

**COMMUNITY FOUNDATION
SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
with
Report of Independent Auditors
For the years ended December 31, 2011 and 2010**

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY

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Report of Independent Auditors

To the Board of Directors of
Community Foundation Santa Cruz County and Subsidiary:

We have audited the accompanying consolidated statements of financial position of Community Foundation Santa Cruz County and Subsidiary (collectively, the "Foundation") as of December 31, 2011 and 2010, and the related consolidated statements of activities and changes in net assets, 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 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 Community Foundation Santa Cruz County and Subsidiary as of December 31, 2011 and 2010, and the changes in its net assets and its 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
May 21, 2012

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and cash equivalents	\$ 171,008	\$ 135,749	\$ 429,484	\$ 736,241
Investments	843,655	15,581,551	20,558,004	36,983,210
Investments - charitable remainder trusts	-	491,219	90,614	581,833
Receivables:				
Accounts receivable	1,128	3,462	-	4,590
Pledges receivable	-	101,249	67,369	168,618
Grants receivable	297,259	405,000	-	702,259
Gifts receivable	3,865	36,621	56,439	96,925
Total receivables	302,252	546,332	123,808	972,392
Deposits and prepaid expenses	47,907	-	-	47,907
Other assets	-	-	10,000	10,000
Fixed assets, net	9,050,899	-	-	9,050,899
Intangible assets, net	119,667	-	-	119,667
Investment in trust	-	-	30,000	30,000
TOTAL ASSETS	\$ 10,535,388	\$ 16,754,851	\$ 21,241,910	\$ 48,532,149
LIABILITIES AND NET ASSETS				
Accounts payable and other liabilities	\$ 134,913	\$ 55,367	\$ -	\$ 190,280
Grants payable	297,260	458,462	-	755,722
Agency funds	-	2,903,614	-	2,903,614
Charitable gift annuity liability	-	333,882	-	333,882
Note payable - tax-exempt bonds	2,500,000	-	-	2,500,000
Total liabilities	2,932,173	3,751,325	-	6,683,498
NET ASSETS	7,603,215	13,003,526	21,241,910	41,848,651
TOTAL LIABILITIES AND NET ASSETS	\$ 10,535,388	\$ 16,754,851	\$ 21,241,910	\$ 48,532,149

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and cash equivalents	\$ 288,393	\$ 70,871	\$ 473,116	\$ 832,380
Investments	997,267	18,112,771	19,961,345	39,071,383
Investments - charitable remainder trusts	-	552,512	89,837	642,349
Receivables:				
Accounts receivable	1,407	-	-	1,407
Pledges receivable	-	202,808	69,298	272,106
Grants receivable	132,720	410,000	-	542,720
Gifts receivable	16,049	27,050	14,875	57,974
Total receivables	150,176	639,858	84,173	874,207
Deposits and prepaid expenses	23,768	120	-	23,888
Fixed assets, net	9,238,498	-	-	9,238,498
Intangible assets, net	17,230	-	-	17,230
Investment in trust	-	-	30,000	30,000
TOTAL ASSETS	\$ 10,715,332	\$ 19,376,132	\$ 20,638,471	\$ 50,729,935
LIABILITIES AND NET ASSETS				
Accounts payable and other liabilities	\$ 119,177	\$ 9,527	\$ -	\$ 128,704
Construction costs payable	356,109	-	-	356,109
Grants payable	132,721	379,250	-	511,971
Agency funds	-	2,996,745	-	2,996,745
Charitable gift annuity liability	-	376,874	-	376,874
Line of credit	2,319,198	-	-	2,319,198
Total liabilities	2,927,205	3,762,396	-	6,689,601
NET ASSETS	7,788,127	15,613,736	20,638,471	44,040,334
TOTAL LIABILITIES AND NET ASSETS	\$ 10,715,332	\$ 19,376,132	\$ 20,638,471	\$ 50,729,935

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Contributions	\$ 1,656,151	\$ 2,658,790	\$ 389,662	\$ 4,704,603
Grants	240,308	826,279	213,000	1,279,587
Investment income (loss)	2,711	(787,721)	-	(785,010)
Change in split-interest agreements	-	(115,540)	777	(114,763)
Other income	115,794	1,170	-	116,964
Net assets released from restrictions				
Satisfaction of time and/or purpose restrictions	4,602,704	(4,602,704)	-	-
Management fees	590,484	(590,484)	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	7,208,152	(2,610,210)	603,439	5,201,381
EXPENSES				
Grants and disbursements:				
Arts, history, and culture	470,580	-	-	470,580
Community development	309,742	-	-	309,742
Education/youth development	738,220	-	-	738,220
Environment	646,480	-	-	646,480
Health	1,492,548	-	-	1,492,548
Human services	553,135	-	-	553,135
Other	10,751	-	-	10,751
Regional water management	1,260,871	-	-	1,260,871
Total grants and disbursements	5,482,327	-	-	5,482,327
Supporting services, Programs	1,023,571	-	-	1,023,571
	6,505,898	-	-	6,505,898
Supporting services, Operations				
Marketing and development	591,445	-	-	591,445
Management and general	295,721	-	-	295,721
Total supporting services	887,166	-	-	887,166
TOTAL EXPENSES	7,393,064	-	-	7,393,064
(DECREASE) INCREASE IN NET ASSETS	(184,912)	(2,610,210)	603,439	(2,191,683)
NET ASSETS AT BEGINNING OF YEAR	7,788,127	15,613,736	20,638,471	44,040,334
NET ASSETS AT END OF YEAR	\$ 7,603,215	\$ 13,003,526	\$ 21,241,910	\$ 41,848,651

