

**COMMUNITY FOUNDATION OF THE
NAPA VALLEY AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED
JUNE 30, 2010 AND 2009**

Armanino McKenna ^{LLP}
Certified Public Accountants & Consultants



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Foundation of the Napa Valley
Napa, California

We have audited the accompanying consolidated statement of financial position of the Community Foundation of the Napa Valley and Subsidiary as of June 30, 2010 and the related consolidated statement of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Community Foundation of the Napa Valley as of June 30, 2009, were audited by other auditors whose report dated November 12, 2009, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidated schedules of operating expenses on pages 20 and 21 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements as a whole.

Armanino McKenna LLP
ARMANINO McKENNA LLP

October 26, 2010



COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Consolidated Statements of Financial Position
June 30, 2010 and 2009

	<u>ASSETS</u>	
	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 1,979,120	\$ 1,973,606
Investments	12,582,221	14,744,222
Contributions receivable	197,303	235,837
Beneficial interest in split-interest agreement	131,284	151,690
Notes receivable	566,441	694,081
Construction in progress	-	18,881
Property and equipment, net	<u>2,355,958</u>	<u>1,948,756</u>
 Total assets	 <u>\$ 17,812,327</u>	 <u>\$ 19,767,073</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 49,040	\$ 38,980
Grants payable	446,845	311,565
Funds held as agent	<u>3,557,210</u>	<u>5,167,688</u>
Total liabilities	<u>4,053,095</u>	<u>5,518,233</u>
Net assets		
Unrestricted	8,056,191	8,604,378
Temporarily restricted	2,099,241	1,476,854
Permanently restricted	<u>3,603,800</u>	<u>4,167,608</u>
Total net assets	<u>13,759,232</u>	<u>14,248,840</u>
 Total liabilities and net assets	 <u>\$ 17,812,327</u>	 <u>\$ 19,767,073</u>

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

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Consolidated Statement of Activities and Change in Net Assets
For the Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and support				
Contribution revenue	\$ 1,565,916	\$ 244,368	\$ 61,129	\$ 1,871,413
Interest and dividend income	191,320	76,888	-	268,208
Realized and unrealized investment gains	483,251	270,617	-	753,868
Rental income	232,804	-	-	232,804
Change in value of split-interest agreement	-	(20,406)	-	(20,406)
Administrative fee income	46,136	-	-	46,136
Net assets released from restrictions	554,539	(554,539)	-	-
Total revenue and support	<u>3,073,966</u>	<u>16,928</u>	<u>61,129</u>	<u>3,152,023</u>
Expenses				
Grants	2,789,435	-	-	2,789,435
Other program expenses	415,876	-	-	415,876
Management and general	269,130	-	-	269,130
Fundraising	167,190	-	-	167,190
Total expenses	<u>3,641,631</u>	<u>-</u>	<u>-</u>	<u>3,641,631</u>
Change in net assets	(567,665)	16,928	61,129	(489,608)
Reclassification of net assets	19,478	605,459	(624,937)	-
Net assets, beginning of the year	<u>8,604,378</u>	<u>1,476,854</u>	<u>4,167,608</u>	<u>14,248,840</u>
Net assets, end of the year	<u>\$ 8,056,191</u>	<u>\$ 2,099,241</u>	<u>\$ 3,603,800</u>	<u>\$ 13,759,232</u>

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

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Consolidated Statement of Activities and Change in Net Assets
For the Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Contribution revenue	\$ 2,441,272	\$ -	\$ 117,480	\$ 2,558,752
Interest and dividend income	244,137	-	-	244,137
Realized and unrealized investment losses	(1,412,872)	-	-	(1,412,872)
Rental income	202,582	-	-	202,582
Change in value of split-interest agreement	-	(12,838)	-	(12,838)
Administrative fee income	55,307	-	-	55,307
Net assets released from restrictions	229,744	(229,744)	-	-
Total revenue and support	1,760,170	(242,582)	117,480	1,635,068
Expenses				
Grants	2,140,805	-	-	2,140,805
Other program expenses	426,154	-	-	426,154
Management and general	281,467	-	-	281,467
Fundraising	167,999	-	-	167,999
Total expenses	3,016,425	-	-	3,016,425
Change in net assets	(1,256,255)	(242,582)	117,480	(1,381,357)
Reclassification of net assets	(38,793)	-	38,793	-
Net assets, beginning of the year	9,899,426	1,719,436	4,011,335	15,630,197
Net assets, end of the year	\$ 8,604,378	\$ 1,476,854	\$ 4,167,608	\$ 14,248,840

