

*San Luis Obispo County Community Foundation*

*Consolidated Financial Statements*

*December 31, 2010 and 2009*

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*Independent Auditors' Report on the Consolidated Financial Statements*

To the Board of Directors  
San Luis Obispo County Community Foundation  
San Luis Obispo, California

We have audited the accompanying consolidated statements of financial position of the San Luis Obispo County Community Foundation ("the Foundation"), a non-profit organization, as of December 31, 2010 and 2009, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the San Luis Obispo County Community Foundation, as of December 31, 2010 and 2009 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.

*Caliber Audit & Attest, LLP*

San Luis Obispo, California  
May 10, 2011

*San Luis Obispo County Community Foundation*

*Consolidated Statements of Financial Position  
December 31, 2010 and 2009*

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,526,417	\$ 5,393,308
Other receivables	-	12,794
Investments	26,148,403	22,402,300
Prepaid expenses and other assets	21,952	4,467
Split interest agreement	299,094	277,148
Real estate held for sale	300,000	10,000
Property and equipment, net of accumulated depreciation	<u>9,447</u>	<u>16,495</u>
Total assets	<u>\$ 31,305,313</u>	<u>\$ 28,116,512</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 3,147	\$ 7,023
Accrued compensation	28,027	24,611
Payroll taxes payable	7,813	6,481
Grants payable	107,061	173,850
Deferred revenue	147,220	172,369
Agency funds held for others	2,752,356	2,591,278
Funds held for others	<u>430,932</u>	<u>566,614</u>
Total liabilities	<u>3,476,556</u>	<u>3,542,226</u>
<b>Commitments and Contingencies</b>		
<b>Net Assets</b>		
Unrestricted		
Board reserved	212,405	106,905
Unreserved	2,311,791	945,255
Temporarily restricted	8,669,815	7,348,999
Permanently restricted	<u>16,634,746</u>	<u>16,173,127</u>
Total net assets	<u>27,828,757</u>	<u>24,574,286</u>
Total liabilities and net assets	<u>\$ 31,305,313</u>	<u>\$ 28,116,512</u>

*See Notes to Consolidated Financial Statements.*

*San Luis Obispo County Community Foundation*

*Consolidated Statement of Activities  
Year Ended December 31, 2010*

	<i>2010</i>			
	<i>Operating Fund</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
	<u><i>Unrestricted</i></u>	<u><i>Restricted</i></u>	<u><i>Restricted</i></u>	<u><i>Total</i></u>
<b><i>Revenue, Gains and Support</i></b>				
Donations and bequests	\$ 928,900	\$ 470,928	\$ 461,619	\$ 1,861,447
Grant income	170,649	-	-	170,649
Agency sponsorship	39,500	-	-	39,500
Less amounts received on behalf of others	(39,167)	-	-	(39,167)
Interest and dividends	136,974	1,012,184	-	1,149,158
Realized and unrealized gain on investments	1,331,444	552,835	-	1,884,279
Change in value of split interest agreement	-	21,946	-	21,946
Less net investment income allocated to funds held for others	(316,427)	-	-	(316,427)
Miscellaneous income	10,827	-	-	10,827
	2,262,700	2,057,893	461,619	4,782,212
Net assets released from restrictions	737,077	(737,077)	-	-
	2,999,777	1,320,816	461,619	4,782,212
<b><i>Grants, Allocations and Functional Expenses</i></b>				
Grants and philanthropic distributions	843,846	-	-	843,846
Functional operating expenses				
Program services	316,400	-	-	316,400
Management and general	358,541	-	-	358,541
Fundraising	203,469	-	-	203,469
Less grants and expenses allocated to funds held for others	(194,515)	-	-	(194,515)
	1,527,741	-	-	1,527,741
Change in net assets	\$ 1,472,036	\$ 1,320,816	\$ 461,619	\$ 3,254,471

