



Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
With Independent Auditor's Report

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Community Foundation for Monterey County
Monterey, California

We have audited the accompanying consolidated statements of financial position of Community Foundation for Monterey County (a nonprofit corporation) as of December 31, 2010 and 2009, and the related consolidated statements of activities and 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 audits 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 for Monterey County as of December 31, 2010 and 2009, and the consolidated 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.

BBR LLP

BBR LLP
Carmel, California
April 18, 2011

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

(See notes to consolidated financial statements)

ASSETS

ASSETS	<u>2010</u>	<u>2009</u>
Cash and equivalents	\$ 8,879,839	\$ 7,983,336
Contributions receivable, net	2,632,573	3,728,856
Prepaid expenses	35,656	30,683
Real estate held for sale	624,797	624,797
Property and equipment, net	191,904	213,474
Investments	105,701,671	96,634,996
Beneficial interest in remainder trusts administered by other trustees	732,484	710,191
Investments held in charitable remainder trusts	<u>18,879,952</u>	<u>17,551,250</u>
Total assets	<u><u>\$ 137,678,876</u></u>	<u><u>\$ 127,477,583</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Grants payable	\$ 827,472	\$ 1,107,019
Accounts payable and accrued expenses	453,223	369,308
Liabilities under charitable remainder trusts	9,731,982	9,325,570
Liabilities under split-interest agreements	3,150,742	2,825,271
Funds held for others	<u>5,786,284</u>	<u>2,712,864</u>
Total liabilities	<u>19,949,703</u>	<u>16,340,032</u>
NET ASSETS		
Unrestricted	10,503,721	8,501,240
Temporarily restricted	25,170,958	20,981,552
Permanently restricted	<u>82,054,494</u>	<u>81,654,759</u>
Total net assets	<u>117,729,173</u>	<u>111,137,551</u>
Total liabilities and net assets	<u><u>\$ 137,678,876</u></u>	<u><u>\$ 127,477,583</u></u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010
(See notes to consolidated financial statements)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Contributions	\$ 4,605,289	\$ 137,087	\$ 366,129	\$ 5,108,505
Less amounts received on behalf of others	(2,505,381)	-	-	(2,505,381)
Net contributions	<u>2,099,908</u>	<u>137,087</u>	<u>366,129</u>	<u>2,603,124</u>
Management fees	92,963	-	-	92,963
Other income	326,518	-	-	326,518
Total revenues and support	<u>2,519,389</u>	<u>137,087</u>	<u>366,129</u>	<u>3,022,605</u>
INVESTMENT INCOME				
Interest and dividend income	208,210	2,020,413	-	2,228,623
Net realized and unrealized gains on investments	912,245	9,777,069	-	10,689,314
Change in value of split-interest agreements	-	487,994	-	487,994
Less net investment income allocated to funds held for others	(731,159)	-	-	(731,159)
Total investment income	<u>389,296</u>	<u>12,285,476</u>	<u>-</u>	<u>12,674,772</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>8,199,551</u>	<u>(8,233,157)</u>	<u>33,606</u>	<u>-</u>
Total revenues and support, investment income, and net assets released from restrictions	<u>11,108,236</u>	<u>4,189,406</u>	<u>399,735</u>	<u>15,697,377</u>
EXPENSES				
Program services				
Grants awarded	6,433,499	-	-	6,433,499
Less amounts distributed on behalf of others	(104,450)	-	-	(104,450)
Grants, net	<u>6,329,049</u>	<u>-</u>	<u>-</u>	<u>6,329,049</u>
Special programs	987,275	-	-	987,275
Grant making	561,536	-	-	561,536
Philanthropic services	118,075	-	-	118,075
Total program services	<u>7,995,935</u>	<u>-</u>	<u>-</u>	<u>7,995,935</u>
Supporting services				
Administration	922,728	-	-	922,728
Development	122,181	-	-	122,181
Fund management	64,911	-	-	64,911
Total supporting services	<u>1,109,820</u>	<u>-</u>	<u>-</u>	<u>1,109,820</u>
Total expenses	<u>9,105,755</u>	<u>-</u>	<u>-</u>	<u>9,105,755</u>
