

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

**CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED
JUNE 30, 2011 AND 2010**

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 statements of financial position of the Community Foundation of the Napa Valley and Subsidiary ("Foundation") as of June 30, 2011 and 2010 and the related consolidated statements of activities and cash flows for the years 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 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 audits 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 Foundation'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 audits provide 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 the Community Foundation of the Napa Valley and Subsidiary as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were 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 21 and 22 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 audits 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 12, 2011



COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
 Consolidated Statements of Financial Position
 June 30, 2011 and 2010

| <u>ASSETS</u> | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Cash and cash equivalents | \$ 877,379 | \$ 1,979,120 |
| Investments | 16,768,601 | 12,582,221 |
| Contributions and accounts receivable | 1,152,092 | 197,303 |
| Beneficial interest in split-interest agreement | 102,735 | 131,284 |
| Notes receivable | 402,920 | 566,441 |
| Property and equipment, net | <u>2,197,916</u> | <u>2,355,958</u> |
| Total assets | <u>\$ 21,501,643</u> | <u>\$ 17,812,327</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 64,317 | \$ 49,040 |
| Grants payable | 366,074 | 446,845 |
| Funds held as agent | <u>3,846,980</u> | <u>3,557,210</u> |
| Total liabilities | <u>4,277,371</u> | <u>4,053,095</u> |
| Net assets | | |
| Unrestricted | 10,700,227 | 8,056,191 |
| Temporarily restricted | 1,858,809 | 2,099,241 |
| Permanently restricted | <u>4,665,236</u> | <u>3,603,800</u> |
| Total net assets | <u>17,224,272</u> | <u>13,759,232</u> |
| Total liabilities and net assets | <u>\$ 21,501,643</u> | <u>\$ 17,812,327</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

For the Year Ended June 30, 2011

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Revenue and support | | | | |
| Contribution revenue | \$ 3,616,893 | \$ 5,632 | \$ 1,061,436 | \$ 4,683,961 |
| Interest and dividend income | 221,288 | 115,532 | - | 336,820 |
| Realized and unrealized investment gains | 783,712 | 247,588 | - | 1,031,300 |
| Rental income | 219,324 | - | - | 219,324 |
| Change in value of split-interest agreement | - | (28,549) | - | (28,549) |
| Administrative fee income | 51,999 | - | - | 51,999 |
| Net assets released from restrictions | <u>580,635</u> | <u>(580,635)</u> | <u>-</u> | <u>-</u> |
| Total revenue and support | <u>5,473,851</u> | <u>(240,432)</u> | <u>1,061,436</u> | <u>6,294,855</u> |
| Expenses | | | | |
| Grants | 1,856,974 | - | - | 1,856,974 |
| Other program expenses | 522,733 | - | - | 522,733 |
| Management and general | 268,001 | - | - | 268,001 |
| Fundraising | 182,108 | - | - | 182,108 |
| Total expenses | <u>2,829,815</u> | <u>-</u> | <u>-</u> | <u>2,829,815</u> |
| Change in net assets | 2,644,036 | (240,432) | 1,061,436 | 3,465,040 |
| Net assets, beginning of the year | <u>8,056,191</u> | <u>2,099,241</u> | <u>3,603,800</u> | <u>13,759,232</u> |
| Net assets, end of the year | <u>\$ 10,700,227</u> | <u>\$ 1,858,809</u> | <u>\$ 4,665,236</u> | <u>\$ 17,224,272</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