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets	\$ (489,608)	\$ (1,381,357)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	55,895	45,050
Net realized and unrealized losses (gains) on investments	(753,868)	1,952,401
Donated securities and property	-	(201,215)
Contributions restricted for long term purposes	(61,129)	(117,480)
Change in split-interest agreements	20,406	12,838
Changes in operating assets and liabilities		
Contributions receivable	38,534	1,204,064
Accounts payable and accrued expenses	10,060	2,429
Grants payable	135,280	(950,630)
Funds held as agent	<u>(1,610,478)</u>	<u>(1,051,958)</u>
Net cash used in operating activities	<u>(2,654,908)</u>	<u>(485,858)</u>
Cash flows from investing activities		
Purchase of investments	(5,185,590)	(16,856,090)
Issuance of note receivable	-	(574,081)
Loss on disposal of property and equipment	25,388	192,000
Payments received on notes receivable	127,640	20,000
Proceeds from sales of investments	8,101,459	18,816,469
Purchase of property and equipment	<u>(469,604)</u>	<u>(83,803)</u>
Net cash provided by investing activities	<u>2,599,293</u>	<u>1,514,495</u>
Cash flows from financing activities		
Contributions restricted for endowment	<u>61,129</u>	<u>117,480</u>
Net increase in cash and cash equivalents	<u>5,514</u>	<u>1,146,117</u>
Cash and cash equivalents, beginning of the year	<u>1,973,606</u>	<u>827,489</u>
Cash and cash equivalents, end of the year	<u>\$ 1,979,120</u>	<u>\$ 1,973,606</u>

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

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

1. Organization

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. 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. 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 in the Napa Valley community.

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

Basis of presentation

The Foundation prepares its consolidated financial statements using the accrual basis of accounting. The Foundation presents its activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets

Unrestricted net assets include unrestricted contributions and unrestricted income earned on funds. The investment earnings on donor endowment funds are available for current operations and distributions once appropriated for expenditure by the Foundation.

Accounting Standards Codification 958-605 provides that if the governing body of an organization has the unilateral power to redirect the use of a donor's contribution to another beneficiary, such contributions must be classified as unrestricted net assets. 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 unrestricted net assets.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (continued)

Basis of presentation (continued)

Temporarily restricted net assets

Temporarily restricted net assets represent resources restricted by donors for specific expenditures. These restrictions may expire with time or may be satisfied by actions of the Foundation according to the intention of the donor. Temporarily restricted net assets may include the portion of donor restricted endowment funds that are not classified as permanently restricted, until such funds are appropriated for expenditure by the Foundation.

Permanently restricted net assets

Permanently restricted net assets represent contributions of cash and other assets restricted by donors with stipulations that the corpus of the donation may never be expended.

Use of estimates

The preparation of 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.

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 places 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 fair value at the date of donation.

The Foundation invests in various investment securities including equity securities, corporate bonds, government bonds and various mutual funds. 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 that such changes could materially affect the amounts reported in the accompanying financial statements.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (continued)

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. 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. At June 30, 2010 and 2009 management has determined that no allowance for uncollectible contributions was required.

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 valued at \$1,500 or greater. Depreciation is computed using the straight-line method over estimated useful lives of the assets ranging from five to forty years.

Grants payable

Grants are made from available funds in accordance with the designation of donors, in the case of donor advised funds, or by a competitive process under the oversight of the Board of Directors as with discretionary funds. Grants are recorded at the date of approval by the Board of Directors or when a grant award is communicated to the grantee. 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 taxes

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.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (continued)

Income taxes

The Foundation adopted the provisions for accounting for uncertain tax positions on January 1, 2009. It 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, 2010, the Company 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 statements of activities. Indirect or shared costs are allocated to the programs and supporting services by a method that measures the estimated benefit provided.