*See Notes to Consolidated Financial Statements.*

*San Luis Obispo County Community Foundation*

*Consolidated Statement of Activities  
Year Ended December 31, 2009*

	<u>2009</u>			
	<i>Operating</i>			
	<i>Fund</i>	<i>Temporarily</i>	<i>Permanently</i>	
	<u><i>Unrestricted</i></u>	<u><i>Restricted</i></u>	<u><i>Restricted</i></u>	<u><i>Total</i></u>
<b><i>Revenue, Gains and Support</i></b>				
Donations and bequests	\$ 2,480,114	\$ 1,099,537	\$ 236,527	\$ 3,816,178
Grant income	458,446	-	-	458,446
Agency sponsorship	18,250	-	-	18,250
Less amounts received on behalf of others	(27,548)	-	-	(27,548)
Interest and dividends	177,791	908,144	-	1,085,935
Realized and unrealized loss on investments	2,293,389	479,742	-	2,773,131
Change in value of split interest agreement	-	30,516	-	30,516
Less net investment loss allocated to funds held for others	(427,535)	-	-	(427,535)
Miscellaneous income	6,782	-	-	6,782
	<hr/>			
	4,979,689	2,517,939	236,527	7,734,155
Net assets released from restrictions	790,402	(790,402)	-	-
	<hr/>			
Total revenue, gains and support	5,770,091	1,727,537	236,527	7,734,155
<b><i>Grants, Allocations and Functional Expenses</i></b>				
Grants and philanthropic distributions	1,197,029	-	-	1,197,029
Functional operating expenses				
Program services	216,104	-	-	216,104
Management and general	315,288	-	-	315,288
Fundraising	164,888	-	-	164,888
Less grants and expenses allocated to funds held for others	(164,879)	-	-	(164,879)
	<hr/>			
Total expenses	1,728,430	-	-	1,728,430
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Change in net assets	\$ 4,041,661	\$ 1,727,537	\$ 236,527	\$ 6,005,725
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*See Notes to Consolidated Financial Statements.*

*San Luis Obispo County Community Foundation*

*Consolidated Statements of Changes in Net Assets  
Years Ended December 31, 2010 and 2009*

	<i><u>Operating Fund Unrestricted</u></i>	<i><u>Temporarily Restricted</u></i>	<i><u>Permanently Restricted</u></i>	<i><u>Totals</u></i>
<i>Net Assets - December 31, 2008</i>	(\$2,989,501)	\$ 5,621,462	\$15,936,600	\$18,568,561
Change in net assets	<u>4,041,661</u>	<u>1,727,537</u>	<u>236,527</u>	<u>6,005,725</u>
<i>Net Assets - December 31, 2009</i>	1,052,160	7,348,999	16,173,127	24,574,286
Change in net assets	<u>1,472,036</u>	<u>1,320,816</u>	<u>461,619</u>	<u>3,254,471</u>
<i>Net Assets - December 31, 2010</i>	<u>\$ 2,524,196</u>	<u>\$ 8,669,815</u>	<u>\$16,634,746</u>	<u>\$27,828,757</u>

*See Notes to Consolidated Financial Statements.*

**San Luis Obispo County Community Foundation**

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b><i>Cash flows from operating activities:</i></b>		
Cash received from donations and bequests	\$ 600,247	\$ 2,459,716
Cash received from grants	145,500	210,800
Cash received from agency sponsorship	39,500	18,250
Interest and dividends received	1,023,473	929,803
Payments to employees	(283,164)	(262,341)
Payments of grants and philanthropic distributions	(769,970)	(1,110,373)
Payments to vendors and others	(691,186)	(544,917)
	<u>64,400</u>	<u>1,700,938</u>
Net cash provided by operating activities	<u>64,400</u>	<u>1,700,938</u>
<b><i>Cash flows from investing activities:</i></b>		
Purchase of investments	(6,890,128)	(19,459,861)
Proceeds from sale of investments	5,028,304	18,574,157
Proceeds from sale of real estate held for sale	8,500	-
	<u>(1,853,324)</u>	<u>(885,704)</u>
Net cash used in investing activities	<u>(1,853,324)</u>	<u>(885,704)</u>
<b><i>Cash flows from financing activities:</i></b>		
Contributions restricted for endowments	<u>922,033</u>	<u>1,336,064</u>
<b><i>Net increase (decrease) in cash and cash equivalents</i></b>	<b>(866,891)</b>	<b>2,151,298</b>
<b><i>Cash and cash equivalents, beginning of year</i></b>	<b><u>5,393,308</u></b>	<b><u>3,242,010</u></b>
<b><i>Cash and cash equivalents, end of year</i></b>	<b><u>\$ 4,526,417</u></b>	<b><u>\$ 5,393,308</u></b>