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
For the year ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Contributions	\$ 4,259,600	\$ 3,013,169	\$ 217,974	\$ 7,490,743
Grants	90,879	1,040,438	7,500	1,138,817
Investment income	6,587	3,267,573	-	3,274,160
Change in split-interest agreements	-	56,237	2,730	58,967
Other income	64,822	4	-	64,826
Net assets released from restrictions				
Satisfaction of time and/or purpose restrictions	4,819,398	(4,819,398)	-	-
Management fees	617,256	(617,256)	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	9,858,542	1,940,767	228,204	12,027,513
EXPENSES				
Grants and disbursements:				
Arts, history, and culture	517,904	-	-	517,904
Community development	152,056	-	-	152,056
Education/youth development	617,289	-	-	617,289
Environment	891,152	-	-	891,152
Health	1,459,703	-	-	1,459,703
Human services	610,231	-	-	610,231
Regional water management	3,102,339	-	-	3,102,339
Total grants and disbursements	7,350,674	-	-	7,350,674
Supporting services, Programs	948,707	-	-	948,707
	8,299,381	-	-	8,299,381
Supporting services, Operations				
Marketing and development	356,963	-	-	356,963
Management and general	267,722	-	-	267,722
Total supporting services	624,685	-	-	624,685
TOTAL EXPENSES	8,924,066	-	-	8,924,066
INCREASE IN NET ASSETS	934,476	1,940,767	228,204	3,103,447
NET ASSETS AT BEGINNING OF YEAR	6,853,651	13,672,969	20,410,267	40,936,887
NET ASSETS AT END OF YEAR	\$ 7,788,127	\$ 15,613,736	\$ 20,638,471	\$ 44,040,334

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the year ended December 31, 2011

	<u>Program Services</u>	<u>Marketing/ Development</u>	<u>Management and General</u>	<u>Total</u>
GRANTS AND DISBURSEMENTS	\$ 5,482,327	\$ -	\$ -	\$ 5,482,327
PERSONNEL EXPENSES				
Salaries	452,659	261,558	130,779	844,996
Payroll taxes and employee benefits	<u>114,482</u>	<u>66,151</u>	<u>33,075</u>	<u>213,708</u>
Total personnel expenses	567,141	327,709	163,854	1,058,704
OTHER EXPENSES				
General and administrative	81,415	47,044	23,521	151,980
Conferences and meetings	12,765	7,376	3,688	23,829
Advertising and marketing	8,422	4,866	2,433	15,721
Professional services	104,767	60,537	30,268	195,572
Repairs and maintenance	48,255	27,883	13,941	90,079
Insurance	<u>5,767</u>	<u>3,332</u>	<u>1,666</u>	<u>10,765</u>
Total other expenses	261,391	151,038	75,517	487,946
Depreciation and amortization	143,340	82,825	41,413	267,578
Interest expense	<u>51,699</u>	<u>29,873</u>	<u>14,937</u>	<u>96,509</u>
Total supporting services	<u>1,023,571</u>	<u>591,445</u>	<u>295,721</u>	<u>1,910,737</u>
Total expenses	<u>\$ 6,505,898</u>	<u>\$ 591,445</u>	<u>\$ 295,721</u>	<u>\$ 7,393,064</u>
Expenses as a percentage of total expenses	<u>88.00%</u>	<u>8.00%</u>	<u>4.00%</u>	<u>100.00%</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
For the year ended December 31, 2010

	Program Services	Marketing/ Development	Management and General	Total
GRANTS AND DISBURSEMENTS	\$ 7,350,674	\$ -	\$ -	\$ 7,350,674
PERSONNEL EXPENSES				
Salaries	508,271	191,245	143,432	842,948
Payroll taxes and employee benefits	128,902	48,501	36,376	213,779
Total personnel expenses	637,173	239,746	179,808	1,056,727
OTHER EXPENSES				
General and administrative	70,812	26,644	19,983	117,439
Conferences and meetings	19,381	7,292	5,470	32,143
Advertising and marketing	11,990	4,511	3,383	19,884
Professional services	89,726	33,761	25,321	148,808
Repairs and maintenance	40,442	15,216	11,412	67,070
Rent	48,727	18,334	13,751	80,812
Insurance	5,144	1,935	1,451	8,530
Total other expenses	286,222	107,693	80,771	474,686
Depreciation	25,312	9,524	7,143	41,979
Total supporting services	948,707	356,963	267,722	1,573,392
Total expenses	\$ 8,299,381	\$ 356,963	\$ 267,722	\$ 8,924,066
Expenses as a percentage of total expenses	93.00%	4.00%	3.00%	100.00%