CHANGE IN NET ASSETS	<u>2,002,481</u>	<u>4,189,406</u>	<u>399,735</u>	<u>6,591,622</u>
NET ASSETS				
Beginning of year	<u>8,501,240</u>	<u>20,981,552</u>	<u>81,654,759</u>	<u>111,137,551</u>
End of year	<u>\$ 10,503,721</u>	<u>\$ 25,170,958</u>	<u>\$ 82,054,494</u>	<u>\$ 117,729,173</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009
(See notes to consolidated financial statements)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Contributions	\$ 6,521,011	\$ 3,456,262	\$ 238,534	\$ 10,215,807
Less amounts received on behalf of others	(78,580)	-	-	(78,580)
Net contributions	<u>6,442,431</u>	<u>3,456,262</u>	<u>238,534</u>	<u>10,137,227</u>
Management fees	59,385	-	-	59,385
Other income	75,653	-	-	75,653
Total revenues and support	<u>6,577,469</u>	<u>3,456,262</u>	<u>238,534</u>	<u>10,272,265</u>
INVESTMENT INCOME				
Interest and dividends	136,310	1,866,589	-	2,002,899
Net realized and unrealized gains on investments	1,007,645	17,130,391	-	18,138,036
Change in value of split-interest agreements	-	905,141	-	905,141
Less net investment income allocated to funds held for others	(511,183)	-	-	(511,183)
Total investment loss	<u>632,772</u>	<u>19,902,121</u>	<u>-</u>	<u>20,534,893</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>12,913,864</u>	<u>(14,512,243)</u>	<u>1,598,379</u>	<u>-</u>
Total revenues and support, investment income, and net assets released from restrictions	<u>20,124,105</u>	<u>8,846,140</u>	<u>1,836,913</u>	<u>30,807,158</u>
EXPENSES				
Program services				
Grants awarded	5,472,415	-	-	5,472,415
Less amounts distributed on behalf of others	(176,558)	-	-	(176,558)
Grants, net	<u>5,295,857</u>	<u>-</u>	<u>-</u>	<u>5,295,857</u>
Special programs	1,409,869	-	-	1,409,869
Grant making	316,597	-	-	316,597
Philanthropic services	133,934	-	-	133,934
Total program services	<u>7,156,257</u>	<u>-</u>	<u>-</u>	<u>7,156,257</u>
Supporting services				
Administration	841,753	-	-	841,753
Development	134,976	-	-	134,976
Fund management	51,791	-	-	51,791
Total supporting services	<u>1,028,520</u>	<u>-</u>	<u>-</u>	<u>1,028,520</u>
Total expenses	<u>8,184,777</u>	<u>-</u>	<u>-</u>	<u>8,184,777</u>
CHANGE IN NET ASSETS	<u>11,939,328</u>	<u>8,846,140</u>	<u>1,836,913</u>	<u>22,622,381</u>
NET ASSETS				
Beginning of year	<u>(3,438,088)</u>	<u>12,135,412</u>	<u>79,817,846</u>	<u>88,515,170</u>
End of year	<u>\$ 8,501,240</u>	<u>\$ 20,981,552</u>	<u>\$ 81,654,759</u>	<u>\$ 111,137,551</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(See notes to consolidated financial statements)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 6,591,622	\$ 22,622,381
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	46,681	49,492
Net realized and unrealized (gains) losses on investments	(10,095,599)	(17,660,218)
Contributions of stock	(734,539)	(571,296)
Contributions restricted for endowments	(399,735)	(1,836,913)
Contributions to charitable remainder trusts	(131,118)	(52,875)
Change in value of split interest agreements	(487,994)	(905,141)
Changes in operating assets and liabilities		
Contributions receivable, net	1,096,283	(1,963,635)
Prepaid expenses	(4,973)	(7,917)
Grants payable	(279,547)	(151,442)
Accounts payable and accrued expenses	83,915	98,621
Funds held for others	3,073,420	384,311
	<u>(1,241,584)</u>	<u>5,368</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	2,746,797	569,764
Purchases of investments	(2,999,997)	(5,001,778)
Change in balance of cash and money market funds held for long-term investment purposes	2,016,663	5,729,049
Purchases of property and equipment	(25,111)	(8,814)
	<u>1,738,352</u>	<u>1,288,221</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	399,735	1,836,913
	<u>399,735</u>	<u>1,836,913</u>
Net change in cash and equivalents	896,503	3,130,502
CASH AND EQUIVALENTS		
Beginning of year	7,983,336	4,852,834
End of year	<u>\$ 8,879,839</u>	<u>\$ 7,983,336</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATURE OF OPERATIONS

