

**THE COMMUNITY FOUNDATION OF  
SANTA CRUZ COUNTY  
COMBINED FINANCIAL STATEMENTS**  
For the years ended December 31, 2008 and 2007  
with  
Report of Independent Auditors

**THE COMMUNITY FOUNDATION OF  
SANTA CRUZ COUNTY**

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### **Report of Independent Auditors**

To the Board of Directors of  
The Community Foundation of Santa Cruz County:

We have audited the accompanying combined statements of financial position of The Community Foundation of Santa Cruz County (the "Foundation") as of December 31, 2008 and 2007, and the related combined statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. 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 combined financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation of Santa Cruz County as of December 31, 2008 and 2007, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Novogradac & Company LLP*

San Francisco, California  
April 21, 2009

**THE COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY**  
**COMBINED STATEMENTS OF FINANCIAL POSITION**  
December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,130,887	\$ 381,319	\$ 884,714	\$ 3,396,920
Investments	1,224,727	12,697,300	18,583,698	32,505,725
Investments - charitable remainder trusts	-	-	262,327	262,327
Receivables:				
Accounts receivable	61,107	415	-	61,522
Pledges receivable	-	360	90,094	90,454
Grants receivable	116,857	920,000	-	1,036,857
Gifts receivable	2,400	4,125	2,100	8,625
Total receivables	180,364	924,900	92,194	1,197,458
Deposits and prepaid expenses	36,539	175	-	36,714
Fixed assets, net	1,392,072	-	-	1,392,072
Investment in trust	-	-	30,000	30,000
<b>TOTAL ASSETS</b>	<b>\$ 4,964,589</b>	<b>\$ 14,003,694</b>	<b>\$ 19,852,933</b>	<b>\$ 38,821,216</b>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable and other liabilities	\$ 163,976	\$ 50,209	\$ -	\$ 214,185
Grants payable	69,929	725,750	-	795,679
Agency funds	-	2,734,811	-	2,734,811
Charitable gift annuity liability	-	351,777	-	351,777
Total liabilities	233,905	3,862,547	-	4,096,452
<b>NET ASSETS</b>	<b>4,730,684</b>	<b>10,141,147</b>	<b>19,852,933</b>	<b>34,724,764</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,964,589</b>	<b>\$ 14,003,694</b>	<b>\$ 19,852,933</b>	<b>\$ 38,821,216</b>

see accompanying notes

**THE COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY**  
**COMBINED STATEMENTS OF FINANCIAL POSITION**  
December 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 229,771	\$ 602,872	\$ 43,954	\$ 876,597
Investments	435,652	23,809,264	17,662,938	41,907,854
Investments - charitable remainder trusts	-	-	397,926	397,926
<b>Receivables:</b>				
Accounts receivable	-	99,301	-	99,301
Pledges receivable	-	5,095	108,589	113,684
Grants receivable	-	1,104,425	-	1,104,425
Gifts receivable	2,840	57,725	10,100	70,665
Total receivables	2,840	1,266,546	118,689	1,388,075
Deposits and prepaid expenses	26,355	180	-	26,535
Fixed assets, net	1,093,573	-	-	1,093,573
Investment in trust	-	-	30,000	30,000
<b>TOTAL ASSETS</b>	<b>\$ 1,788,191</b>	<b>\$ 25,678,862</b>	<b>\$ 18,253,507</b>	<b>\$ 45,720,560</b>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable and other liabilities	\$ 46,651	\$ 72,464	\$ -	\$ 119,115
Grants payable	-	426,750	-	426,750
Agency funds	-	3,461,609	-	3,461,609
Charitable gift annuity liability	-	296,045	-	296,045
Total liabilities	46,651	4,256,868	-	4,303,519
<b>NET ASSETS</b>	<b>1,741,540</b>	<b>21,421,994</b>	<b>18,253,507</b>	<b>41,417,041</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,788,191</b>	<b>\$ 25,678,862</b>	<b>\$ 18,253,507</b>	<b>\$ 45,720,560</b>