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ (2,191,683)	\$ 3,103,447
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	267,578	41,979
Realized and unrealized losses (gains)	1,795,556	(2,169,681)
Change in split-interest agreements	114,763	(58,967)
(Increase) decrease in operating assets:		
Accounts receivable	(3,183)	-
Contributions receivable	60,516	(59,077)
Pledges receivable	103,488	(75,311)
Grants receivable	(159,539)	222,550
Gifts receivable	(38,951)	(43,699)
Deposits and prepaid expenses	(24,019)	13,966
Other assets	(10,000)	-
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	61,576	(31,446)
Grants payable	243,751	(1,321,305)
Agency funds	(93,131)	92,178
Charitable gift annuity liability	(42,992)	(43,396)
Net cash provided by (used in) operating activities	<u>83,730</u>	<u>(328,762)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of securities, net	177,854	1,962,730
Purchase of fixed assets	(67,903)	(5,443,507)
Net cash provided by (used in) investing activities	<u>109,951</u>	<u>(3,480,777)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of construction costs payable	(356,109)	(490,192)
(Repayment of) proceeds from line of credit	(2,319,198)	2,319,198
Proceeds from note payable - tax-exempt bonds	2,500,000	-
Payment for intangible assets (deferred financing costs)	(114,513)	(17,230)
Net cash (used in) provided by financing activities	<u>(289,820)</u>	<u>1,811,776</u>
Net decrease in cash and cash equivalents	(96,139)	(1,997,763)
Cash and cash equivalents at beginning of year	832,380	2,830,143
Cash and cash equivalents at end of year	<u>\$ 736,241</u>	<u>\$ 832,380</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	<u>\$ 96,509</u>	<u>\$ -</u>
Capitalized interest paid during period	<u>\$ -</u>	<u>\$ 27,318</u>
Supplemental disclosure of noncash financing activities:		
Increase in construction costs payable and fixed assets	<u>\$ -</u>	<u>\$ 356,109</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

1. General

Community Foundation Santa Cruz County (“CFSCC”) 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. CFSCC 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 CFSCC’s guidelines and are subject to approval of the Board of Directors of CFSCC. The Regional Water Management Foundation (“RWMF”), a subsidiary of CFSCC and a California nonprofit public benefit corporation, was organized on August 21, 2007 to support activities for the benefit of CFSCC. RWMF is a type I supporting organization under Section 509(a)(3) of the Internal Revenue Code. RWMF is the recipient of a \$12.5 million grant awarded by the California State Water Resource Control Board and funded by State Proposition 50 Integrated Regional Water Management Program. The grant funds the implementation of 15 high priority water projects in the region from 2008 through 2013 and RWMF provides management and administration for implementation of this grant. In 2011, the RWMF was awarded a \$999,750 reimbursement grant from the California Department of Water Resources to update the Integrated Regional Water Management Plan for the Santa Cruz Region and to complete key technical studies to better inform water resources management. The RWMF is partnering with four local agencies to complete this work from 2011 through 2013. RWMF continues to be approached and open to other opportunities to support these efforts. As of December 31, 2011 and 2010, RWMF has received \$7,216,942 and \$5,811,680, respectively.

2. Summary of significant accounting policies

Principles of consolidation

The accompanying consolidated financial statements include the assets, liabilities, net assets and financial activities of CFSCC and its subsidiary, RWMF (collectively, the “Foundation”). All significant intercompany transactions and balances have been eliminated in consolidation.

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

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 that 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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

2. Summary of significant accounting policies (continued)

Basis of presentation (continued)

Permanently Restricted Net Assets: Net assets that 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.

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.

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.

Cash and cash equivalents

For purposes of the consolidated 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 carrying amount of cash and cash equivalents approximates fair value.

Investments

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.

Other assets

In December 2011, the Foundation received a donation of a non-controlling interest in a limited liability company. The Foundation accepted the donation with a condition that the investment would be liquidated immediately. The Foundation determined that the membership interest would be sold for \$10,000 and recorded the investment and corresponding contribution in that amount, which represents management's best estimate of the asset's fair value.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

2. Summary of significant accounting policies (continued)

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 (Charitable Lead Trust A and Remainder Interest in Trust B – see Note 5).

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 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.

Fair value measurements

The Foundation applies the accounting provisions related to fair value measurements. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost). Upon adoption of the fair value measurement provisions that apply to recurring and nonrecurring fair value measurements of financial assets and liabilities and other provisions, the Foundation determined that no transition adjustments were required.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that reflect the Foundation's own assumptions.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the disclosed level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the item being measured.