The Community Foundation for Monterey County (Foundation) is a California nonprofit organization that administers over 290 funds for philanthropic purposes. The Foundation was organized to receive gifts and bequests from individuals, foundations, private and public corporations and to make grants to projects benefiting Monterey County.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Foundation's significant accounting policies follows:

Basis of accounting and presentation – The consolidated financial statements have been prepared on the accrual basis of accounting, under which revenues are recognized when they are earned and expenses are recognized when the related liability is incurred.

Description of net assets – The Foundation reports information regarding its financial position and activities according to the following three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets – These are unconditional promises to give by a donor without any use or time restrictions. The Foundation classifies all contributions, except as noted below, as unrestricted for financial statement presentation.

Temporarily restricted net assets – These are subject to donor-imposed restrictions that will be met with the passage of time. The Foundation's temporarily restricted net assets consist primarily of contributions received under split-interest agreements wherein the Foundation or a third party serves as the trustee and earnings on endowment funds that have not yet been appropriated.

Permanently restricted net assets – These are subject to donor-imposed restrictions that will be maintained in perpetuity. The investment income generated from these assets is temporarily restricted by law until appropriated by the Board of Directors in support of the Foundation's programs and operations. The Foundation's permanently restricted net assets consist of endowment funds held by the Foundation as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Use of estimates – Preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Principles of consolidation – These financial statements consolidate the statements of The Lori and Lou Flagg Memorial Youth Fund, Inc., Community Foundation for Monterey County Real Estate #1 LLC and Community Foundation for Monterey County Real Estate #2 LLC, which are wholly-owned by the Foundation. All significant intercompany accounts and transactions have been eliminated in consolidation.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and equivalents – Cash and equivalents include all cash balances and highly liquid investments with original maturities of three months or less at acquisition which are not managed as part of long-term investment strategies and are not legally restricted. As of December 31, 2010 and 2009, the Foundation held \$549,633 and \$616,120, respectively, in cash that is restricted for use toward the Monterey Coast Weekly grant program.

Concentrations of market risks exist for cash and equivalents. Cash and equivalents are held in major financial institutions and in the regular course of business, the Foundation may maintain operating cash balances at a bank in excess of federally insured limits. The Foundation has not experienced any losses in such accounts.

Contributions receivable, net – Promises to give and bequests that are expected to be collected within one year are recorded at net realizable value. Promises to give that are expected to be collected in future years are discounted using a rate commensurate with the market risks involved applicable to the years in which the promises were received. For the years ending December 31, 2010 and 2009, such unconditional promises to give were recorded at present value using discount rates ranging from 2.4% to 5.4%. Amortization of these discounts is included in contributions revenue in the accompanying statements of activities. No amounts have been recorded for uncollectible contributions, as management believes all amounts to be collectible.

Real estate held for sale – Real estate that has been contributed by a donor has been conservatively recorded at 75% of its estimated market value at the contribution date based upon independent valuations. Due to the inherent uncertainties of the real estate valuation, the appraised values reflected in the accompanying consolidated financial statements may differ significantly from values that would be determined by negotiations between parties in sales transactions, resulting in differences that could be material.

Property and equipment – Property and equipment purchased are recorded at cost and donated property and equipment are recorded at estimated fair market value on the date contributed to the Foundation. The cost of property and equipment purchased in excess of \$1,000 is capitalized. Maintenance and repairs which do not extend the useful life of the respective assets are expensed as incurred. Depreciation is provided on the straight line method over the estimated useful lives of the assets of five to eleven years.

Assets donated with explicit restrictions regarding their use and contributions of cash that are restricted to property and equipment purchases are reported as restricted support. Absent donor stipulations regarding how long those donated assets are to be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in their specified service, at which time the temporarily restricted net assets are reclassified as unrestricted.

Investments – All debt securities and equity securities with readily determinable fair values are carried at fair value based on quoted market prices. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities are calculated on a cost basis. Dividend and interest income are accrued when earned.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

To address market risk of investments, the Foundation maintains a formal investment policy that sets out performance criteria and investment guidelines. The Foundation has custody agreements with selected banks which process disbursements at the direction of authorized staff.