see accompanying notes

**THE COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY**  
**COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
For the year ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total
<b>PUBLIC SUPPORT AND REVENUE</b>				
Contributions	\$ 1,007,893	\$ 2,005,418	\$ 970,025	\$ 3,983,336
Grants	1,755,000	1,440,997	765,000	3,960,997
Investment income (loss)	90,283	(7,825,596)	-	(7,735,313)
Change in split-interest agreements	-	(50,681)	(135,599)	(186,280)
Other income	52,375	1,129	-	53,504
Net assets released from restrictions				
Satisfaction of time and/or purpose restrictions	6,300,456	(6,300,456)	-	-
Management fees	551,658	(551,658)	-	-
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	<b>9,757,665</b>	<b>(11,280,847)</b>	<b>1,599,426</b>	<b>76,244</b>
<b>EXPENSES</b>				
Grants and disbursements:				
Arts, history, and culture	743,935	-	-	743,935
Community development	236,177	-	-	236,177
Education/youth development	583,736	-	-	583,736
Environment	1,340,272	-	-	1,340,272
Health	1,715,984	-	-	1,715,984
Human services	527,829	-	-	527,829
Regional water management	76,889	-	-	76,889
Other	22,250	-	-	22,250
Total grants and disbursements	5,247,072	-	-	5,247,072
Supporting services, Programs	709,225	-	-	709,225
	5,956,297	-	-	5,956,297
Supporting services, Operations				
Marketing and development	270,740	-	-	270,740
Management and general	541,484	-	-	541,484
Total supporting services	812,224	-	-	812,224
<b>TOTAL EXPENSES</b>	<b>6,768,521</b>	<b>-</b>	<b>-</b>	<b>6,768,521</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>2,989,144</b>	<b>(11,280,847)</b>	<b>1,599,426</b>	<b>(6,692,277)</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>1,741,540</b>	<b>21,421,994</b>	<b>18,253,507</b>	<b>41,417,041</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 4,730,684</b>	<b>\$ 10,141,147</b>	<b>\$ 19,852,933</b>	<b>\$ 34,724,764</b>

see accompanying notes

**THE COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY**  
**COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
For the year ended December 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total
<b>PUBLIC SUPPORT AND REVENUE</b>				
Contributions	\$ 283,264	\$ 3,809,040	\$ 166,069	\$ 4,258,373
Grants	4,000	3,820,381	57,000	3,881,381
Investment income	139,540	1,976,847	-	2,116,387
Change in split-interest agreements	-	(58,558)	40,707	(17,851)
Other income	55,528	51,612	-	107,140
Net assets released from restrictions				
Satisfaction of time and/or purpose restrictions	5,689,416	(5,689,416)	-	-
Management fees	608,693	(608,693)	-	-
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	<b>6,780,441</b>	<b>3,301,213</b>	<b>263,776</b>	<b>10,345,430</b>
<b>EXPENSES</b>				
Grants and disbursements:				
Arts, history, and culture	366,800	-	-	366,800
Community development	438,384	-	-	438,384
Education/youth development	730,208	-	-	730,208
Environment	1,168,515	-	-	1,168,515
Health	1,820,427	-	-	1,820,427
Human services	619,483	-	-	619,483
Other	103,276	-	-	103,276
Total grants and disbursements	5,247,093	-	-	5,247,093
Supporting services, Programs	685,567	-	-	685,567
	5,932,660	-	-	5,932,660
Supporting services, Operations				
Marketing and development	403,233	-	-	403,233
Management and general	241,482	-	-	241,482
Total supporting services	644,715	-	-	644,715
<b>TOTAL EXPENSES</b>	<b>6,577,375</b>	<b>-</b>	<b>-</b>	<b>6,577,375</b>
<b>INCREASE IN NET ASSETS</b>	<b>203,066</b>	<b>3,301,213</b>	<b>263,776</b>	<b>3,768,055</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>1,538,474</b>	<b>18,120,781</b>	<b>17,989,731</b>	<b>37,648,986</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,741,540</b>	<b>\$ 21,421,994</b>	<b>\$ 18,253,507</b>	<b>\$ 41,417,041</b>

see accompanying notes

**THE COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY**  
**COMBINED STATEMENTS OF FUNCTIONAL EXPENSES**  
For the year ended December 31, 2008