*See Notes to Consolidated Financial Statements.*

*San Luis Obispo County Community Foundation*

*Consolidated Statements of Cash Flows - Continued*  
*Years Ended December 31, 2010 and 2009*

	<i>2010</i>	<i>2009</i>
<b><i>Reconciliation of change in net assets to net cash provided by operating activities</i></b>		
Change in net assets	\$ 3,254,471	\$ 6,005,725
<b><i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i></b>		
Contributions restricted for endowments	(922,033)	(1,336,064)
Depreciation	7,048	8,083
Realized and unrealized gain on investments	(1,884,279)	(2,773,131)
Loss on sale of real estate held for sale	1,500	-
Contribution of real estate	(300,000)	(10,000)
Change in value of split interest agreement	(21,946)	(30,516)
<b><i>Change in operating assets and liabilities:</i></b>		
Other receivables	12,794	(12,794)
Prepaid expenses and other assets	(17,485)	1,275
Accounts payable	(3,876)	1,001
Accrued compensation	3,416	1,965
Payroll taxes payable	1,332	(171)
Grants payable	(66,789)	(28,950)
Deferred revenue	(25,149)	(247,646)
Agency funds held for others	161,078	290,204
Funds held for others	(135,682)	(168,043)
Net cash provided by operating activities	\$ 64,400	\$ 1,700,938
<b><i>Supplemental disclosure of cash flow information:</i></b>		
No taxes or interest were paid by the Foundation during 2010 or 2009.		
<b><i>Non-cash activities:</i></b>		
Contribution of real estate	\$ 300,000	\$ 10,000

*See Notes to Consolidated Financial Statements.*

***San Luis Obispo County Community Foundation***

***Notes to Consolidated Financial Statements***

***Note 1. Operations and Summary of Significant Accounting Policies***

***Nature of operations:***

The San Luis Obispo County Community Foundation ("the Foundation") is a California non-profit, non-stock, public benefit corporation that was incorporated on May 8, 1998, under the laws of the State of California. The mission of the San Luis Obispo County Community Foundation is to assist donors in building an enduring source of charitable funds to meet the changing needs and interests of the community it serves. The Foundation administers various individual and endowed funds contributed by individuals, organizations, and businesses. The funds are managed as a pool of assets. A percentage of the funds' assets are distributed to local non-profit organizations dedicated to the same purpose in the form of grants.

***Principles of consolidation:***

The accompanying consolidated financial statements as of December 31, 2010 and 2009, include the financial statements of the Foundation and the Real Estate Foundation of San Luis Obispo County, which is a supporting organization under the control of the Foundation. Intercompany transactions and balances have been eliminated in the consolidation.

***Basis of accounting:***

The financial statements are presented on an accrual basis, which recognizes income when earned, and expenses when incurred.

***Financial statement presentation:***

In order to accommodate the various alternatives for donors' distribution objectives, the Foundation's records are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund.

The Foundation has presented its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, 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.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

*San Luis Obispo County Community Foundation*

*Notes to Consolidated Financial Statements*

A summary of the net asset categories included in the accompanying consolidated financial statements is as follows:

***Unrestricted Net Assets:*** Unrestricted amounts represent all contributions other than endowments that are available for various activities, including:

- Operational and administrative functions.
- Support of community activities and charitable activities at the discretion of the Board of Directors.
- Contributions with donor-imposed restrictions that are met during the same year as the contribution is made are included in unrestricted support that increases unrestricted net assets.

