundation	204,409	222,592
Patterson Historical Research Foundation	178,256	204,174
Modesto Gateway Rotary	167,414	181,610
All Other Agency Funds	635,689	701,763
Total	\$ 2,736,395	\$ 2,335,087

STANISLAUS COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 5 NATURAL CLASSIFICATION OF EXPENSES

Operating and fundraising expenses incurred in the fiscal year ended December 31, 2018, were as follows:

	<u>Operating</u>	<u>Fundraising</u>
Personnel		
Salaries, Wages, and Benefits	\$ 355,868	\$ 152,515
Occupancy		
Rent	73,732	-
Insurance	8,941	-
Utilities	11,215	-
Marketing/Development		
Marketing	32,702	-
General and Administrative		
Asset Management Fees	110,409	-
Contract Labor	38,795	-
Database System	51,758	-
Depreciation Expense	4,000	-
Dues and Subscriptions	21,913	-
Office Supplies	6,586	-
Operating Expenses	84,960	-
Professional Development	3,387	-
Professional Fees – General	8,950	-
Professional Fees – Program	26,599	-
Service Contracts	11,757	-
Total Operating Expenses	<u>\$ 851,572</u>	<u>\$ 152,515</u>

Operating and fundraising expenses incurred in the fiscal year ended December 31, 2017, were as follows:

	<u>Operating</u>	<u>Fundraising</u>
Personnel		
Salaries, Wages, and Benefits	\$ 324,086	\$ 138,894
Occupancy		
Rent	28,339	-
Insurance	5,125	-
Utilities	12,307	-
Marketing		
Marketing	19,188	-
General and Administrative		
Asset Management Fees	71,110	-
Contract Labor	4,570	-
Database System	34,161	-
Depreciation Expense	4,333	-
Dues and Subscriptions	21,198	-

STANISLAUS COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 5 NATURAL CLASSIFICATION OF EXPENSES (Continued)

	Operating	Fundraising
Office Expense	3,544	-
Operating Expenses	44,238	-
Professional Development	10,973	-
Professional Fees – General	19,265	-
Professional Fees – Program	83,149	-
Service Contracts	10,264	-
Total Operating Expenses	\$ 695,850	\$ 138,894

NOTE 6 ENDOWMENT FUNDS

The Foundation's endowment funds consist of several individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Fund Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standing of prudence prescribed by UPMIFA. 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 various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Foundation's investment policies.

In accordance with Foundation policy, up to 6% of a fund's permanently restricted balance can be reclassified as unrestricted to pay administration and grant costs.

STANISLAUS COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 6 ENDOWMENT FUNDS (Continued)

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.

Deficiencies of this nature exist in several donor-restricted endowment funds, which together have an original gift value of \$730,468, a current fair value of \$703,038, and a deficiency of \$27,430 as of December 31, 2018. These deficiencies resulted from unfavorable market fluctuations during the year. No such deficiencies existed as of December 31, 2017.

Change in Endowment Net Assets for the Fiscal Year ending December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment New Assets, Beginning of Year	\$ -	\$ 4,868,754	\$ 4,868,754
Investment Return:			
Investment Income			
Dividends	-	151,398	151,398
Net Appreciation	-	(400,073)	(400,073)
Total Investment Return	-	(248,675)	(248,675)
Contributions to Endowments	174,329	132,144	306,473
Operating Expenses	-	(20,056)	(20,056)
Designated as Restricted	(174,329)	174,329	-
Amounts Appropriated for			
Expenditures	478,326	(478,326)	-
Expenditures	(478,326)	-	(478,326)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 4,428,170</u>	<u>\$ 4,428,170</u>

STANISLAUS COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 6 ENDOWMENT FUNDS (Continued)