	<u>Program Services</u>	<u>Marketing/ Development</u>	<u>Management and General</u>	<u>2008 Total</u>
GRANTS AND DISBURSEMENTS	\$ 5,247,072	\$ -	\$ -	\$ 5,247,072
<b>PERSONNEL EXPENSES</b>				
Salaries	366,838	140,037	280,075	786,950
Payroll taxes and employee benefits	<u>94,525</u>	<u>36,084</u>	<u>72,168</u>	<u>202,777</u>
Total personnel expenses	461,363	176,121	352,243	989,727
<b>OTHER EXPENSES</b>				
General and administrative	50,281	19,194	38,389	107,864
Conferences and meetings	14,956	5,710	11,419	32,085
Advertising and marketing	4,779	1,824	3,649	10,252
Professional services	98,630	37,651	75,303	211,584
Repairs and maintenance	30,201	11,529	23,058	64,788
Rent	44,760	17,087	34,174	96,021
Insurance	<u>2,383</u>	<u>910</u>	<u>1,820</u>	<u>5,113</u>
Total other expenses	245,990	93,905	187,812	527,707
Depreciation	1,872	714	1,429	4,015
Total supporting services	<u>709,225</u>	<u>270,740</u>	<u>541,484</u>	<u>1,521,449</u>
Total expenses	<u>\$ 5,956,297</u>	<u>\$ 270,740</u>	<u>\$ 541,484</u>	<u>\$ 6,768,521</u>
Expenses as a percentage of total expenses	<u>88.00%</u>	<u>4.00%</u>	<u>8.00%</u>	<u>100.00%</u>

see accompanying notes



**THE COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY**  
**COMBINED STATEMENTS OF FUNCTIONAL EXPENSES**  
For the year ended December 31, 2007

	<u>Program Services</u>	<u>Marketing/ Development</u>	<u>Management and General</u>	<u>2007 Total</u>
GRANTS AND DISBURSEMENTS	\$ 5,247,093	\$ -	\$ -	\$ 5,247,093
PERSONNEL EXPENSES				
Salaries	333,169	195,962	117,354	646,485
Payroll taxes and employee benefits	<u>90,929</u>	<u>53,482</u>	<u>32,029</u>	<u>176,440</u>
Total personnel expenses	424,098	249,444	149,383	822,925
OTHER EXPENSES				
General and administrative	52,095	30,640	18,349	101,084
Conferences and meetings	22,321	13,129	7,864	43,314
Advertising and marketing	16,601	9,764	5,847	32,212
Professional services	82,962	48,796	29,222	160,980
Repairs and maintenance	31,999	18,822	11,272	62,093
Rent	47,610	28,003	16,770	92,383
Insurance	<u>2,939</u>	<u>1,729</u>	<u>1,035</u>	<u>5,703</u>
Total other expenses	256,527	150,883	90,359	497,769
Depreciation	4,942	2,906	1,740	9,588
Total supporting services	<u>685,567</u>	<u>403,233</u>	<u>241,482</u>	<u>1,330,282</u>
Total expenses	<u>\$ 5,932,660</u>	<u>\$ 403,233</u>	<u>\$ 241,482</u>	<u>\$ 6,577,375</u>
Expenses as a percentage of total expenses	<u>90.20%</u>	<u>6.13%</u>	<u>3.67%</u>	<u>100.00%</u>

see accompanying notes

**THE COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY**  
**COMBINED STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Decrease) increase in net assets	\$ (6,692,277)	\$ 3,768,055
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	4,015	9,588
Realized and unrealized losses (gains)	9,202,535	(892,958)
Change in split-interest agreements	186,280	17,851
(Increase) decrease in:		
Accounts receivable	(91,923)	(42,806)
Contributions receivable	135,599	(40,706)
Pledges receivable	23,230	45,360
Grants receivable	184,425	(2,719)
Gifts receivable	62,040	(56)
Deposits and prepaid expenses	(10,179)	(8,760)
Increase (decrease) in:		
Accounts payable and accrued liabilities	95,070	48,552
Grants payable	368,929	(277,099)
Agency funds	(726,798)	701,049
Charitable gift annuity liability	55,732	24,210
Net cash provided by operating activities	2,796,678	3,349,561
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of (purchase of) securities, net	26,159	(4,705,822)
Purchase of fixed assets	(302,514)	(139,488)
Net cash used in investing activities	(276,355)	(4,845,310)
Net increase (decrease) in cash and cash equivalents	2,520,323	(1,495,749)
Cash and cash equivalents at beginning of year	876,597	2,372,346
Cash and cash equivalents at end of year	\$ 3,396,920	\$ 876,597