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) |
| Redirected by donors | 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 Statements of Cash flows
For the Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|--------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 3,465,040 | \$ (489,608) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Depreciation | 67,652 | 55,895 |
| Loss on disposal of property and equipment | - | 25,388 |
| Net realized and unrealized gains on investments | (1,031,300) | (753,868) |
| Contributions restricted for long term purposes | (36,436) | (61,129) |
| Change in split-interest agreements | 28,549 | 20,406 |
| Changes in operating assets and liabilities | | |
| Contributions receivable | (954,789) | 38,534 |
| Funds held as agent | 315,795 | (1,610,478) |
| Accounts payable and accrued expenses | 15,277 | 10,060 |
| Grants payable | (80,771) | 135,280 |
| Net cash provided by (used in) operating activities | <u>1,789,017</u> | <u>(2,629,520)</u> |
| Cash flows from investing activities | | |
| Purchase of investments | (7,949,918) | (5,185,590) |
| Payments received on notes receivable | 163,521 | 127,640 |
| Proceeds from sales of investments | 4,794,838 | 8,101,459 |
| Proceeds from sale of residential property | 77,214 | - |
| Purchase of property and equipment | (12,849) | (469,604) |
| Net cash provided by (used in) investing activities | <u>(2,927,194)</u> | <u>2,573,905</u> |
| Cash flows from financing activities | | |
| Contributions restricted for endowment | <u>36,436</u> | <u>61,129</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(1,101,741)</u> | <u>5,514</u> |
| Cash and cash equivalents, beginning of the year | <u>1,979,120</u> | <u>1,973,606</u> |
| Cash and cash equivalents, end of the year | <u>\$ 877,379</u> | <u>\$ 1,979,120</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, 2011 and 2010

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. It does this by managing charitable funds established by donors during their lifetimes (e.g., donor advised funds, field of interest funds) and through their estate plans. 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 one property: a 14,000 square foot office building located at 3299 Claremont Way in Napa, the offices of the Foundation. A residential property that was held as of June 30, 2010 was sold during the year ending June 30, 2011. 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.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

Basis of presentation (continued)

Unrestricted net assets (continued)

In accordance with Accounting Standards codification 958-605, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, a contribution must be classified as unrestricted net assets if the governing body of an organization has the unilateral power to redirect the use of a donor's contribution to another beneficiary. The Bylaws of the Foundation include a variance power provision giving the Board of Directors of the Foundation this ability. The Board of Directors may only exercise variance power and modify the restrictions or conditions on a distribution from a component fund if the restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs designated. Accordingly, the Foundation's consolidated financial statements classify the majority of funds as unrestricted net assets.

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 strives to place its cash with high quality credit institutions. Periodically, such investments may be in excess of federally insured limits.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

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 such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the time of donation. 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, 2011 and 2010 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 \$2,500 or greater. Depreciation is computed using the straight-line method over estimated useful lives of the assets ranging from five to forty years.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

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 rigorous competitive process in which the Foundation's professional staff invite, screen and make recommendations on applications from potential grantee organizations under the oversight of the Board of Directors in the case of discretionary funds. 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.

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, 2011, the Foundation does not have any significant uncertain tax positions for which a reserve would be necessary.

Funds Held as Agent

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

Functional expense allocation

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

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

Fair value measurements

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

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

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

- (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, hedge funds, trusts and Charitable lead unitrust (Level 2). Investments in government securities and corporate bonds are valued at fair value using valuations furnished by a pricing service. The fair value of hedge funds and trusts are based on fund manager valuation of the underlying assets within those investments. Fair value of the Foundations' interest in the charitable lead unitrust is based upon discounted expected future cash flows from the unitrust assets.

3. Contributions Receivable

In 2010, the Foundation was named as the recipient of a bequest in which it will receive 75% of the fair value of certain property located in Napa County, California. The property was sold in September 2011 for a sales price of \$1,500,000; the contribution receivable has been recorded at the Foundation's expected portion of the net sales proceeds of \$1,060,000. See Footnote 16 - Subsequent event.

All contributions receivable as of June 30, 2011 are expected to be fully collected within the following year.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

4. Investments

The following is a summary of investments, at fair value, by major type at June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|------------------------------|---------------------|---------------------|
| Equities | \$ 912,771 | \$ 951,313 |
| Money market funds | 2,139,767 | 2,490,000 |
| Mutual funds | 12,945,530 | 8,440,272 |
| Certificates of deposit | 390,797 | 303,496 |
| Bonds and other fixed income | 275,393 | 397,140 |
| Alternative investments | <u>104,343</u> | <u>-</u> |
| | <u>\$16,768,601</u> | <u>\$12,582,221</u> |

A summary of investment income (loss) for the years ended June 30, 2011 and 2010 is as follows:

| | <u>2011</u> | <u>2010</u> |
|-------------------------|--------------------|--------------------|
| Interest and dividends | \$ 336,820 | \$ 268,208 |
| Unrealized gains | 998,685 | 1,045,249 |
| Realized gains (losses) | <u>32,615</u> | <u>(291,381)</u> |
| | <u>\$1,368,120</u> | <u>\$1,022,076</u> |