Beneficial interest in remainder trusts administered by other trustees – The Foundation is a remainder beneficiary in various trusts administered by other trustees. A receivable is recorded at the present value of the amount held by the trustee that is due to the Foundation, which is calculated using the life expectancy of the income beneficiaries. The Foundation uses a discount rate commensurate with the risks involved to discount the contribution receivable. Valuations are reviewed annually by management by updating life expectancy of the income beneficiary, discount rates and the fair value of the underlying investments. The discount rates used for the years ended December 31, 2010 and 2009 were 1.8% and 3.2%, respectively. Subsequent changes to the fair value of the assets and liabilities are reflected in the consolidated statements of activities and changes in net assets as a change in value of split-interest agreements.

Charitable remainder trusts – The Foundation has been designated as the trustee for several irrevocable charitable remainder trusts. The trust agreements generally require the Foundation to make annual payments to the trust beneficiaries based on stipulated payment rates ranging from 5% to 10%, applied to the fair value of the trust assets, as determined annually. Upon the death of the beneficiaries, or other termination of the trusts as may be defined in the individual agreements, the remaining trust assets will be distributed by the Foundation to itself and to other beneficiaries, as stipulated in the trust agreements.

The Foundation records the assets held in these trusts at their fair value based on quoted market values. A corresponding liability, liabilities under charitable remainder trusts, has been recorded to reflect the present value of required lifetime payments and remaining obligation to the named beneficiaries using discount rates commensurate with the risks involved, which were in existence at the date of gift, ranging from 3.6% to 8.2% for each of the years ended December 31, 2010 and 2009. Valuations are calculated annually by management by updating life expectancy of the income beneficiaries and investment values.

Liabilities under split-interest agreements represent the present value of the investments held in charitable remainder trusts owed to outside remainder beneficiaries at the settlement of the trust. These liabilities are calculated as a percentage of the present value of the investments held in charitable remainder trusts.

The difference between the fair value of the assets received and liabilities under charitable remainder trusts and under split-interest agreements is recognized as contribution revenue in the year the agreement is signed. Realized and unrealized gains and losses, interest and dividend income from the investments and changes in actuarial assumptions and accretions of the liabilities are recorded as changes to split-interest agreements in the accompanying consolidated statements of financial position.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Funds held for others – The Foundation accepts funds from unrelated nonprofit organizations which desire to have the Foundation provide efficient investment management, programmatic expertise and technical assistance. A liability is recorded at the readily determinable estimated fair value of assets deposited with the Foundation by nonprofit organizations. The Foundation refers to such funds as restricted purpose, designated and stewardship funds. Restricted purpose and designated funds provide a permanent stream of operating income for agencies that donors wish to support over time. Stewardship funds are similar to restricted purpose and designated funds; however the agency has the option of withdrawing a portion or its entire fund's principal at any time upon written request by the Board of Directors of the nonprofit agency.

Financial instruments – Financial instruments included in the Foundation's consolidated statements of financial position include cash and equivalents, contributions receivable, real estate held for sale, investments, beneficial interest in remainder trusts administered by other trustees, investments held in charitable remainder trusts, grants payable, accounts payable and accrued expenses, liabilities under charitable remainder trusts, liabilities under split-interest agreements and funds held for others.

For cash and equivalents, contributions receivable, grants payable, accounts payable and accrued expenses and funds held for others, the carrying amounts represent a reasonable estimate of the corresponding fair values.

Real estate held for sale, investments, beneficial interest in remainder trusts administered by other trustees, investments held in charitable remainder trusts, liabilities under split-interest agreements and liabilities under charitable remainder trusts are reflected in the accompanying consolidated statements of financial position at their estimated fair values using methodologies described below.

Fair value measurements – Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Foundation considers the principal or most advantageous market in which it would transact, and considers assumptions that market participants would use when pricing the asset or liability.

The three-level hierarchy for fair value measurements is defined as follows.