see accompanying notes

**THE COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
For the years ended December 31, 2008 and 2007

1. General

The Community Foundation of Santa Cruz County (the "Foundation") is a California nonprofit public benefit corporation classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) and as a non-private foundation under Section 509(a)(1) of the Internal Revenue Code of 1986. The Foundation was organized in 1982 to enhance the quality of life by seeking, accepting, managing and disbursing funds to address a variety of community needs throughout Santa Cruz County. Grants and technical assistance services provided are in accordance with the terms of the Foundation's guidelines and are subject to approval of the Board of Directors of the Foundation. The Regional Water Management Foundation ("RWMF"), a subsidiary of the Foundation and a California nonprofit public benefit corporation, was organized on August 21, 2007 to support activities for the benefit of the Foundation. The operations of the Foundation include the operations of The Community Foundation of Santa Cruz County and the RWMF.

2. Summary of significant accounting policies

Basis of accounting

The Foundation prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Basis of presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Unrestricted Net Assets:** Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets consist primarily of board designated operating reserve fund, capital assets, and general operating support.

**Temporarily Restricted Net Assets:** Net assets are subject to donor-imposed stipulations which can be fulfilled either by actions of those stipulations and/or expire with the passage of time and subject to the variance power of the Board of Directors. Temporarily restricted net assets consist primarily of temporarily restricted contributions, charitable gift annuities, and accumulated earnings on endowed funds. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Permanently Restricted Net Assets:** Net assets are subject to donor-imposed stipulations whereby the historic gift amount is to be preserved in perpetuity and are subject to the variance power of the Board of Directors. While the historic gift is to remain permanently maintained, the Foundation may expend the accumulated earnings, which are temporarily restricted, in accordance with donor specifications.

Cash and cash equivalents

For purposes of the Combined Statements of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**THE COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
For the years ended December 31, 2008 and 2007

2. Summary of significant accounting policies (continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America includes the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Function allocation of expense

The costs of providing the programs and other activities have been summarized on a functional basis in the statements of activity and changes in net assets. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by the Foundation's management.

Investments

Under SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last business day of the year; securities traded on the over-the-counter market are valued at the last reported bid price.

Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated based upon the underlying cost of individual lots. Interest income is recorded when earned and dividends are recorded on the ex-dividend date.

Investments are made according to the finance policy adopted by the Foundation's Board of Directors. The guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate indices. Outside advisors are utilized by the Foundation for the purpose of providing investment and consulting.

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.

Concentration of credit risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of temporary cash investments. The Foundation places its temporary cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposed to any one financial institution. At times, the account balances may exceed the institution's federally insured limits. The Foundation has not experienced any losses in such accounts.

**THE COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
For the years ended December 31, 2008 and 2007

2. Summary of significant accounting policies (continued)

Internal management fees

The Foundation charges a monthly maintenance fee internally for endowed and non-endowed funds under management. These fees help fund the general operations of the Foundation. These fees are recorded internally both as revenue and expense, and have been so reflected in the financial statement presentation, in that the fees do not come from sources external to the Foundation.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Unconditional pledges to give are recorded as contributions when received at the net present value of the amounts expected to be collected. Unconditional pledges to give that are expected to be received in future periods are discounted annually using the current interest rate the funds would earn. Amortization of the discount is recorded as contribution revenue.

Recognition of donor restrictions

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. When restrictions on contributions are satisfied in the same period as the receipt of the contribution, the Foundation reports both the contribution received and the related expense in unrestricted net assets.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2008 and 2007 was \$10,252 and \$32,212, respectively, and included maintenance of the Foundation's website.

Fixed assets and depreciation

Purchase of property, equipment or improvements costing more than \$1,000 are recorded at cost. Major improvements are charged to the fixed asset account, while maintenance and repairs, which do not extend the life of the respective assets, are expensed. When fixed assets are retired or otherwise disposed, the cost of the fixed asset and the related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in income.