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.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (continued)

Fair value measurements (continued)

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:

- (a) 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.
- (b) Investments in bonds and Charitable lead unitrust (Level 2). Investments in government securities and corporate bonds are valued at cost plus accrued interest or at fair value using valuations furnished by a pricing service. Trust assets are valued at closing market prices, or net asset value for mutual funds, discounted to present value using the using the risk-free rate adjusted for potential credit risk applicable in the years in which the payments are to be received.

Subsequent events

The Foundation has evaluated subsequent events through September 21, 2010, the date the financial statements were available to be issued.

The Foundation is the recipient of a bequest in which it will receive 75% of the fair value of certain land and investments at the time of distribution. The fair value of the assets expected to be received from this bequest have not yet been determined.

No subsequent events, other than the event described above, have occurred that would have a material impact on the presentation of the Foundation's financial statements.

3. Contributions Receivable

Contributions receivable as of June 30, 2010 are as follows:

Receivable in less than one year	\$119,601
Receivable in one to five years	<u>83,334</u>
Total	202,935
Less discount to net present value	<u>(5,632)</u>
Net contributions receivable	<u>\$197,303</u>

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

3. Contributions Receivable (continued)

Contributions receivable that are expected to be collected in subsequent years are discounted at a rate of 2.36%. Contributions receivable as of June 30, 2009 were all classified as current receivables.

4. Investments

The following is a summary of investments, at fair value, by major type at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Equities	\$ 951,313	\$ 6,190,988
Money market funds and certificates of deposit	10,930,272	5,736,642
Bonds and other fixed income	<u>700,636</u>	<u>2,816,592</u>
	<u>\$12,582,221</u>	<u>\$14,744,222</u>

A summary of investment income (loss) for the years ended June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 268,208	\$ 244,137
Unrealized gains (losses)	1,045,249	(1,412,765)
Realized losses	<u>(291,381)</u>	<u>(107)</u>
	<u>\$1,022,076</u>	<u>\$(1,168,735)</u>

The Foundation incurred investment management and custodial fees in the amounts of \$35,884 and \$61,233 for the years ended June 30, 2010 and 2009, respectively, which are included in other program expenses.

5. Beneficial Interest in Split-Interest Agreement

The Foundation is a beneficiary of a charitable lead unitrust, for which the donors are the trustees. The assets of the trust are invested and administered by the trustees and distributions are made to the beneficiaries during the term of the agreement. The unitrust was established on October 10, 1996, and requires annual payments to the Foundation equal to 2.33% of the net fair value of trust assets valued on the last business day of each trust taxable year for a 10 year period beginning December 31, 2004. Upon termination of the unitrust, the trust assets will be distributed to the trustors' beneficiaries as identified in the trust agreement. The fair value of trust assets was \$1,473,674 and \$1,367,751 as of June 30, 2010 and 2009, respectively. Based on a discount rate of 2.36%, the net present value of the Foundation's interest in this charitable lead unitrust as of June 30, 2010 and 2009 was \$131,284 and \$151,690 respectively.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

6. Notes Receivable

The Foundation held two notes receivable as of June 30, 2010. The Board of Trustees 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 is 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. The total amount of this incentive plan is \$200,000 and the related note receivable balance was \$100,000 and \$120,000 as of June 30, 2010 and 2009, respectively. Imputed earned interest on this loan has been recorded as interest income and as compensation for the President in the amount of \$2,986 and \$6,661 for the years ended June 30, 2010 and 2009, respectively. The interest rates used for the imputed interest were 2.71% and 5.12% for the years ended June 30, 2010 and 2009, respectively.

The Foundation holds a note receivable to a qualifying charitable organization dated May 28, 2009 with an original amount of \$574,081. The note bears no interest, and is payable in monthly payments of \$11,960 over a 48 month period. The Foundation recognized grant expense, and an associated payable, in the amount of \$56,069 in 2009 which represents the net present value of imputed interest to be forgiven on this note receivable. Imputed interest on this note was derived using an estimated market interest rate of 4.5%. The grant payable is being amortized over the life of the loan; \$23,815 and \$3,229 in interest income from this note receivable has been recorded as of June 30, 2010 and 2009, respectively.