Level 1 – Valuation is based on observable inputs using quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 – Valuation is based on inputs from sources other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. This may include quoted prices for similar assets in an active market, quoted prices for similar assets in a market that is not active or valuation methods using models, interest rates and yield curves as observable inputs.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Level 3 – Valuation is based on unobservable inputs for the assets, reflecting the Foundation's consideration about the assumptions that a market participant would use in pricing the asset or liability, to the extent that observable inputs (Levels 1 and 2) are not available. Level 3 assets and liabilities include situations where there is little or no market activity for the asset or liabilities, and significant management judgment or estimates are required.

Investments and investments held in charitable remainder trusts are measured on a recurring basis and are classified as Level 1 because they are valued using quoted prices in active markets. Real estate held for sale is measured on a nonrecurring basis and is classified as Level 2 because it is recorded at 75% of the appraised fair value at the date of contribution. Beneficial interest in remainder trusts administered by other trustees, liabilities under charitable remainder trusts and liabilities under split-interest agreements are measured on a recurring basis and are classified as Level 3 since observable inputs are minimal.

While the Foundation believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such assets and liabilities existed, or had such assets and liabilities been liquidated, and these differences could be material to the consolidated financial statements.

Endowment funds – The Foundation's endowment funds are comprised of approximately 225 individual funds established for a variety of purposes. The endowment funds are composed of donor-restricted and donor-advised funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Board of Directors of the Foundation has interpreted UPMIFA, which is effective January 1, 2009 in the State of California, as requiring the preservation of the fair value of the original gift as of the gift date of the 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 (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) 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 in 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.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Endowment investment policy – The Foundation has adopted investment and spending policies for endowment assets that attempt to achieve a growth in principal that will support a continuing rise in charitable distributions from its endowments, avoid a high degree of risk and ensure endowment funds will operate in perpetuity. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that attempts to achieve an average annual total return of 8% measured over a rolling three-year period. The investments are diversified based upon a target portfolio mix approved and adjusted from time to time by the Foundation's Investment Committee which will assist in achieving operating goals while minimizing exposure to risk. The portfolio mix is reviewed not less than quarterly and performance is measured against relevant indices.

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

Endowment spending policy – In November 2009, the Foundation adopted a policy of distributing a payout of 5% of the trailing 12 quarters' balance for all funds with a balance that is equal to or greater than their historic balance, 3% of the trailing 12 quarters for all funds with a balance that is less than their historic balance but not more than 30% below their historic fair value and any funds that are 30% or more below their historic balance receive a distribution of net income only. In 2009, the Foundation had a policy of appropriating between 4.5% and 6.0% of the endowment fund's fair value for distribution each year. The endowment funds average fair value is calculated as the average fund value for the 12 quarters prior to September 30 of each year.

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by the donor or law, or the historical value of endowment gifts as a result of unfavorable market fluctuations. The aggregated deficiencies of this nature for all donor-restricted endowment funds totaled \$833,686 and \$3,792,206 as of December 31, 2010 and 2009, respectively.

Major contributions – During 2010, four donors contributed amounts representing 35%, 16%, 16% and 15%, respectively, of total 2010 contribution revenue. During 2009, two donors contributed amounts representing 40% and 15%, respectively, of total 2009 contribution revenue.

Revenue recognition – Contributions received are recognized as revenue when received or unconditionally promised. Contributions of assets other than cash are recorded at their estimated fair values. Contributions of public stock are recorded at the high-low average of the quoted price on the date of donation.

Expense allocation – Expenses relating to more than one function are allocated to program service, general and administrative and fundraising costs based on employee time and expense studies or other appropriate usage factors.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants expense – Grant expenditures are recognized in the period the grant is approved provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. Grants are returned to the Foundation if certain conditions are not met. Returned grants are included in other income in the accompanying consolidated statements of activities.

Income tax status – The Foundation is a tax-exempt not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Act, and is classified as other than a private foundation.

Reclassifications – Certain prior year amounts have been reclassified to conform to current year financial statement presentation.

CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net consists of the following at December 31.

	<u>2010</u>	<u>2009</u>
Bequests receivable	\$ 1,676,792	\$ 2,133,756
Contributions receivable – note receivable	407,892	414,252
Contributions receivable – leasehold interest	400,000	500,000
Other contributions and pledges receivable	<u>156,399</u>	<u>747,922</u>
	2,641,083	3,795,930
Less discount to present value	<u>(8,510)</u>	<u>(67,074)</u>
	<u>\$ 2,632,573</u>	<u>\$ 3,728,856</u>

Contributions receivable are due as follows as of December 31, 2010.