The Foundation incurred investment management and custodial fees in the amounts of \$41,099 and \$35,884 for the years ended June 30, 2011 and 2010, 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 \$1,519,957 and \$1,473,674 as of June 30, 2011 and 2010, 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, 2011 and 2010 was \$102,735 and \$131,284, respectively.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

6. Notes Receivable

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

The total amount of this incentive plan is \$200,000 and the related note receivable balance was \$80,000 and \$100,000 as of June 30, 2011 and 2010, respectively. Imputed earned interest on this loan has been recorded as interest income and as compensation for the President in the amount of \$1,893 and \$2,986 for the years ended June 30, 2011 and 2010, respectively. The interest rates used for the imputed interest were 2.10% and 2.71% for the years ended June 30, 2011 and 2010, respectively.

The Foundation holds a note receivable from a qualifying charitable organization dated May 28, 2009 with an original loan amount of \$574,081 and a remaining balance of \$322,920 and \$466,441 as of June 30, 2011 and 2010, respectively. 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; \$17,492 and \$23,815 in interest income from this note receivable has been recorded as of June 30, 2011 and 2010, respectively.

As of June 30, 2011, notes receivable are expected to be collected as follows:

| <u>Year Ending June 30,</u> | |
|-----------------------------|------------------|
| 2012 | \$150,187 |
| 2013 | 150,187 |
| 2014 | 42,547 |
| 2015 | 6,667 |
| 2016 | 6,667 |
| Thereafter | <u>46,665</u> |
| Total | <u>\$402,920</u> |

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

7. Property and Equipment

Property and equipment consisted of the following as of June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|-------------------------------|--------------------|--------------------|
| Land | \$ 952,054 | \$1,003,054 |
| Building and improvements | 1,609,416 | 1,660,783 |
| Equipment and software | <u>73,625</u> | <u>67,620</u> |
| | 2,635,095 | 2,731,457 |
| Less accumulated depreciation | <u>(437,179)</u> | <u>(375,499)</u> |
| | <u>\$2,197,916</u> | <u>\$2,355,958</u> |

Depreciation expense was \$67,652 and \$55,895 for the years ended June 30, 2011 and 2010, respectively. A single family home that was included above in land and building and improvements as of June 30, 2010, was sold in April 2011 with net sales proceeds of \$77,214 being remitted back to the designated organization, as the assets were included in Funds Held as Agent.

8. Grants Payable

As of June 30, 2011, 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> | |
|--|------------------|
| 2012 | \$235,283 |
| 2013 | 158,575 |
| 2014 | <u>2,960</u> |
| | 396,818 |
| Less discount on multi-year grants payable | <u>(30,744)</u> |
| | <u>\$366,074</u> |

9. Funds Held as Agent

As of June 30, 2011 and 2010, the Foundation maintained a total of \$3,846,980 and \$3,557,210 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, 2011 and 2010, respectively.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

10. Concentrations

The majority of the Foundation's contributions are derived from local individuals, families, organizations, and foundations. As of June 30, 2011 and 2010, contributions from three donors comprised 75%, and two donors comprised 23%, of total contribution revenue, respectively.

As of June 30, 2011 and 2010, the entire contributions receivable balance was comprised of receivables from two donors.

11. Temporarily Restricted Net Assets

Amounts of \$1,858,809 and \$2,099,241 in temporarily restricted net assets were held by the Foundation at June 30, 2011 and 2010, 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.

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

| | <u>2011</u> | <u>2010</u> |
|---|--------------------|--------------------|
| CREF building and building improvements | | |
| Net of accumulated depreciation of \$371,640 | \$1,289,830 | \$1,351,249 |
| Other purpose restricted funds | 466,244 | 616,708 |
| Beneficial interest in split-interest agreement | <u>102,735</u> | <u>131,284</u> |
| Total temporarily restricted net assets | <u>\$1,858,809</u> | <u>\$2,099,241</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 ending June 30, 2010, causing net assets to be released from restriction in the amount of \$624,937.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

12. Permanently Restricted Net Assets (continued)

Permanently restricted net assets are comprised of the following at June 30:

| | <u>2011</u> | <u>2010</u> |
|---|--------------------|--------------------|
| Donor restricted endowment funds | \$3,765,236 | \$2,703,800 |
| CREF - Land | <u>900,000</u> | <u>900,000</u> |
| Total permanently restricted net assets | <u>\$4,665,236</u> | <u>\$3,603,800</u> |

13. Commitments and Contingencies

Leases

The Foundation leases office equipment under an operating lease which expires in 2012. Monthly lease payments are \$223 with a future minimum lease obligation of \$2,005.