The following tables present the Foundation's assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2011 and 2010:

	December 31, 2011			Fair Value Measurements
	Level 1	Level 2	Level 3	
Assets				
Investments	\$ 36,983,210	\$ -	\$ -	\$ 36,983,210
Investments – charitable remainder trusts	-	-	581,833	581,833
Total assets	<u>\$ 36,983,210</u>	<u>\$ -</u>	<u>\$ 581,833</u>	<u>\$ 37,565,043</u>
Liabilities				
Charitable gift annuity	\$ -	\$ -	\$ 333,882	\$ 333,882
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 333,882</u>	<u>\$ 333,882</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

	December 31, 2010			Fair Value Measurements
	Level 1	Level 2	Level 3	
Assets				
Investments	\$ 39,071,383	\$ -	\$ -	\$ 39,071,383
Investments – charitable remainder trusts	-	-	642,349	642,349
Total assets	\$ 39,071,383	\$ -	\$ 642,349	\$ 39,713,732
Liabilities				
Charitable gift annuity	\$ -	\$ -	\$ 376,874	\$ 376,874
Total liabilities	\$ -	\$ -	\$ 376,874	\$ 376,874

Investments in equity, fixed income securities including U.S. Treasury securities, mutual funds, corporate bonds and asset backed securities are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker dealer quotations or alternative pricing sources with reasonable levels of price transparency. Assets and liabilities measured at fair value on a recurring basis using significant inputs based on Internal Revenue Service group annuity and mortality tables are classified within Level 3 of the fair value hierarchy.

Investments – charitable remainder trusts:

Balance, January 1, 2010	\$ 583,272
Change in value of split-interest agreement	<u>59,077</u>
Balance, December 31, 2010	642,349
Change in value of split-interest agreement	<u>(60,516)</u>
Balance, December 31, 2011	<u>\$ 581,833</u>

Charitable gift annuity liability:

Balance, January 1, 2010	\$ 420,270
Payments	(43,507)
Change in value of split-interest agreement	<u>111</u>
Balance, December 31, 2010	376,874
Payments	(43,000)
Change in value of split-interest agreement	<u>8</u>
Balance, December 31, 2011	<u>\$ 333,882</u>

The Foundation's financial instruments include cash and cash equivalents, pledge, grants and gifts receivable, investment in trusts, agency funds, account payable and other liabilities, line of credit, and grants payable. The recorded value of these amounts reflects the cost which management believes approximates fair value.

Fixed assets and depreciation

Fixed assets are stated at cost. Purchases 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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

2. Summary of significant accounting policies (continued)

Fixed assets and depreciation (continued)

Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The useful lives of the assets are estimated as follows:

Office equipment and software	3 – 10 years
Building and improvements	40 years
Land improvements	20 years

Intangible assets

Deferred financing costs incurred in connection with the issuance of the tax-exempt bonds are recorded at cost and will be amortized on a straight-line basis over 10 years, the term of the underlying loans.

Impairment of long-lived assets

The Foundation reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses recognized during 2011 or 2010.

Agency funds

When 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 accompanying statements of financial position. In addition, related amounts received or distributed, investment income or loss, and expenses are not presented on the accompanying consolidated statements of activities and changes in net assets.

Designated agency funds

The Foundation receives and distributes assets for the benefit of various other not-for-profit organizations under certain donor fund agreements and intermediary arrangements. The 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.

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

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

2. Summary of significant accounting policies (continued)

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 accompanying consolidated statements of activities and changes in net assets, net of grant refunds.

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 temporary 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 accompanying consolidated statements of activities and changes in net assets 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.

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. Fees incurred from funds other than agency funds have been eliminated for the financial statement presentation, in that these fees do not come from sources external to the Foundation. Fees incurred from agency funds are included in other income on the accompanying consolidated statements of activities and changes in net assets.

Functional allocation of expense

The costs of providing the programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities 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.

Income taxes

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

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

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

2. Summary of significant accounting policies (continued)

Endowment funds

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

The Foundation is subject to the required disclosures in that it classifies its unrealized losses on donor-restricted endowed funds as unrestricted net assets to the extent that such losses reduce the fund balance below the historical gift amount. Any gains in subsequent years will first offset the losses in unrestricted net assets before recording unrealized gains and losses as temporarily restricted net assets. During the year ended December 31, 2011, the Foundation reclassified investment losses of \$27,649 on donor-restricted endowed funds as unrestricted net assets. During the year ended December 31, 2010, the Foundation reclassified investment gains of \$39,027 on donor-restricted endowed funds as temporarily restricted net assets. As of December 31, 2011, the net amount of fund balances below the historical gift amount totaled \$27,649. As of December 31, 2010, no fund balances were below the historical gift amount.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2011 and 2010 were \$15,721 and \$19,884, respectively, and included maintenance of the Foundation’s website.