Due within one year	\$ 1,938,760
Due within two to four years	<u>702,323</u>
	2,641,083
Discount to present value	<u>(8,510)</u>
	<u>\$ 2,632,573</u>

REAL ESTATE HELD FOR SALE AND FAIR VALUE DISCLOSURES

The following table presents the fair value of real estate held for sale on the accompanying consolidated statements of financial position at December 31, by fair value hierarchy.

	<u>2010</u> <u>(Level 2)</u>	<u>2009</u> <u>(Level 2)</u>
Real estate held for sale	\$ 624,797	\$ 624,797

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following at December 31.

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 225,270	\$ 200,159
Leasehold improvements	<u>244,528</u>	<u>244,528</u>
	469,798	444,687
Less accumulated depreciation	<u>277,894</u>	<u>231,213</u>
	<u>\$ 191,904</u>	<u>\$ 213,474</u>

INVESTMENTS AND FAIR VALUE DISCLOSURES

The following table presents the fair value measurements of investments on the accompanying consolidated statements of financial position at December 31, by fair value hierarchy.

	<u>2010</u> <u>(Level 1)</u>	<u>2009</u> <u>(Level 1)</u>
Mutual funds	\$ 70,292,679	\$ 60,001,784
Fixed income securities	16,691,944	16,441,293
Alternative investments	10,724,291	9,585,593
Cash and money market funds	7,992,757	10,403,106
Certificate of deposit	<u>-</u>	<u>203,220</u>
	<u>\$105,701,671</u>	<u>\$ 96,634,996</u>

Investments include certain reserved balances required to be kept in separate investment accounts or to be used for specific purposes as designated by donors.

Investment fees paid to investment managers were \$39,768 and \$33,536 for the years ended December 31, 2010 and 2009, and are included in fund management expenses in the accompanying consolidated statements of activities and changes in net assets.

BENEFICIAL INTEREST IN REMAINDER TRUSTS ADMINISTERED BY OTHER TRUSTEES AND FAIR VALUE DISCLOSURES

The following table presents the fair value measurements of beneficial interest in remainder trusts administered by other trustees on the accompanying consolidated statements of financial position at December 31, by fair value hierarchy.

	<u>2010</u> <u>(Level 3)</u>	<u>2009</u> <u>(Level 3)</u>
Beneficial interest in remainder trusts administered by other trustees	\$ 732,484	\$ 710,191

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BENEFICIAL INTEREST IN REMAINDER TRUSTS ADMINISTERED BY OTHER TRUSTEES AND FAIR VALUE DISCLOSURES *(continued)*

The following table provides a roll forward of the assets listed above measured at fair value using significant unobservable inputs (Level 3) during the periods ended December 31.

	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 710,191	\$ 584,138
Decrease in value due to change in actuarial life expectancy	(44,847)	(117,256)
Increase in value due to change in estimated fair value of underlying trust assets	<u>67,140</u>	<u>243,309</u>
Ending balance	<u>\$ 732,484</u>	<u>\$ 710,191</u>

CHARITABLE REMAINDER TRUSTS AND FAIR VALUE DISCLOSURES

Investments held in charitable remainder trusts consist of the following at December 31.

	<u>2010</u>	<u>2009</u>
Marketable securities - equities	\$ 11,846,363	\$ 10,558,194
Marketable securities - debt	6,152,359	5,908,348
Money market funds and cash	581,230	784,708
Note receivable	<u>300,000</u>	<u>300,000</u>
	<u>\$ 18,879,952</u>	<u>\$ 17,551,250</u>

The following tables present the fair value of investments held in charitable trusts on the accompanying consolidated statements of financial position at December 31, by fair value hierarchy.

<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held in charitable remainder trusts	\$ 18,879,952	\$ -	\$ -	\$ 18,879,952
Liabilities under charitable remainder trusts	\$ -	\$ -	\$ (9,731,982)	\$ (9,731,982)
Liabilities under split-interest agreements	\$ -	\$ -	\$ (3,150,742)	\$ (3,150,742)

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHARITABLE REMAINDER TRUSTS AND FAIR VALUE DISCLOSURES (continued)

<u>2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held in charitable remainder trusts	\$ 17,551,250	\$ -	\$ -	\$ 17,551,250
Liabilities under charitable remainder trusts	\$ -	\$ -	\$ (9,325,570)	\$ (9,325,570)
Liabilities under split-interest agreements	\$ -	\$ -	\$ (2,825,271)	\$ (2,825,271)

The following tables provide a roll forward of the liabilities listed above measured at fair value using significant unobservable inputs (Level 3) during the periods ended December 31.