Depreciation is computed on the straight line method over the estimated useful lives of the assets. Depreciation expense during 2008 and 2007 was \$4,015 and \$9,588, respectively. The useful lives of the assets are estimated as follows:

Software and hardware	3 years
Office equipment	3 – 5 years
Leasehold improvements	Life of lease

# THE COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY

## NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

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

#### Designated Agency Funds

The Foundation receives and distributes assets under certain agency and intermediary arrangements. SFAS No. 136 *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others* ("SFAS No. 136"), establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer the return on investment of those assets to another entity that is specified by the donor. The Foundation holds such funds as designated agency funds. Distributions to the donor specified entity are from earnings and pursuant to the Foundation's spending policy.

#### Agency Endowed Funds

SFAS No. 136 specifically requires that if a not-for-profit organization establishes a fund at the Foundation with its own funds and specifies itself or its affiliate as the beneficiary of the fund, the Foundation must account for the transfer of such assets as a liability. The liability is the total fair value of the funds and is reflected as agency funds on the statements of financial position. In addition, related amounts received or distributed, investment income or loss, and expenses are not presented on the accompanying statements of activities.

#### Grants

Grants are made from available principal and income in accordance with the designations of donors. Grants are recorded at the date of approval by the Board of Directors. Donor advised grants below \$10,000 are recorded at the date of approval by the Executive Director. Grant awards are presented on the statements of financial position net of grant refunds.

#### Assets held in charitable trusts

The Foundation serves as the trustee for two charitable trusts. Under the terms of these trust agreements, the Foundation makes distributions to income beneficiaries for a given term or the life of the beneficiaries. At the end of the term, or upon the death of the income beneficiaries, assets remaining in the trusts will be dispersed in accordance with the terms of the trusts. The Foundation records the assets held in this trust at their fair value based on current quoted market values and records a liability for the respective agreements at the estimated discounted value of the amounts due to the income beneficiaries based on the Internal Revenue Service group annuity and mortality tables. The present value of payments to beneficiaries under this arrangement is calculated using discount rates representing risk-free rates in existence at the date of gift. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the value of split-interest agreement in the statement of activities and changes in net assets.

#### Tax exempt status

The Foundation has been granted tax exempt status by the Internal Revenue Service and the California Franchise Tax Board. In addition, the Foundation has received a ruling from the Internal Revenue Service that it is not a private foundation. The Foundation is also registered with the Registry of Charitable Trusts of the Office of the Attorney General of the State of California.

## THE COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY

### NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

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

##### Assets held in charitable gift annuities

The Foundation has established various charitable gift annuities. Under the terms of these agreements, donors contribute assets to the Foundation in exchange for a promise by the Foundation to pay a fixed distribution to the donors for the life of the donor. Upon the death of the donors, assets remaining in the charitable gift annuities will transfer to a fund held for the benefit of a cause or an organization designated by the donor. The Foundation records the assets held in the charitable gift annuities at their fair market values based on current quoted market prices and records a liability under the charitable gift annuities based on the estimated discounted value of the amounts due to the donors based on the Internal Revenue Service annuity and mortality tables. The Foundation recognizes contribution revenue for the difference between the fair value of the assets received and the annuity liability.

Annuity liabilities are recorded for the required life annuity payments at the present value of expected future cash payments discounted using current interest rates and actuarial assumptions. The annuity obligations are adjusted each year for changes in the life expectancy of the donors and are reduced as payments are made to the donors. The present value of future payment liabilities of charitable gift annuities were \$351,777 and \$296,045 at December 31, 2008 and 2007, respectively.

The Foundation is licensed by the State of California to enter into annuity agreements with donors. California Statutes require entities with such a license to maintain a segregated reserve account, which is calculated based on the state's annuity 2000 mortality table with a discount rate of 4.5%. The Foundation has complied with this requirement.

##### New accounting pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. Pursuant to FSP-FIN 48-3, the effective date has been deferred for nonpublic organizations and will become effective for fiscal years beginning after December 15, 2008. Management believes that the implementation of FIN 48 will not have a material effect on the financial statements.