***Temporarily Restricted Net Assets:*** Temporarily restricted amounts represent deferred gifts that are subject to donor-imposed restrictions, either for a specific purpose or subject to the passage of time. Temporarily restricted amounts also include earnings on permanently restricted endowments that are absent of explicit donor stipulations and that have not yet been appropriated for expenditure by the Foundation. When the restriction expires, the net assets of this fund are reclassified to unrestricted net assets.

***Permanently Restricted Net Assets:*** Permanently restricted amounts represent those assets contributed to the Foundation where the original dollar value is to remain in perpetuity as a permanent endowment of the Foundation. While the Foundation's bylaws and fund agreements provide for variance power, which, under certain unanticipated circumstances, allows for the modification of restrictions, management believes that such variance power applies only to the use of endowment funds, not expenditure or disbursement of the principal. Accordingly the Foundation has recorded such amounts as a component of permanently restricted net assets.

It is also the Foundation's policy that permanently restricted assets are reported at their original value at the time of the gift. Management keeps the original corpus and realized and unrealized gains and losses on those assets linked for determining the fair market value of the fund for administrative purposes. Realized and unrealized gains and losses on those assets are recorded as temporarily restricted assets until appropriated, and do not impact the original corpus of the permanently restricted assets.

***Contributions:***

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All pledges receivable and amounts received that are donor restricted for future periods or donor restricted for specific purposes are reported as temporarily or permanently restricted. The restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction when the donor stipulated time restriction ends or the purpose restriction is accomplished by the Foundation. All gifts granted to the Foundation are recorded at fair market value at the time of receipt.

*San Luis Obispo County Community Foundation*

*Notes to Consolidated Financial Statements*

***Contributed services:***

Contributed services are recorded in the financial statements to the extent that those services create or enhance a nonfinancial asset or meet the following criteria: a) the service requires specialized skills, b) the service is provided by individuals who possess those skills, and c) the service would typically need to be purchased if not contributed.

***Use of estimates:***

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

***Cash and cash equivalents:***

The Foundation considers cash equivalents to be all highly liquid debt instruments with a maturity of three months or less. Cash and cash equivalents consist mainly of cash, certificates of deposit, and money market funds, and are valued using Level 1 inputs as discussed in Note 3.

***Concentrations of credit risk:***

The Foundation maintains cash balances at financial institutions located in California. Certain accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times during the years ended December 31, 2010 and 2009, the Foundation held cash in excess of federally insured limits.

The Foundation invests in various types of marketable securities and money market funds. The Foundation has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified.

The Foundation also invests in various investment securities. Investment securities in general, are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that the changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

***Investment valuation and income recognition:***

The Foundation's investments are stated at fair market value in the consolidated statement of financial position, with all gains and losses included in the consolidated statement of activities. Fair value is 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. See Note 3 for discussion of fair value measurement.

*San Luis Obispo County Community Foundation*

*Notes to Consolidated Financial Statements*

Investments acquired by gift are recorded at their fair market value at the date of the gift. The Foundation's policy is to liquidate all gifts of investments as timely as possible, taking into consideration the impact on market price.

Investments are made according to the Investment Policy adopted by the Foundation's Board of Directors. These guidelines provide for a balanced diversified portfolio with investments in equities, fixed income and other securities with performance measured against appropriate indices. Outside parties are contracted by the Foundation for the purpose of providing investment management.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized gains or losses on the sale of marketable securities are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the year, or since the acquisition date, if acquired during the year.

***Real estate:***

The Real Estate Foundation receives donated land and property. Real estate is valued at the fair value at the time of the donation.

***Administrative and management fees:***

Custodian, investment, administrative, and management fees are recognized in the fiscal year in which they occur.