<u>Liabilities under charitable remainder trusts</u>	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 9,325,570	\$ 7,760,575
Contribution to trust at present value	329,848	745,812
Increase in value due to change in actuarial value of assets	<u>76,564</u>	<u>819,183</u>
Ending balance	<u>\$ 9,731,982</u>	<u>\$ 9,325,570</u>

<u>Liabilities under split-interest agreements</u>	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 2,825,271	\$ 2,384,286
Contribution to trust at present value	37,988	-
Increase in liabilities due to change in value of liabilities under charitable remainder trusts	<u>287,483</u>	<u>440,985</u>
Ending balance	<u>\$ 3,150,742</u>	<u>\$ 2,825,271</u>

GRANTS PAYABLE

Grants payable are expected to be paid as follows at December 31, 2010.

2011	\$ 740,002
2012	<u>87,470</u>
	<u>\$ 827,472</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FUNDS HELD FOR OTHERS

At December 31, 2010 and 2009, the Foundation held 53 and 51 nonprofit funds held for others, respectively, with balances as follows.

	<u>2010</u>	<u>2009</u>
Agency designated funds	\$ 3,073,433	\$ 2,712,864
Stewardship funds	<u>2,712,851</u>	<u>-</u>
	<u>\$ 5,786,284</u>	<u>\$ 2,712,864</u>

The following table summarizes the activity in these funds for the years ended December 31.

	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 2,712,864	\$ 2,328,553
Amounts raised in contributions or transferred in	2,505,381	78,580
Net realized and unrealized gains	593,715	477,818
Dividend and interest income	137,444	33,365
Fees	(58,670)	(28,894)
Grants	<u>(104,450)</u>	<u>(176,558)</u>
	<u>\$ 5,786,284</u>	<u>\$ 2,712,864</u>

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets, as of December 31, consist of the following.

	<u>2010</u>	<u>2009</u>
Investments held in charitable remainder trusts	\$ 18,879,952	\$ 17,551,250
Endowment earnings	15,965,072	11,716,775
Bequests receivable and future pledges	1,676,792	2,306,999
Beneficial interest in remainder trusts administered by other trustees	732,484	710,191
Contributions receivable – note receivable	407,892	414,252
Contributions receivable – leasehold interest	400,000	500,000
Discount on receivables	(8,510)	(67,074)
Liabilities under charitable remainder trusts	(3,150,742)	(2,825,271)
Liabilities under split-interest agreements	<u>(9,731,982)</u>	<u>(9,325,570)</u>
	<u>\$ 25,170,958</u>	<u>\$ 20,981,552</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ENDOWMENT DISCLOSURES

During the years ended December 31, 2010 and 2009, endowment net asset activity was as follows.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, December 31, 2008	<u>\$ (12,049,597)</u>	<u>\$ 5,349,163</u>	<u>\$ 79,817,846</u>	<u>\$ 73,117,412</u>
Contributions	<u>-</u>	<u>25,313</u>	<u>1,836,913</u>	<u>1,862,226</u>
Investment income (dividends and interest)	-	1,866,589	-	1,866,589
Net realized and unrealized gains and (losses)	<u>-</u>	<u>17,130,391</u>	<u>-</u>	<u>17,130,391</u>
Total investment return	-	18,996,980	-	18,996,980
Appropriated for spending	-	(3,230,504)	-	(3,230,504)
Administration fees	<u>-</u>	<u>(1,166,786)</u>	<u>-</u>	<u>(1,166,786)</u>
Net endowment activity	-	14,625,003	1,836,913	16,461,916
Reclassification of deficient endowment fund activity	<u>8,257,391</u>	<u>(8,257,391)</u>	<u>-</u>	<u>-</u>
Endowment net assets, December 31, 2009	<u>(3,792,206)</u>	<u>11,716,775</u>	<u>81,654,759</u>	<u>89,579,328</u>
Contributions	<u>-</u>	<u>5,969</u>	<u>399,735</u>	<u>405,704</u>
Investment income (dividends and interest)	-	2,020,413	-	2,020,413
Net realized and unrealized gains and (losses)	<u>-</u>	<u>9,777,069</u>	<u>-</u>	<u>9,777,069</u>
Total investment return	-	11,797,482	-	11,797,482
Appropriated for spending	-	(3,603,417)	-	(3,603,417)
Administration fees	<u>-</u>	<u>(993,217)</u>	<u>-</u>	<u>(993,217)</u>
Net endowment activity	-	7,206,817	399,735	7,606,552
Reclassification of deficient endowment fund activity	<u>2,958,520</u>	<u>(2,958,520)</u>	<u>-</u>	<u>-</u>
Endowment net assets, December 31, 2010	<u>\$ (833,686)</u>	<u>\$ 15,965,072</u>	<u>\$ 82,054,494</u>	<u>\$ 97,185,880</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT FEES