As of June 30, 2010 notes receivable are expected to be collected as follows:

<u>Year Ending June 30,</u>	
2011	\$163,520
2012	163,520
2013	163,520
2014	55,881
2015	<u>20,000</u>
	<u>\$566,441</u>

7. Property and Equipment

Property and equipment consisted of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Land	\$1,003,054	\$1,003,054
Building and improvements	1,660,783	1,208,630
Equipment and software	<u>67,620</u>	<u>67,620</u>
	2,731,457	2,279,304
Less accumulated depreciation	<u>(375,499)</u>	<u>(330,548)</u>
	<u>\$2,355,958</u>	<u>\$1,948,756</u>

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

7. Property and Equipment (continued)

Depreciation expense was \$55,895 and \$45,050 for the years ended June 30, 2010 and 2009, respectively. In 2009, the value of a single family home held by the Foundation was written down by \$192,000 to its estimated fair value as an impairment charge. The home is included in Funds Held as Agent and therefore the adjustment had no effect on the change in net assets for the year ended June 30, 2009.

8. Grants Payable

As of June 30, 2010, grants payable were scheduled to be disbursed as follows. The total has been discounted based on an expected market discount rate of 6%.

<u>Year Ending June 30,</u>	
2011	\$389,492
2012	81,033
2013	4,575
2014	<u>2,960</u>
	478,060
Less discount on multi-year grants payable	<u>(31,215)</u>
	<u>\$446,845</u>

9. Funds Held as Agent

As of June 30, 2010 and 2009, the Foundation maintained a total of \$3,557,210 and \$5,167,688 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, 2010 and 2009, respectively.

10. Concentrations

The majority of the Foundation's contributions are derived from local individuals, families, organizations, and foundations. As of June 30, 2010 and 2009, contributions from two donors comprised approximately 23% and 50% of the total contribution revenue, respectively.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

11. Temporarily Restricted Net Assets

A total of \$2,099,241 and \$1,476,854 in temporarily restricted net assets was held by the Foundation at June 30, 2010 and 2009, respectively. The CREF building and improvements, as well as other donor-restricted net assets are restricted as to 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 restrictions based on future depreciation expense recognition. Other purpose restricted funds will be released from restriction when qualified expenses are incurred. CREF building improvements totaling \$605,459 were funded by unrestricted contributions and other unrestricted net assets of the Foundation. This amount is reflected as a reclassification of unrestricted net assets to temporarily restricted net assets on the consolidated statement of activities for the year ending June 30, 2010.

Temporarily restricted net assets consist of the following as of June 30:

	<u>2010</u>	<u>2009</u>
CREF building and building improvements		
Net of accumulated depreciation of \$315,529	\$1,351,249	\$ 824,114
Other purpose restricted funds	616,708	501,050
Beneficial interest in split-interest agreement	<u>131,284</u>	<u>151,690</u>
Total temporarily restricted net assets	<u>\$2,099,241</u>	<u>\$1,476,854</u>

12. Permanently Restricted Net Assets

Permanently restricted net assets represent contributions of cash and other assets in funds restricted by donors with stipulations that the corpus of the donation never be expended. 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. Certain donors redirected their endowment funds during the year ended June 30, 2010, causing \$624,937 of net assets to be released from restriction. Donor redirection of endowment funds to permanently restricted net assets during the year ended June 30, 2009 caused an increase in restricted net assets of \$38,793. Permanently restricted net assets are comprised of the following at June 30:

	<u>2010</u>	<u>2009</u>
Donor restricted endowment funds	\$2,703,800	\$3,267,608
CREF - Land	<u>900,000</u>	<u>900,000</u>
Total permanently restricted net assets	<u>\$3,603,800</u>	<u>\$4,167,608</u>

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

13. Lease Commitment

The Foundation leases office equipment under an operating lease which expires in 2012. Monthly lease payments are \$223. The Foundations future minimum lease obligations are as follows for the years ending June 30:

2011	\$2,673
2012	<u>2,005</u>
	<u>\$4,678</u>

14. Fair Value Disclosures

The following are the major categories of assets measured at fair value on a recurring basis during the year ended June 30, 2010, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