The Foundation charges an administrative fee internally for endowed and non-endowed funds under management. These fees help fund general operations, and are recorded internally both as revenue and expense. The fees have been netted for financial statement presentation as the fees do not come from sources external to the Foundation.

***Property and equipment:***

Purchased property and equipment are stated at cost; donated assets are valued at their estimated fair value on the date donated. All assets are depreciated over estimated useful lives on a straight line basis. Repairs and maintenance and small equipment purchases are expensed as incurred. Expenditures that significantly increase asset values or extend useful lives are capitalized. Acquisitions of property and equipment in excess of \$500 are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gains or losses are included on the statement of activities.

Estimated useful lives are as follows:

	<u>Years</u>
Furniture, fixtures and equipment	5 - 7

*San Luis Obispo County Community Foundation*

*Notes to Consolidated Financial Statements*

***Split interest agreements:***

The Foundation is a beneficiary and trustee of the remainder interests in a charitable remainder trust fund, which is held by another party as the agent for management purposes. The Foundation makes distributions to the income beneficiary for a given term and then at the end of the term, the remaining assets in the trust will be transferred to the Foundation. The Foundation has recorded the assets related to this fund at the net present value of the estimate future amount to be received.

***Grants:***

Grants are made from available principal and income in accordance with the designation of the donors. The Foundation records a liability for grants when they have been approved by the Board of Directors.

***Income tax status:***

The Foundation's activities are generally exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Franchise Tax Code. Since the Foundation is exempt from federal and state income tax liability, no provision is made for current or deferred income tax expense.

For the years ended December 31, 2010 and 2009, the Foundation has no material uncertain tax positions to be accounted for in the consolidated financial statements under the principles of the *Income Taxes* topic of the Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC)*. The Foundation recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense.

All tax exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes. With few exceptions, the Foundation is no longer subject to U.S. federal income tax examinations for years before 2007 or state income tax examinations for years before 2006.

***Functional expense allocations:***

Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Expenses which apply to more than one functional category have been allocated based on estimates made by management.

***Advertising:***

The Foundation expenses advertising costs as incurred. Marketing and public relations expense for the years ended December 31, 2010 and 2009 was \$3,595 and \$2,600, respectively.

**San Luis Obispo County Community Foundation**

**Notes to Consolidated Financial Statements**

**Reclassifications:**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**Note 2. Property and Equipment**

Major classes of property and equipment and accumulated depreciation are as follows at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Furniture, fixtures and equipment	\$ 71,567	\$ 71,567
Less accumulated depreciation	(62,120)	(55,072)
	<u>\$ 9,447</u>	<u>\$ 16,495</u>

Depreciation expense for the years ended December 31, 2010 and 2009 was \$7,048 and \$8,083, respectively.

**Note 3. Investments and Fair Value Measurements**

Investments consist of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Common and preferred stocks	\$ 14,681,204	\$ 11,269,608
U.S. government and corporate bonds	3,538,514	1,599,722
Hedge fund	1,266,727	1,148,700
Fixed income/mutual funds	6,661,958	8,384,270
Total investments	<u>\$ 26,148,403</u>	<u>\$ 22,402,300</u>

Investments are measured at fair market value. Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 inputs are based on significant observable inputs, including unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3 inputs are significant unobservable inputs for the asset or liability.

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***Notes to Consolidated Financial Statements***

The level of the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table sets forth by level, within the fair value hierarchy, the Foundation's financial instruments at fair value as of December 31, 2010:

	<u><i>Level 1</i></u>	<u><i>Level 3</i></u>
Common and preferred stocks	\$ 14,681,204	\$ -
U.S. government and corporate bonds	3,538,514	-
Hedge fund	-	1,266,727
Fixed income/mutual funds	6,661,958	-
Total investments	<u>\$ 24,861,676</u>	<u>\$ 1,266,727</u>

The following table sets forth by level, within the fair value hierarchy, the Foundation's financial instruments at fair value as of December 31, 2009:

	<u><i>Level 1</i></u>	<u><i>Level 3</i></u>
Common and preferred stocks	\$ 11,269,608	\$ -
U.S. government and corporate bonds	1,599,722	-
Hedge fund	-	1,148,700
Fixed income/mutual funds	8,384,270	-
Total investments	<u>\$ 21,253,600</u>	<u>\$ 1,148,700</u>

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets shown above for the years ended December 31, 2010 and 2009:

	<u><i>Hedge Fund</i></u>
Balance, at December 31, 2008	\$ 963,200
Total gains (unrealized and realized), net of fees	<u>185,500</u>
Balance, at December 31, 2009	1,148,700
Total gains (unrealized and realized), net of fees	<u>118,027</u>
Balance, at December 31, 2010	<u>\$ 1,266,727</u>

Unrealized losses associated with the hedge fund, which is a Level 3 financial instrument, totaled \$128,716 and \$192,022 for the years ended December 31, 2010 and 2009, respectively.

Valuation of the hedge fund is reviewed periodically and determined through consideration of the net asset values provided by the fund manager and other market factors. Other factors include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment.

*San Luis Obispo County Community Foundation*

*Notes to Consolidated Financial Statements*

**Note 4. Endowment Funds**

The Foundation follows the authoritative guidance in the FASB ASC that covers *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 (UPMIFA), and Enhanced Disclosures for All Endowment Funds*. The State of California approved a version of UPMIFA in September 2008, effective for January 1, 2009. The Foundation adopted these provisions in fiscal 2009.

The Board of Directors interprets UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets 1) the original value of gifts donated to the permanent endowment, 2) the original value of subsequent gifts to the permanent endowment, and 3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination of whether to invest or appropriate donor-restricted endowment funds:

- 1) the duration and preservation of the fund
- 2) the purposes of the Foundation and the donor-restricted endowment fund
- 3) general economic conditions
- 4) the possible effect of inflation and deflation
- 5) the expected total return from income and the appreciation of investments
- 6) other resources of the Foundation
- 7) the investment policies of the Foundation

The Foundation's endowment investment policy is based on fundamental financial principles that include prudent asset allocation, risk assessment and long-term planning. The investment policy emphasizes total return, which allows the funds to utilize current dividend and interest income, and over time, a portion of the aggregate return from capital appreciation, in an attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Within this framework, specific investment objectives for endowment investments include liquidity, preservation of capital, preservation of purchasing power, and long-term growth of capital.

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The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term objective is to produce, after investment expenses, a minimum annual compound total rate of return of at least 1% per annum in excess of the Standard & Poor's 500 for the equity portfolio and at least 1% per annum in excess of the Lehman Government Corporate Bond Index for the fixed income portfolio. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciations (realized and unrealized) and current earnings (interest and dividends). The Foundation targets a diversified asset allocation.

Endowment funds are maintained in pooled investment portfolios. Interest, dividends, and realized and unrealized gains and losses in the investment pools are allocated monthly to the endowment funds in proportion to each fund's share in the investment pools.

The Foundation's spending policy calculates the amount of money annually distributed from the Foundation's endowed funds for grant making and administration. The spending policy in effect during the years ended December 31, 2010 and 2009 is to allocate 4.5% per annum of the preceding twelve quarter trailing average invested in the pool to each fund's "available to spend" balance, which is available for grant. If the fair market value of the endowment principal of any fund, at the end of the reporting period, is less than the corpus, which includes all initial and all subsequent gifts from donors, no additional funds will be made "available to spend." Accordingly, over the long-term, the Foundation expects current spending policy to allow its endowment assets to provide real growth over the average rate of inflation annually. This is consistent with the objective to maintain purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns. The spending policy is approved on an annual basis by the Board of Directors.