The Foundation assesses a 0.5% to 2.0% annual management fee, depending on the size and type of fund, to each fund held within the Foundation.

In addition, the Foundation receives fees for the administration of charitable remainder trusts. The amount charged is two-tenths of one percent of the value of the trust assets, payable quarterly. These fees amounted to \$36,439 and \$31,405 for 2010 and 2009, respectively.

RETIREMENT PLANS

The Foundation maintains a 403(b) plan covering all employees. Eligible employees may make voluntary contributions subject to certain limits. The plan provides for a discretionary contribution from the Foundation which is determined each year by the Board of Directors. Participants are eligible for the Foundation contribution after one year of service. Contributions by the Foundation charged to expense were \$65,511 and \$0 in 2010 and 2009, respectively.

In 2006, the Foundation adopted an unfunded deferred compensation plan to provide retirement benefits to the Foundation's previous President/CEO. The previous President/CEO must have served for five consecutive calendar years to receive benefits, subject to certain terms, as defined in the agreement. The expense for this plan was \$100,000 in both the years ended December 31, 2010 and 2009. The total balance in the fund was \$350,000 and \$250,000 as of December 31, 2010 and 2009, respectively. As of December 31, 2010, the deferred compensation plan is expected to be paid out as follows.

2011	\$ 100,000
2012	100,000
2013	100,000
2014	<u>50,000</u>
	<u>\$ 350,000</u>

COMMITMENTS

The Foundation leases administrative space in Monterey, California that expires in October 2011 and requires monthly payments of \$7,931. Monthly rental payments increase by 3% each year. There are five separate three-year renewal options, with the first option exercisable in 2011, and each successive option exercisable at the end of each successive three year term. At the beginning of the third, fourth and fifth renewal options, the beginning rent shall be adjusted based on the fair market rental value for the property at the time.

The Foundation also leases space in Salinas, California under an operating lease that expires June 30, 2011 and requires monthly payments of \$2,419.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
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COMMITMENTS *(continued)*

Rent expense amounted to \$155,669 and \$180,508 for the years ended December 31, 2010 and 2009, respectively. The future minimum lease payments are \$79,818, all due in 2011.

SUPPORTING ORGANIZATION

The Lori and Lou Flagg Memorial Youth Fund, Inc. (Flagg Fund) is a separately incorporated California nonprofit public benefit corporation. As a supporting organization, its purpose is to support activities similar to those of the Foundation. The Foundation is responsible for the investing of the Flagg Fund's assets and provides staff support to operate the fund. In addition, the Foundation's Board of Directors is required to appoint a majority of the Flagg Fund's board members who must be independent of the founding group. The Flagg Fund is in the process of being dissolved to be effective as of December 31, 2010. Once dissolved, the Flagg Fund will become a donor advised fund of the Foundation.

RELATED PARTY TRANSACTIONS

Approximately \$29,000 and \$25,000 in donations were received from members of the Board of Directors during the years ending December 31, 2010 and 2009, respectively.

SUBSEQUENT EVENTS

In 2011, the Community Foundations National Standards Board confirmed that the Foundation is in compliance with National Standards for United States Community Foundations.

The Foundation has evaluated subsequent events for potential recognition and/or disclosure through April 18, 2011, the date which the consolidated financial statements were available to be issued.