Litigation

The Foundation is currently involved in a dispute with a donor over the use of donated assets. Management believes that this matter will ultimately be resolved without any material adverse effect on the Foundation's future financial position or results of operations.

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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, 2011, 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, 2011</u> |
|---|---------------------|------------------|----------------|--------------------------------|
| Money Market Funds | \$ 2,139,767 | \$ - | \$ - | \$ 2,139,767 |
| Mutual Funds | | | | |
| Bond Funds | 7,484,061 | - | - | 7,484,061 |
| Equity Funds | 5,461,469 | - | - | 5,461,469 |
| Equities | | | | |
| Common stock | 912,027 | - | - | 912,027 |
| Preferred stock | 744 | - | - | 744 |
| Fixed income | | | | |
| Bonds | - | 275,393 | - | 275,393 |
| Certificates of deposits | 390,797 | - | - | 390,797 |
| Alternative investments | | | | |
| Hedge Fund | - | 99,659 | - | 99,659 |
| Gold/Silver Trusts | <u>-</u> | <u>4,684</u> | <u>-</u> | <u>4,684</u> |
| Total investments measured at fair value | <u>\$16,388,865</u> | <u>\$379,736</u> | <u>\$ -</u> | <u>\$16,768,601</u> |
| Charitable lead unitrust | <u>\$ -</u> | <u>\$102,735</u> | <u>\$ -</u> | <u>\$ 102,735</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, 2010:

| <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> |

15. Endowment Disclosures

The Foundation's endowment consists of 16 endowment funds permanently restricted by donors. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There were no unrestricted board-designated endowment funds as of June 30, 2011 and 2010.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

15. Endowment Disclosures (continued)

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. 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:

- (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 \$9,492 and \$184,913 in endowment fund deficiencies were reported in unrestricted net assets as of June 30, 2011 and 2010, 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.

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

15. Endowment Disclosures (continued)

Strategies employed for achieving objectives

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

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 \$4,665,236 and \$3,603,800 as of June 30, 2011 and 2010, respectively. There were no temporarily restricted or unrestricted Board-designated endowment funds as of June 30, 2011 and 2010.

Changes in endowment net assets for the year ended June 30, 2011:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|--------------------|
| Endowment net assets, beginning of year | \$(184,913) | \$140,155 | \$3,603,800 | \$3,559,042 |
| Investment return | | | | |
| Investment income | - | 115,534 | - | 115,534 |
| Net appreciation (realized and unrealized) | <u>175,421</u> | <u>72,151</u> | <u>-</u> | <u>247,572</u> |
| Total investment return | 175,421 | 187,685 | - | 363,106 |
| Contributions | - | - | 1,096,436 | 1,096,436 |
| Reduction in corpus | - | - | (35,000) | (35,000) |
| Appropriation of endowment assets for expenditure | <u>-</u> | <u>(59,690)</u> | <u>-</u> | <u>(59,690)</u> |
| Endowment net assets, end of year | <u>\$ (9,492)</u> | <u>\$268,150</u> | <u>\$4,665,236</u> | <u>\$4,923,894</u> |

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

15. Endowment Disclosures (continued)

Investment and spending policies (continued)

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> |

16. Subsequent Events

The Foundation has evaluated subsequent events through October 12, 2011, the date the financial statements were available to be issued.

In 2010, the Foundation was named as the recipient of a bequest in which it will receive 75% of the fair value of certain property located in Napa County, California. The property was sold in September 2011 for a sales price of \$1,500,000, with expected net sales proceeds due to the Foundation of \$1,060,000.

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.