Change in Endowment Net Assets for the Fiscal Year ending December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment New Assets, Beginning of Year	\$ -	\$ 4,640,025	\$ 4,640,025
Investment Return:			
Investment Income			
Dividends	-	124,384	124,384
Net Appreciation	-	440,234	440,234
	-	564,618	564,618
Total Investment Return	-	564,618	564,618
Contributions to Endowments	103,830	-	103,830
Miscellaneous Income	-	109	109
Operating Expenses	-	(16,899)	(16,899)
Designated as Restricted Amounts Appropriated for Expenditures	(103,830)	103,830	-
Expenditures	422,929	(422,929)	-
Expenditures	(422,929)	-	(422,929)
Endowment Net Assets, End of Year	\$ -	\$ 4,868,754	\$ 4,868,754

NOTE 7 RETIREMENT PLAN

During the year ended December 31, 2015, the Foundation adopted a defined-contribution Retirement Plan covering all eligible employees of the foundation who have 1,000 hours of service, except collective bargaining employees. The Foundation may make matching contributions and profit-sharing contributions to the plan each year at their discretion. Employees may contribute to the 401(k) feature through salary reductions up to the maximum permitted by law. For the years ended December 31, 2018 and December 31, 2017, the Foundation made matching contributions of \$0 and \$0 and profit-sharing contributions of \$0 and \$5,025, respectively.

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NOTE 8 OPERATING LEASES

Effective May 1, 2018, the Foundation entered into a non-cancelable operating lease agreement for office space located at 100 Sycamore Avenue in Modesto expiring April 30, 2023. The lease includes one 5 year renewal option. The monthly lease payments are \$6,007 and increase annually pursuant to a pre-determined rate schedule. Total lease payments made during the years ended December 31, 2018 and December 31, 2017 were \$54,063 and \$0, respectively. The Foundation paid \$19,669 and \$28,339 during the years ended December 31, 2018 and December 31, 2017, respectively, under a prior operating lease no longer in existence at December 31, 2018.

Minimum future lease payments to be paid each year and in the aggregate for the remainder of the lease are as follows:

<u>Period Ended December 31,</u>	<u>12/31/18</u>	<u>12/31/17</u>
2018	\$ -	\$ 56,734
2019	72,083	72,083
2020	73,285	73,285
2021	75,117	75,117
2022	76,995	76,995
2023	<u>25,875</u>	<u>25,875</u>
Total	<u>\$ 323,355</u>	<u>\$ 380,089</u>

NOTE 9 CAPITAL LEASES

The Foundation is the lessee of a copier with a recorded cost of \$7,089 and related accumulated depreciation of \$3,309 and \$1,891 as of December 31, 2018 and December 31, 2017, respectively. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset is depreciated following the same policies for fixed assets owned by the Foundation. The amount charged to depreciation related to capital lease assets for the years ended December 31, 2018 and December 31, 2017 were \$1,418 and \$1,418, respectively.

Capital lease obligations consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
US Bank- Savin Copier	\$ 4,389	\$ 5,985
Less: Amount Representing Interest	<u>(282)</u>	<u>(513)</u>
Total Principal	4,107	5,472
Less: Current Portion	<u>(1,432)</u>	<u>(1,365)</u>
Long-Term Portion	<u>\$ 2,675</u>	<u>\$ 4,107</u>

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NOTE 9 CAPITAL LEASES (Continued)

The following is a summary of payments on capital leases to maturity:

<u>Year Ending December 31,</u>	<u>2018</u>	<u>2017</u>
2018	\$ -	\$ 1,365
2019	1,432	1,432
2020	1,501	1,501
2021	<u>1,174</u>	<u>1,174</u>
Total Minimum Lease Payments	<u>\$ 4,107</u>	<u>\$ 5,472</u>

NOTE 10 NON-CASH TRANSACTIONS

During the year, the Foundation disposed of total fixed assets with a value of \$17,677 and related accumulated depreciation of \$16,399 for no sales price.

NOTE 11 SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 22, 2019, which is the date the financial statements were available to be issued. There were no subsequent events identified.