Subsequent events

Subsequent events have been evaluated through May 21, 2012, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Investments

Investments were comprised of the following as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 3,504,358	\$ 4,402,520
Common and preferred stocks	26,912,894	26,421,276
U.S. government securities, corporate bonds and assets back securities	<u>6,565,958</u>	<u>8,247,587</u>
Total investments	<u>\$ 36,983,210</u>	<u>\$ 39,071,383</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

3. Investments (continued)

The following schedule summarizes the investment return and its classification in the accompanying consolidated statements of activities and changes in net assets for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Interest	\$ 356,905	\$ 388,034
Dividends	659,095	722,162
Realized gains	602,071	692,332
Unrealized (losses) gains	(2,397,627)	1,477,349
Investment expenses	<u>(5,454)</u>	<u>(5,717)</u>
Total investment (loss) income	<u>\$ (785,010)</u>	<u>\$ 3,274,160</u>

4. Pledges receivable

Pledges receivable were comprised of the following as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Due within one year	\$ 113,250	\$ 143,127
Due within two to four years	<u>55,494</u>	<u>129,238</u>
Gross pledges receivable	168,744	272,365
Less discount to reflect pledges receivable at present value	<u>(126)</u>	<u>(259)</u>
Total pledges receivable	<u>\$ 168,618</u>	<u>\$ 272,106</u>

5. Investments - charitable remainder trusts

The Foundation is a beneficiary of five 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 \$904 and \$974 in 2011 and 2010, 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 \$189,082 and \$210,889 at December 31, 2011 and 2010, 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 \$90,614 and \$89,837 at December 31, 2011 and 2010, respectively.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

5. Investments - charitable remainder trusts (continued)

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 \$32,400 and \$33,824 at December 31, 2011 and 2010, respectively.

Remainder Interest in Trust E

During 2009, the Foundation became the 100% remainderman beneficiary of a fifth 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 \$269,737 and \$307,799 at December 31, 2011 and 2010, respectively.

6. Grants payable

The Foundation makes grants to various organizations. As of December 31, 2011 and 2010, grants payable consisted of \$755,722 and \$511,971, respectively. The following is a summary of grants authorized and payable at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Due within one year	\$ 327,412	\$ 385,229
Due within two to four years	428,310	126,742
Total grants payable	<u>\$ 755,722</u>	<u>\$ 511,971</u>

7. Fixed assets

The Foundation's fixed assets were comprised of the following as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land	\$ 1,083,604	\$ 1,083,604
Land improvements	317,498	317,093
Building	7,343,657	7,333,572
Office equipment and software	655,884	598,471
Fixed assets	9,400,643	9,332,740
Less: accumulated depreciation	(349,744)	(94,242)
Fixed assets, net	<u>\$ 9,050,899</u>	<u>\$ 9,238,498</u>

In December 2005, the Foundation received a restricted contribution to be used in the acquisition of land to serve as the future location of a permanent home for the Foundation offices. In April 2006, the Foundation completed the purchase of a lot in Aptos, California, and commenced plans to construct a building to house its offices as well as serve as a center for philanthropy in Santa Cruz County. The project was funded through a capital campaign that had achieved cash, pledges, promises and in-kind donations. The Foundation obtained a \$2,500,000 line of credit with Santa Cruz County Bank to meet the cash flow needs to complete the project. The line of credit was paid off in January 2011 with proceeds from the tax-exempt bonds (see Note 9 and Note 10). The building was completed in October 2010.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

7. Fixed assets (continued)

Depreciation expense during 2011 and 2010 was \$255,502 and \$41,979, respectively. During 2010, the Foundation wrote off leasehold improvements and the corresponding accumulated depreciation of \$111,826 upon the expiration of the lease. In addition, during 2010, the Foundation wrote off office and equipment and the associated accumulated depreciation of \$167,246. These assets were donated to over 40 local nonprofit organizations.

8. Intangible assets

The Foundation's intangible assets were comprised of the following as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Deferred financing costs	\$ 131,743	\$ 17,230
Less: accumulated amortization	<u>(12,076)</u>	<u>-</u>
Intangible assets, net	<u>\$ 119,667</u>	<u>\$ 17,230</u>

Amortization expense during 2011 and 2010 was \$12,076 and \$0, respectively.

9. Line of credit

In 2010, the Foundation executed a revolving bank line of credit from Santa Cruz County Bank for up to \$2,500,000, with a variable interest rate equal to the prime lending rate plus 0.75%, to finance construction of the center for philanthropy. The interest rate at December 31, 2010 was 5.25%. Repayment of the line of credit is secured by a deed of trust on the Foundation's real property. As of December 31, 2010, the balance owed on this line of credit was \$2,319,198. During 2010, interest of \$27,318 was capitalized to fixed assets. On January 27, 2011, the Foundation repaid the outstanding principal and interest using proceeds from the issuance of tax-exempt bonds.

10. Note payable - tax-exempt bonds

In January 2011, the Foundation closed a "Friends & Family" tax-exempt bond transaction and used the proceeds to repay the line of credit. Twelve investors (including four board members) took advantage of this opportunity and saved the Foundation significant interest payments on other commercial real estate loan options. The Foundation will continue to raise funds to pay off the bond holders. The Foundation entered into an Indenture Agreement with the California Statewide Communities Development Authority (the "Authority") and Wells Fargo Bank, National Association (the "Trustee") to obtain loan proceeds funded by the issuance of tax-exempt revenue bonds (Community Foundation Santa Cruz County) Series 2011 in the amount of \$2,500,000 to finance the construction of the new center for philanthropy. Proceeds from the sale of the bonds in the amount of \$2,500,000 were loaned by the Authority to the Foundation under conditions stipulated in certain loan and regulatory agreements. On January 27, 2011 and the Foundation used the proceeds to repay the outstanding principal and all outstanding interest on the line of credit. Repayment of the loan is secured by a first deed of trust in favor of the Trustee acting on behalf of the Authority. The loan bears interest at an annual rate of 3.75% and requires payments of interest only, payable semi-annually on January 1 and July 1, beginning July 1, 2011. All principal and unpaid interest shall be payable at maturity on January 1, 2021. As of December 31, 2011, the principal balance on the tax-exempt bonds was \$2,500,000. Interest expense during 2011 was \$96,509.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

11. Lease commitments

Prior to the completion the center for philanthropy, the Foundation leased office space under a non-cancelable lease, which expired October 31, 2010. Rental expense totaled \$0 and \$80,812 for the years ended December 31, 2011 and 2010, respectively.