SUPPLEMENTARY INFORMATION

COMMUNITY FOUNDATION OF THE NAPA VALLEY AND SUBSIDIARY

Consolidated Schedule of Operating Expenses

For the Year Ended June 30, 2011

| | <u>Program</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|--------------------------------|-------------------|-----------------------------------|--------------------|-------------------|
| Staffing | | | | |
| Salaries | \$ 221,852 | \$ 171,927 | \$ 116,664 | \$ 510,443 |
| Employee benefits | 19,121 | 10,562 | 8,514 | 38,197 |
| Payroll taxes | 15,753 | 12,208 | 8,284 | 36,244 |
| Retirement plan contributions | 7,268 | 4,226 | 3,444 | 14,938 |
| Workers compensation | 2,588 | 2,005 | 1,361 | 5,954 |
| Staff training and recruitment | 3,825 | 906 | 275 | 5,006 |
| | <u>270,407</u> | <u>201,834</u> | <u>138,542</u> | <u>610,782</u> |
| Administration expenses | | | | |
| Depreciation | 67,354 | 208 | 84 | 67,646 |
| Investment management fees | 41,099 | - | - | 41,099 |
| Meetings and events | 5,001 | 5,044 | 29,519 | 39,564 |
| Legal services | 33,853 | 1,722 | 2,565 | 38,140 |
| Accounting services | - | 32,552 | - | 32,552 |
| Office expenses | 15,204 | 10,468 | 4,237 | 29,909 |
| Maintenance and repair | 24,516 | - | - | 24,516 |
| Utilities | 18,837 | - | - | 18,837 |
| Landscaping | 17,952 | - | - | 17,952 |
| Computer and web support | 8,562 | 5,895 | 2,386 | 16,843 |
| Insurance | 8,680 | 847 | 343 | 9,870 |
| Dues and subscriptions | 3,853 | 2,653 | 1,074 | 7,580 |
| Telephone and communications | 3,675 | 2,531 | 1,024 | 7,230 |
| Consulting services | - | 2,800 | - | 2,800 |
| Travel | 1,083 | 921 | 499 | 2,503 |
| Marketing | - | - | 1,622 | 1,622 |
| Property taxes | 1,619 | - | - | 1,619 |
| Postage and shipping | 764 | 526 | 213 | 1,503 |
| Other fund expenses | 274 | - | - | 274 |
| | <u>252,326</u> | <u>66,167</u> | <u>43,566</u> | <u>362,059</u> |
| | <u>\$ 522,733</u> | <u>\$ 268,001</u> | <u>\$ 182,108</u> | <u>\$ 972,841</u> |

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 |
| Staff training and recruitment | 3,512 | 3,884 | 1,117 | 8,513 |
| Workers compensation | 2,302 | 2,087 | 1,235 | 5,624 |
| | <u>224,616</u> | <u>201,874</u> | <u>118,952</u> | <u>545,442</u> |
| Administration expenses | | | | |
| Depreciation | 23,057 | 25,502 | 7,336 | 55,895 |
| Investment management fees | 35,884 | - | - | 35,884 |
| Meetings and events | 6,632 | 3,627 | 19,510 | 29,769 |
| Utilities | 26,149 | - | - | 26,149 |
| Loss on disposal of assets | 25,388 | - | - | 25,388 |
| Landscaping | 21,299 | - | - | 21,299 |
| Maintenance and repair | 20,063 | - | - | 20,063 |
| Accounting services | - | 18,000 | - | 18,000 |
| Office expenses | 8,776 | 6,162 | 1,740 | 16,678 |
| Computer and web support | 4,931 | 5,454 | 1,569 | 11,954 |
| Marketing | - | - | 11,084 | 11,084 |
| Insurance | 9,616 | 1,110 | 319 | 11,045 |
| Telephone and communications | 2,828 | 3,128 | 900 | 6,856 |
| Dues and subscriptions | 1,673 | 1,851 | 532 | 4,056 |
| Consulting services | 1,203 | 1,331 | 383 | 2,917 |
| Promotion and development | - | - | 2,641 | 2,641 |
| Legal services | - | 615 | 1,844 | 2,459 |
| Travel | 1,510 | 180 | 294 | 1,984 |
| Property taxes | 1,471 | - | - | 1,471 |
| Postage and shipping | 269 | 296 | 86 | 651 |
| Other fund expenses | 511 | - | - | 511 |
| | <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> |