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At December 31, 2010, endowment net assets consisted of the following:

	<u><i>Unrestricted</i></u>	<u><i>Temporarily Restricted</i></u>	<u><i>Permanently Restricted</i></u>	<u><i>Total</i></u>
Donor restricted endowments with principal to be held in perpetuity	\$ (565,605)	\$ 574,844	\$ 16,634,746	\$16,643,985
Donor restricted endowments in which principal may be distributed for specified purpose	-	7,795,877	-	7,795,877
Total	<u>\$ (565,605)</u>	<u>\$ 8,370,721</u>	<u>\$ 16,634,746</u>	<u>\$24,439,862</u>

At December 31, 2009, endowment net assets consisted of the following:

	<u><i>Unrestricted</i></u>	<u><i>Temporarily Restricted</i></u>	<u><i>Permanently Restricted</i></u>	<u><i>Total</i></u>
Donor restricted endowments with principal to be held in perpetuity	\$(1,711,309)	\$ 288,652	\$ 16,173,127	\$14,750,470
Donor restricted endowments in which principal may be distributed for specified purpose	-	6,783,199	-	6,783,199
Total	<u>\$(1,711,309)</u>	<u>\$ 7,071,851</u>	<u>\$ 16,173,127</u>	<u>\$21,533,669</u>

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The changes in endowment net assets for the years ended December 31, 2010 and 2009 are as follows:

	<u><i>Unrestricted</i></u>	<u><i>Temporarily Restricted</i></u>	<u><i>Permanently Restricted</i></u>	<u><i>Total</i></u>
Endowment net assets, January 1, 2009	\$ (3,778,321)	\$ 5,374,830	\$ 15,936,600	\$17,533,109
<i>Investment return:</i>				
Investment income	-	908,144	-	908,144
Net appreciation (realized and unrealized)	2,067,012	479,742	-	2,546,754
<i>Total investment return</i>	2,067,012	1,387,886	-	3,454,898
Contributions	-	1,099,537	236,527	1,336,064
Appropriation of endowment assets for expenditure	-	(790,402)	-	(790,402)
Endowment net assets, December 31, 2009	(1,711,309)	7,071,851	16,173,127	21,533,669
<i>Investment return:</i>				
Investment income	-	1,012,184	-	1,012,184
Net appreciation (realized and unrealized)	1,145,704	552,835	-	1,698,539
<i>Total investment return</i>	1,145,704	1,565,019	-	2,710,723
Contributions	-	470,928	461,619	932,547
Appropriation of endowment assets for expenditure	-	(737,077)	-	(737,077)
Endowment net assets, December 31, 2010	<u>\$ (565,605)</u>	<u>\$ 8,370,721</u>	<u>\$ 16,634,746</u>	<u>\$ 24,439,862</u>

As of December 31, 2010 and 2009, the Foundation held certain permanently restricted endowment funds in which the asset values had fallen below the original corpus level required by the donor due to market conditions. There was no aggregate deficiency when adding all donor-restricted permanently restricted endowment funds as of December 31, 2010. The aggregate deficiencies of this nature for all donor-restricted permanently restricted endowment funds totaled \$1,422,658 as of December 31, 2009.

As of December 31, 2010 and 2009, there are permanently restricted endowments in which distributions have been made in excess of the earnings allocated to the fund. In other words, the historical principal gift has been invaded for grant distributions. The Foundation is currently working with these donors to address the negative balances. This excess amount totaled \$405,465 and \$405,473 as of December 31, 2010 and 2009, respectively, and related to 15 different permanent endowment funds.

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Permanently restricted net assets are restricted for the following at December 31, 2010 and 2009:

	<b><i>2010</i></b>	<b><i>2009</i></b>
Portion of endowment funds that is required to be retained permanently	\$ 16,634,746	\$ 16,173,127

Temporarily restricted net assets are restricted for the following at December 31, 2010 and 2009:

	<b><i>2010</i></b>	<b><i>2009</i></b>
Portion of endowment funds subject to a time or purpose restriction	\$ 8,370,721	\$ 7,071,851
Split interest agreement	299,094	277,148
	\$ 8,669,815	\$ 7,348,999

***Note 5. Split Interest Agreement***

The Foundation is named the beneficiary of the remainder interest in a charitable remainder trust. Contribution revenue and the related assets are recognized using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries. The present value of this asset is calculated by using recent life expectancy tables and risk adjusted discount rate of 2.4% as of December 31, 2010 and 3.2% as of December 31, 2009.