12. 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 \$41,673 and \$41,200 to the plan in 2011 and 2010, respectively. These amounts are included in payroll taxes and employee benefits on the accompanying consolidated statements of functional expenses.

13. Net assets

Unrestricted net assets

Unrestricted net assets consist of board designated operating reserve fund, capital assets, general operating support, unrealized losses on donor-restricted endowment funds, and the RWMF supporting organization. At December 31, 2011 and 2010, unrestricted net assets consisted of the following:

	<u>2011</u>	<u>2010</u>
Board designated	\$ 266,386	\$ 256,099
Undesignated	7,336,829	7,532,028
Total unrestricted net assets	<u>\$ 7,603,215</u>	<u>\$ 7,788,127</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, 2011 and 2010, temporarily restricted net assets consisted of the following:

	<u>2011</u>	<u>2010</u>
Non-endowed	\$ 8,360,303	\$ 8,313,899
Charitable gift annuities	116,235	184,493
Grants, special projects, and pass-through	1,479,422	2,248,794
Investment income on		
permanently restricted net assets	2,671,887	4,370,385
Investments – charitable remainder trusts	491,219	552,512
Net depreciation of split interest		
agreements	<u>(115,540)</u>	<u>(56,347)</u>
Total temporarily restricted net assets	<u>\$ 13,003,526</u>	<u>\$ 15,613,736</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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

13. Net assets (continued)

Permanently restricted net assets (continued)

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 is 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.

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 2010 and 2009) 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, 2011 and 2010, permanently restricted net assets consisted of the following:

	<u>2011</u>	<u>2010</u>
Permanently restricted net assets, beginning of year	\$ 20,638,471	\$ 20,410,267
Net appreciation (depreciation) of split interest agreements	777	(2,730)
Contributions and grants	602,662	230,934
Reclassification of investments – charitable remainder trusts	<u> -</u>	<u> -</u>
Permanently restricted net assets, end of year	\$ <u>21,241,910</u>	\$ <u>20,638,471</u>

14. Agency funds

When 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 accompanying consolidated statements of financial position. In addition, related amounts received or distributed, investment income or loss, and expenses are not presented on the accompanying consolidated statements of activities and changes in net assets.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

14. Agency funds (continued)

The Foundation complies with generally accepted accounting principles as they relate to agency funds by booking their value as a liability as follows:

	<u>2011</u>		<u>2010</u>
Happy Valley School Foundation Fund	\$ 532,948	\$	573,384
Temple Beth El Next Generation Fund	487,619		486,448
Agri-Culture Farmworker Housing Fund	301,798		339,944
Women's Crisis Support/Defense de Mujere Fund	255,316		267,310
Elkhorn Slough Foundation Fund	160,982		173,063
O'Neill Sea Odyssey Fund	134,086		139,329
Agriculture History Project Endowment Fund	106,483		110,657
Native Animal Rescue Fund	100,426		99,215
California Grey Bears Legacy Fund	91,537		-
Bonny Doon Education Fund	89,905		91,428
SPCA/Blackie's Senior Friends Fund	84,144		89,132
Santa Cruz Museum Association Fund	77,065		128,780
Museum of Art and History Endowment Fund	42,592		45,792
Court Appointed Special Advocates Fund	39,818		41,382
Dientes Agency Advised Fund	39,148		39,835
Santa Cruz County Farm Bureau Scholarship Fund	38,184		38,818
Elkhorn Slough Foundation Fund	35,664		38,339
Santa Cruz Sailing Foundation Fund	31,632		34,024
Watsonville Wetlands Watch Endowment Fund	30,116		31,895
Pacific School Foundation Fund	27,086		28,358
Kuumbwa Jazz Endowment Fund	26,644		27,825
Mountain Community Resources Endowment Fund	26,249		27,793
Second Harvest Food Forever Fund	24,955		25,539
Congregational Church of Soquel Endowment Fund	24,854		-
Pajaro Valley Quilt Association Agency Endowment	24,226		25,974
Snug & Dub Brown Children's Fund	23,732		25,185
Friends of Santa Cruz			
Public Libraries Agency Flex Fund	22,479		27,852
Watsonville Wetlands Watch			
Laura Hofmeister Scholarship Fund	15,123		8,000
Nature and History Center Renovation Fund	8,803		25,751
Center for the Future of Teaching and Learning	-		<u>5,693</u>
Total agency funds	<u>\$ 2,903,614</u>	\$	<u>2,996,745</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

15. Major contributions

For the year ended December 31, 2011, 100% of the RWMF's annual contribution and grant revenue, \$1,405,262, was provided from the State Proposition 50 Integrated Regional Water Management Program and approximately 50% of the CFSCC's annual contribution and grant revenue was provided from two foundations, one company, and one individual to their respective donor advised funds.