<u>Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2010</u>
Money Market Fund	\$ 2,490,000	\$ -	\$ -	\$ 2,490,000
Mutual Funds				
Bond Funds	5,100,311	-	-	5,100,311
Equity Funds	3,181,206	-	-	3,181,206
Global Funds	91,101	-	-	91,101
Venture Funds	67,655	-	-	67,655
Equities				
Common stock	944,792	-	-	944,792
International stock	822	-	-	822
Trusts	5,025	-	-	5,025
Preferred stock	673	-	-	673
Fixed income				
Bonds	-	337,297	-	337,297
Certificates of deposit	303,496	-	-	303,496
Securitized assets	<u>59,843</u>	<u>-</u>	<u>-</u>	<u>59,843</u>
Total investments measured at fair value	<u>\$12,244,924</u>	<u>\$337,297</u>	<u>\$ -</u>	<u>\$12,582,221</u>
Charitable lead unitrust	<u>\$ -</u>	<u>\$131,284</u>	<u>\$ -</u>	<u>\$ 131,284</u>

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
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14. Fair Value Disclosures (continued)

The following are the major categories of assets measured at fair value on a recurring basis during the year ended June 30, 2009:

<u>Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2010</u>
Money market funds	\$ 5,736,642	\$ -	\$ -	\$ 5,736,642
Fixed income	-	-	-	-
U.S. / Government bonds	-	673,467	-	673,467
Corporate bonds	-	1,205,532	-	1,205,532
Mortgage pools	-	937,593	-	937,593
Equities				
Common stock	<u>6,190,988</u>	<u>-</u>	<u>-</u>	<u>6,190,988</u>
	<u>\$11,927,630</u>	<u>\$2,816,592</u>	<u>\$ -</u>	<u>\$14,744,222</u>
Charitable lead unitrust	<u>\$ -</u>	<u>\$ 151,690</u>	<u>\$ -</u>	<u>\$ 151,690</u>

15. Endowment Disclosures

The Foundation's endowment consists of 17 endowment funds permanently restricted by donors. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There were no unrestricted board-designated endowment funds as of June 30, 2010 and 2009.

Interpretation of relevant law

The Board of Directors of the Foundation has interpreted the California enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Foundation to appropriate for expenditure or accumulate 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 donor-restricted assets until appropriated for expenditure by the Board of Directors. As a result of this interpretation, the Foundation has not changed the way permanently restricted net assets are classified. 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 in a manner consistent with the standard of prudence prescribed in UPMIFA. In accordance with UPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate endowment funds:

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

15. Endowment Disclosures (continued)

Interpretation of relevant law (continued)

- (1) The duration and preservation of the endowment fund,
- (2) The purpose of the Foundation and the endowment fund,
- (3) General economic conditions,
- (4) The possible effect of inflation or deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of the Foundation,
- (7) The investment policy 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. A total of \$184,913 and \$451,589 in endowment fund deficiencies were reported in unrestricted net assets as of June 30, 2010 and 2009, respectively.

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.

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 income investments to achieve its long-term return objectives within prudent risk constraints.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

15. Endowment Disclosures (continued)

Investment and spending policies

The Foundation has a policy of appropriating for distribution each year as temporarily restricted net assets the net investment earnings of permanently restricted endowment funds. 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 permanent donor-restricted contributions. Real growth in the endowment is expected to occur through new permanently restricted gifts in the future.

Endowment net asset composition included only permanently restricted net assets with balances of \$3,603,800 and \$4,167,608 as of June 30, 2010 and 2009, respectively. There were no temporarily restricted or unrestricted Board-designated endowment funds as of June 30, 2010 and 2009.

Changes in endowment net assets for the year ended June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$(451,589)	\$ 54,679	\$4,167,608	\$3,770,698
Investment return				
Investment income	-	76,888	-	76,888
Net appreciation (realized and unrealized)	<u>266,676</u>	<u>52,534</u>	<u>-</u>	<u>319,210</u>
Total investment return	266,676	129,422	-	396,098
Contributions	-	-	61,129	61,129
Reduction in corpus	-	-	(624,937)	(624,937)
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(43,946)</u>	<u>-</u>	<u>(43,946)</u>
Endowment net assets, end of year	<u>\$(184,913)</u>	<u>\$140,155</u>	<u>\$3,603,800</u>	<u>\$3,559,042</u>

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
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15. Endowment Disclosures (continued)

Investment and spending policies (continued)

Changes in endowment net assets for the year ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$(100,609)	\$73,312	\$4,011,334	\$3,984,037
Investment return				
Investment income	-	60,804	-	60,804
Net depreciation (realized and unrealized)	<u>(350,980)</u>	<u>(7,193)</u>	<u>-</u>	<u>(358,173)</u>
Total investment return	(350,980)	53,611	-	(297,369)
Contributions	-	-	179,981	179,981
Reduction in corpus	-	-	(23,707)	(23,707)
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(72,244)</u>	<u>-</u>	<u>(72,244)</u>
Endowment net assets, end of year	<u>\$(451,589)</u>	<u>\$54,679</u>	<u>\$4,167,608</u>	<u>\$3,770,698</u>

16. Reclassifications

Certain items in the June 30, 2009 financial statements have been reclassified to conform to the 2010 presentation. These reclassifications have no impact on net assets or changes in net assets as of, and for the years ended, June 30, 2010 or 2009.