The valuation of split interest agreement falls into the Level 3 category of the fair value hierarchy, as discussed in Note 3.

The following table sets forth a summary of changes in the fair value of the split interest agreement, which is a Level 3 asset, for the years ended December 31, 2010 and 2009:

	<b><i>Split Interest Agreement</i></b>
Balance, at December 31, 2008	\$ 246,632
Total gains/losses (unrealized and realized)	30,516
Balance, at December 31, 2009	277,148
Total gains/losses (unrealized and realized)	21,946
Balance, at December 31, 2010	\$ 299,094

***Note 6. Real Estate Held for Sale***

Real estate held for sale is recorded at the fair value at the date of the contribution. As of December 31, 2010, this consisted of property in San Luis Obispo, California, which was appraised at \$300,000 as of December 21, 2010. As of December 31, 2009, this consisted of a plot of land in Lucerne Valley, California, which was appraised at \$10,000 as of May 22, 2009. This land in Lucerne Valley was sold during the year ended December 31, 2010 for \$8,500, resulting in a loss of \$1,500.

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**Note 7. Agency Funds Held for Others**

The Foundation follows the authoritative guidance in the FASB *ASC* for *Not-for Profit Entity, Revenue Recognition, Agent*. This Standard establishes standards for transactions in which the Foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to a not-for profit organization that is specified by the donor. This standard specifically requires that if a not-for profit organization establishes a fund at a community foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability.

The liability is reflected under agency funds held for others and funds held for others on the accompanying statements of financial position. In addition, related amounts received or distributed, investment income or loss, and expenses are presented separately on the accompanying statements of activities.

**Note 8. Line of Credit**

During the years ended December 31, 2010 and 2009, the Foundation had a line of credit agreement with Coast National Bank. The line of credit allows for borrowings up to \$50,000 and has a maturity date of March 3, 2011. Interest accrues at the Wall Street Journal Prime Rate (3.25% at December 31, 2009) plus 2%, with a minimum interest rate of 6.5%. There was no balance on the line of credit at December 31, 2010 or 2009.

**Note 9. Commitments**

The Foundation leases office space under an operating lease, which commenced on September 1, 2007. In November 2009, the Foundation signed an addendum to the lease extending the term through August 31, 2011 for initial rent of \$2,915 per month. The lease calls for increases based on the consumer price index (CPI) after each twelve-month period. Future rental payments under this non-cancelable operating lease at December 31, 2010 are as follows:

<b>Years ending December 31, 2011</b>	<b>\$ 23,576</b>
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**Note 10. Concentrations - Major Contributions**

For the year ended December 31, 2010, approximately 40%, or \$739,508, of the Foundation's contribution revenue came from three donors. For the year ended December 31, 2009, approximately 80%, or \$3,096,240, of the Foundation's contribution revenue came from three donors, which were not the same three donors as for the year ended December 31, 2010.

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***Note 11. Retirement Plan***

The Foundation has a 401(k) profit sharing plan (the Plan) that covers all eligible employees. Employees are eligible to participate in the Plan after one year of eligible service. Each participant may elect to contribute up to the maximum limit by federal law. The Foundation makes a 4% safe harbor contribution, and may also make discretionary contributions. Employer contributions totaled \$11,226 and \$9,582 for the years ended December 31, 2010 and 2009, respectively.

***Note 12. Subsequent Events***

The date to which events occurring after December 31, 2010 have been evaluated for possible adjustment to the financial statements or disclosure is the same as the report date, which is the date on which the financial statements were available to be issued.

Subsequent to the year ended December 31, 2010, the Foundation purchased a building to be used as their office space for total consideration of \$1,700,000. The consideration includes \$850,000 paid by the Foundation, \$509,000 received as a donation, and \$341,000 as a loan payable by the Foundation.