For the year ended December 31, 2010, 100% of the RWMF's annual contribution and grant revenue, \$3,364,942, was provided from the State Proposition 50 Integrated Regional Water Management Program and approximately 50% of the CFSCC's annual contribution and grant revenue was provided from two foundations, one company, and two individuals to their respective donor advised funds.

SUPPLEMENTAL INFORMATION

Independent Auditors' Report on Supplemental Information

To the Board of Directors of
Community Foundation Santa Cruz County and Subsidiary:

We have audited the consolidated financial statements of Community Foundation Santa Cruz County and Subsidiary (collectively, the "Foundation") as of and for the years ended December 31, 2011 and 2010, and our report thereon dated May 21, 2012, which expressed an unqualified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information of the Foundation shown on pages 26 to 29 is presented for purposes of additional analysis and is not a required part of the basic 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting record used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Novogradac & Company LLP

San Francisco, California
May 21, 2012

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARY
SUPPLEMENTAL INFORMATION
CONSOLIDATED SCHEDULES OF FINANCIAL POSITION
December 31, 2011

	<u>CFSCC</u>	<u>RWMF</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 678,604	\$ 57,637	\$ -	\$ 736,241
Investments	36,983,210	-	-	36,983,210
Investments - charitable remainder trusts	581,833	-	-	581,833
Receivables:				
Accounts receivable	4,590	-	-	4,590
Pledges receivable	168,618	-	-	168,618
Grants receivable	405,000	297,259	-	702,259
Gifts receivable	96,925	-	-	96,925
Total receivables	<u>675,133</u>	<u>297,259</u>	<u>-</u>	<u>972,392</u>
Deposits and prepaid expenses	47,907	-	-	47,907
Fixed assets, net	9,050,899	-	-	9,050,899
Intangible assets, net	119,667	-	-	119,667
Other assets	10,000	-	-	10,000
Investment in trust	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
TOTAL ASSETS	<u>\$ 48,177,253</u>	<u>\$ 354,896</u>	<u>\$ -</u>	<u>\$ 48,532,149</u>
LIABILITIES AND NET ASSETS (DEFICIT)				
Accounts payable and other liabilities	\$ 110,281	\$ 79,999	\$ -	\$ 190,280
Grants payable	384,693	371,029	-	755,722
Agency funds	2,903,614	-	-	2,903,614
Charitable gift annuity liability	333,882	-	-	333,882
Tax-exempt bonds	<u>2,500,000</u>	<u>-</u>	<u>-</u>	<u>2,500,000</u>
Total liabilities	<u>6,232,470</u>	<u>451,028</u>	<u>-</u>	<u>6,683,498</u>
NET ASSETS (DEFICIT)				
Unrestricted	7,699,347	(96,132)	-	7,603,215
Temporarily restricted	13,003,526	-	-	13,003,526
Permanently restricted	<u>21,241,910</u>	<u>-</u>	<u>-</u>	<u>21,241,910</u>
Total net assets (deficit)	<u>41,944,783</u>	<u>(96,132)</u>	<u>-</u>	<u>41,848,651</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 48,177,253</u>	<u>\$ 354,896</u>	<u>\$ -</u>	<u>\$ 48,532,149</u>

see accompanying report of independent auditors

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARY
SUPPLEMENTAL INFORMATION
CONSOLIDATED SCHEDULES OF FINANCIAL POSITION (CONTINUED)
December 31, 2010

	<u>CFSCC</u>	<u>RWMF</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 754,753	\$ 77,627	\$ -	\$ 832,380
Investments	39,071,383	-	-	39,071,383
Investments - charitable remainder trusts	642,349	-	-	642,349
Receivables:				
Accounts receivable	1,407	-	-	1,407
Pledges receivable	272,106	-	-	272,106
Grants receivable	487,253	132,721	(77,254)	542,720
Gifts receivable	57,974	-	-	57,974
Total receivables	<u>818,740</u>	<u>132,721</u>	<u>(77,254)</u>	<u>874,207</u>
Deposits and prepaid expenses	23,888	-	-	23,888
Fixed assets, net	9,238,498	-	-	9,238,498
Intangible assets, net	17,230	-	-	17,230
Investment in trust	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
TOTAL ASSETS	<u>\$ 50,596,841</u>	<u>\$ 210,348</u>	<u>\$ (77,254)</u>	<u>\$ 50,729,935</u>
LIABILITIES AND NET ASSETS				
Accounts payable and other liabilities	\$ 48,705	\$ 79,999	\$ -	\$ 128,704
Construction costs payable	356,109	-	-	356,109
Grants payable	379,250	209,975	(77,254)	511,971
Agency funds	2,996,745	-	-	2,996,745
Charitable gift annuity liability	376,874	-	-	376,874
Line of credit	<u>2,319,198</u>	<u>-</u>	<u>-</u>	<u>2,319,198</u>
Total liabilities	<u>6,476,881</u>	<u>289,974</u>	<u>(77,254)</u>	<u>6,689,601</u>
NET ASSETS (DEFICIT)				
Unrestricted	7,867,753	(79,626)	-	7,788,127
Temporarily restricted	15,613,736	-	-	15,613,736
Permanently restricted	<u>20,638,471</u>	<u>-</u>	<u>-</u>	<u>20,638,471</u>
Total net assets (deficit)	<u>44,119,960</u>	<u>(79,626)</u>	<u>-</u>	<u>44,040,334</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 50,596,841</u>	<u>\$ 210,348</u>	<u>\$ (77,254)</u>	<u>\$ 50,729,935</u>