In August 2008, FASB issued Staff Position ("FSP") No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowed Funds*. This FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The FSP also improves disclosures about an organization's endowed funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

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2. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

The State of California adopted UPMIFA effective January 1, 2009. The Foundation is subject to the required disclosures in FSP 117-1 for the year ending December 31, 2008. In that Foundation funds are subject to UPMIFA effective in 2009, it will be required to classify its net assets on donor-restricted endowed funds according to FSP 117-1 on its December 31, 2009 combined financial statements. The combined financial statements will then restate the classification of losses on donor-restricted endowed funds, if any, from temporarily restricted to unrestricted net assets. Were UPMIFA effective on December 31, 2008, the Foundation would be required to classify investment losses of \$1,362,715 on donor-restricted endowed funds as unrestricted net assets, as opposed to the presentation in the December 31, 2008 combined financial statements as temporarily restricted net assets.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

3. Investments

Investments are comprised of the following as of December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 2,918,985	\$ 7,498,565
Common and preferred stocks	15,793,397	22,091,356
U.S. government corporate bonds	<u>13,793,343</u>	<u>12,317,933</u>
Total investments	<u>\$ 32,505,725</u>	<u>\$ 41,907,854</u>

The following schedule summarizes the investment return and its classification in the Combined Statements of Activities for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Interest	\$ 404,977	\$ 307,361
Dividends	1,067,386	920,604
Realized (losses) gains	(1,014,459)	1,264,186
Unrealized losses	(8,188,076)	(371,228)
Investment expenses	<u>(5,141)</u>	<u>(4,536)</u>
Total investment (loss) income	<u>\$ (7,735,313)</u>	<u>\$ 2,116,387</u>



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4. Pledges receivable

Pledges receivable at December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Due within one year	\$ 51,830	\$ 57,329
Due within two to seven years	<u>39,990</u>	<u>57,721</u>
Gross pledges receivable	91,820	115,050
Less discount to reflect pledges receivable at present value	<u>(1,366)</u>	<u>(1,366)</u>
Total pledges receivable	<u>\$ 90,454</u>	<u>\$ 113,684</u>

5. Investments - charitable remainder trusts

The Foundation is a beneficiary of four charitable trusts:

Charitable Lead Trust A

The Foundation is a beneficiary for the lifetime of the donor, and also acts as trustee, without compensation. The 1% annual unitrust distribution received by the Foundation totaled \$1,343 and \$1,360 in 2008 and 2007, respectively. As the amounts due to be received by the Foundation are immaterial, no receivable has been recorded for this Trust.

Remainder Interest in Trust B

The Foundation is a 100% remainderman beneficiary under the terms of the Trust. The assets of the trust are in no way subject to the control of the Foundation at this time. The present value of the remainder interest totaled approximately \$149,522 and \$275,691 at December 31, 2008 and 2007, respectively.

Remainder Interest in Trust C

The Foundation is a 100% remainderman beneficiary under the terms of the Trust, and also acts as trustee, without compensation. The present value of the remainder interest totaled approximately \$89,536 and \$84,110 at December 31, 2008 and 2007, respectively.

Remainder Interest in Trust D

The Foundation is a 100% remainderman beneficiary under the terms of the Trust. The assets of the trust are not currently subject to the control of the Foundation. The present value of the remainder interest totaled approximately \$23,269 and \$38,125 at December 31, 2008 and 2007, respectively.

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6. Grants payable

The Foundation makes grants to various organizations. As of December 31, 2008 and 2007, grants payable consisted of \$795,679 and \$426,750, respectively. The following is a summary of grants authorized and payable at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Due within one year	\$ 513,779	\$ 301,600
Due within two to five years	<u>281,900</u>	<u>125,150</u>
Total grants payable	<u>\$ 795,679</u>	<u>\$ 426,750</u>

7. Fixed assets

As of December 31, 2008 and 2007, the Foundation's fixed assets consisted of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 900,000	\$ 900,000
Office equipment and software	220,294	220,294
Leasehold improvements	<u>111,826</u>	<u>111,826</u>
Fixed assets	1,232,120	1,232,120
Less accumulated depreciation	<u>(329,283)</u>	<u>(325,268)</u>
	902,837	906,852
Construction in progress	<u>489,235</u>	<u>186,721</u>
Fixed assets, net	<u>\$ 1,392,072</u>	<u>\$ 1,093,573</u>

In December 2005, the Foundation received a restricted contribution to be used in the acquisition of a commercial lot, which will serve as the future location of the Foundation. In April 2006, the Foundation purchased a commercial lot in Aptos, California. As of December 31, 2008 and 2007, costs of the building to date are \$489,235 and \$186,721, respectively, with estimated additional costs of approximately \$6,000,000 to complete the project. The Foundation plans to fund the construction costs both through capital campaigns and in-kind donations and has already received total promises in excess of \$4,000,000 and \$1,500,000 as of December 31, 2008 and 2007, respectively. The estimated completion date for the building is 2010.