SUPPLEMENTARY INFORMATION

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY

Consolidated Schedule of Operating Expenses

For the Year Ended June 30, 2010

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Staffing				
Salaries	\$ 186,516	\$ 169,133	\$ 100,072	\$ 455,721
Payroll taxes	12,608	11,433	6,765	30,806
Employee benefits	13,850	9,950	6,933	30,733
Retirement plan contributions	5,828	5,387	2,830	14,045
Workers compensation	2,302	2,087	1,235	5,624
Staff training and recruitment	3,512	3,884	1,117	8,513
	<u>224,616</u>	<u>201,874</u>	<u>118,952</u>	<u>545,442</u>
Administration expenses				
Investment management fees	35,884	-	-	35,884
Office expenses	8,776	6,162	1,740	16,678
Depreciation	23,057	25,502	7,336	55,895
Meetings and events	6,632	3,627	19,510	29,769
Utilities	26,149	-	-	26,149
Maintenance and repair	20,063	-	-	20,063
Computer and web support	4,931	5,454	1,569	11,954
Accounting services	-	18,000	-	18,000
Consulting services	1,203	1,331	383	2,917
Insurance	9,616	1,110	319	11,045
Telephone and communications	2,828	3,128	900	6,856
Promotion and development	-	-	2,641	2,641
Legal services	-	615	1,844	2,459
Dues and subscriptions	1,673	1,851	532	4,056
Travel	1,510	180	294	1,984
Landscaping	21,299	-	-	21,299
Marketing	-	-	11,084	11,084
Loss on disposal of assets	25,388	-	-	25,388
Other fund expenses	511	-	-	511
Postage and shipping	269	296	86	651
Property taxes	1,471	-	-	1,471
	<u>191,260</u>	<u>67,256</u>	<u>48,238</u>	<u>306,754</u>
	<u>\$ 415,876</u>	<u>\$ 269,130</u>	<u>\$ 167,190</u>	<u>\$ 852,196</u>

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY

Consolidated Schedule of Operating Expenses

For the Year Ended June 30, 2009

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Staffing				
Salaries	\$ 183,924	\$ 189,459	\$ 98,964	\$ 472,347
Payroll taxes	12,132	12,497	6,528	31,157
Employee benefits	10,895	9,191	4,887	24,973
Retirement plan contributions	4,155	4,444	2,255	10,854
Workers compensation	2,792	2,876	1,502	7,170
Staff training and recruitment	561	587	156	1,304
	<u>214,459</u>	<u>219,054</u>	<u>114,292</u>	<u>547,805</u>
Administration expenses				
Investment management fees	61,233	-	-	61,233
Office expenses	29,785	13,323	3,553	46,661
Depreciation	42,856	1,731	462	45,049
Meetings and events	10,297	2,748	24,886	37,931
Utilities	26,014	3,252	3,252	32,518
Maintenance and repair	6,631	6,631	6,832	20,094
Computer and web support	8,600	9,000	2,401	20,001
Accounting services	-	13,500	-	13,500
Consulting services	5,352	5,600	1,494	12,446
Insurance	9,391	1,084	289	10,764
Telephone and communications	3,773	3,948	1,053	8,774
Promotion and development	-	-	9,041	9,041
Legal services	3,920	-	-	3,920
Dues and subscriptions	1,345	1,408	376	3,129
Travel	2,025	188	68	2,281
Property taxes	473	-	-	473
	<u>211,695</u>	<u>62,413</u>	<u>53,707</u>	<u>327,815</u>
	<u>\$ 426,154</u>	<u>\$ 281,467</u>	<u>\$ 167,999</u>	<u>\$ 875,620</u>