see accompanying report of independent auditors

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARY
SUPPLEMENTAL INFORMATION
CONSOLIDATED SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
For the year ended December 31, 2011

	<u>CFSCC</u>	<u>RWMF *</u>	<u>Eliminations</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE				
Contributions	\$ 3,447,836	\$ 1,405,262	\$ (148,495)	\$ 4,704,603
Grants	1,279,587	-	-	1,279,587
Investment loss	(785,010)	-	-	(785,010)
Change in split-interest agreements	(114,763)	-	-	(114,763)
Other income	116,964	-	-	116,964
TOTAL PUBLIC SUPPORT AND REVENUE	<u>3,944,614</u>	<u>1,405,262</u>	<u>(148,495)</u>	<u>5,201,381</u>
EXPENSES				
Grants and disbursements	4,221,456	1,409,366	(148,495)	5,482,327
Salaries	844,996	-	-	844,996
Payroll taxes and employee benefits	213,708	-	-	213,708
General and administrative	151,937	43	-	151,980
Conferences and meetings	23,829	-	-	23,829
Advertising and marketing	15,721	-	-	15,721
Professional services	183,213	12,359	-	195,572
Repairs and maintenance	90,079	-	-	90,079
Insurance	10,765	-	-	10,765
Depreciation and amortization	267,578	-	-	267,578
Interest expense	96,509	-	-	96,509
TOTAL EXPENSES	<u>6,119,791</u>	<u>1,421,768</u>	<u>(148,495)</u>	<u>7,393,064</u>
INCREASE IN NET DEFICIT	<u>(2,175,177)</u>	<u>(16,506)</u>	<u>-</u>	<u>(2,191,683)</u>
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR	<u>44,119,960</u>	<u>(79,626)</u>	<u>-</u>	<u>44,040,334</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ 41,944,783</u>	<u>\$ (96,132)</u>	<u>\$ -</u>	<u>\$ 41,848,651</u>

* Costs incurred by RWMF are reimbursed by the California State Water Resource Control Board and funded by State Proposition 50 Integrated Regional Water Management Program. These reimbursements are not recorded by RWMF as a receivable until they are submitted to and approved by the State.

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARY
SUPPLEMENTAL INFORMATION
CONSOLIDATED SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)
For the year ended December 31, 2010

	CFSCC	RWMF *	Eliminations	Total
PUBLIC SUPPORT AND REVENUE				
Contributions	\$ 4,554,155	\$ 3,364,942	\$ (428,354)	\$ 7,490,743
Grants	1,138,817	-	-	1,138,817
Investment income	3,274,160	-	-	3,274,160
Change in split-interest agreements	58,967	-	-	58,967
Other income	64,826	-	-	64,826
TOTAL PUBLIC SUPPORT AND REVENUE	<u>9,090,925</u>	<u>3,364,942</u>	<u>(428,354)</u>	<u>12,027,513</u>
EXPENSES				
Grants and disbursements	4,408,330	3,370,698	(428,354)	7,350,674
Salaries	842,948	-	-	842,948
Payroll taxes and employee benefits	213,779	-	-	213,779
General and administrative	116,738	701	-	117,439
Conferences and meetings	32,143	-	-	32,143
Advertising and marketing	19,884	-	-	19,884
Professional services	111,098	37,710	-	148,808
Repairs and maintenance	67,070	-	-	67,070
Rent	80,812	-	-	80,812
Insurance	8,530	-	-	8,530
Depreciation	41,979	-	-	41,979
TOTAL EXPENSES	<u>5,943,311</u>	<u>3,409,109</u>	<u>(428,354)</u>	<u>8,924,066</u>
INCREASE IN NET ASSETS (DEFICIT)	<u>3,147,614</u>	<u>(44,167)</u>	<u>-</u>	<u>3,103,447</u>
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR	<u>40,972,346</u>	<u>(35,459)</u>	<u>-</u>	<u>40,936,887</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ 44,119,960</u>	<u>\$ (79,626)</u>	<u>\$ -</u>	<u>\$ 44,040,334</u>

* Costs incurred by RWMF are reimbursed by the California State Water Resource Control Board and funded by State Proposition 50 Integrated Regional Water Management Program. These reimbursements are not recorded by RWMF as a receivable until they are submitted to and approved by the State.