8. Lease commitments

The Foundation leases office space under a non-cancelable lease expiring January 31, 2010. Rental expense totaled \$96,021 and \$92,383 for the years ended December 31, 2008 and 2007, respectively.

Future minimum lease payments under the operating lease are as follows:

Year ending December 31,	
2009	\$ 96,031
2010	<u>8,004</u>
Total	<u>\$ 104,035</u>

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9. Employee retirement plan

In January 1997, the Foundation established a 401(k) plan. Employees are eligible to participate in the plan starting on the first of the month following 90 days of employment. The Board of Trustees approved discretionary contributions of \$36,648 and \$31,625 to the plan in 2008 and 2007, respectively.

10. Net assets

Unrestricted net assets

Unrestricted net assets consist of board designated operating reserve fund, capital assets, general operating support and the RWMF supporting organization. At December 31, 2008 and 2007, unrestricted net assets consist of the following:

	<u>2008</u>	<u>2007</u>
Board designated	\$ 326,455	\$ 274,499
Undesignated	<u>4,404,228</u>	<u>1,467,041</u>
Total unrestricted net assets	<u>\$ 4,730,683</u>	<u>\$ 1,741,540</u>

Temporarily restricted net assets

Temporarily restricted net assets consist of non-endowed donor funds, foundation contributions for special projects, charitable gift annuities, and the remaining portion of donor-restricted endowment funds that are not classified as permanently restricted net assets. At December 31, 2008 and 2007, temporarily restricted net assets consist of the following:

	<u>2008</u>	<u>2007</u>
Non-endowed	\$ 6,045,920	\$ 9,460,956
Charitable gift annuities	126,067	138,822
Grants, special projects, and pass-through	4,444,659	5,382,452
Investment (loss) income on		
permanently restricted net assets	<u>(475,499)</u>	<u>6,439,764</u>
Total temporarily restricted net assets	<u>\$ 10,141,147</u>	<u>\$ 21,421,994</u>

Permanently restricted net assets

Permanently restricted net assets represent the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds.

The Foundation has adopted investment policies that preserve capital, regularly evaluate and control risk to ensure it is commensurate with the given investment style and objective of the portfolio and are invested with the care, skill, prudence, and diligence with the goal of producing returns equal to or exceeding prevailing standards among community foundations of similar asset size. The investment strategy for endowed funds utilizes a "total return," that is, the aggregate return from capital appreciation and dividend and interest income. Donors (the person or organization that established the fund) or the fund representative authorized by the fund agreement may choose the investment option for their fund when their fund is established.

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10. Net assets

Permanently restricted net assets (continued)

The Board of Directors, after conferring with counsel with respect to the provisions of both the Uniform Management of Institutional Funds Act (“UMIFA”) and UPMIFA, has adopted a spending plan that continues to follow UMIFA by enforcing no spending of the permanently restricted portion of donor funds, which consists of the historic gift, or corpus, of the fund. The objective of endowed funds is that the principal gift(s) of the fund will be held forever. Charitable distributions will be spent from a fund’s net earnings according to the Foundation’s spending policy. The spending policy is established to ensure the availability of grant making dollars to the community in perpetuity. The policy currently establishes a target total return of 8.0%. The funds available for grant making use determined each year (which was 4% for 2008 and 2007) are calculated based on a 12 quarter moving average. Both the finance committee and the Board of Directors of the Foundation must approve any changes to the spending percentage.

At December 31, 2008 and 2007, permanently restricted net assets consist of the following:

	<u>2008</u>	<u>2007</u>
Permanently restricted net assets, beginning of year	\$ 18,253,507	\$ 17,989,731
Net (depreciation) appreciation of split interest agreements	(135,599)	40,707
Contributions	<u>1,735,025</u>	<u>223,069</u>
Permanently restricted net assets, end of year	<u>\$ 19,852,933</u>	<u>\$ 18,253,507</u>

11. Major contributions

For the year ended December 31, 2008, approximately 50% of the Foundation’s annual contribution and grant revenue was provided from one foundation, one company and one individual.

For the year ended December 31, 2007, approximately 60% of the Foundation’s annual contribution and grant revenue was provided from one company and two individuals. A balance of \$600,000 due from one donor is included in grants receivable.