PMB Helin Donovan
CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

Here for Good

Community Foundation for Monterey County

Consolidated Financial Statements
For the Years Ended December 31, 2012 and 2011
With Independent Auditors' Report

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

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PMB Helin Donovan
CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Foundation for Monterey County
Monterey, California

We have audited the accompanying consolidated financial statements of Community Foundation for Monterey County (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, 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.

PMB Helin Donovan, LLP

PMB Helin Donovan, LLP
Carmel, California
April 23, 2013

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COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

(See notes to consolidated financial statements)

ASSETS

	2012	2011
ASSETS		
Cash and cash equivalents	$ 8,297,015	$ 8,804,112
Contributions receivable, net	7,259,894	3,081,235
Prepaid expenses	13,934	20,413
Real estate held for sale	624,797	624,797
Property and equipment, net	1,844,992	1,733,925
Investments	118,163,145	102,795,012
Beneficial interest in remainder trusts administered by other trustees	1,237,611	874,856
Investments held in charitable remainder trusts	18,349,016	17,519,049
Total assets	$155,790,404	$135,453,399

LIABILITIES AND NET ASSETS

	2012	2011
LIABILITIES		
Grants payable	$ 1,309,073	$ 556,700
Accounts payable and accrued expenses	219,691	320,372
Liabilities under charitable remainder trusts	8,846,184	8,731,600
Liabilities under split-interest agreements	3,347,959	3,000,801
Funds held for others	7,774,052	5,846,571
Total liabilities	21,496,959	18,456,044
NET ASSETS		
Unrestricted	12,040,120	10,495,065
Temporarily restricted	31,245,075	20,549,390
Permanently restricted	91,008,250	85,952,900
Total net assets	134,293,445	116,997,355
Total liabilities and net assets	$155,790,404	$135,453,399

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012
(See notes to consolidated financial statements)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions	$ 2,002,077	$ 8,463,125	$ 5,129,664	$ 15,594,866
Amounts received on behalf of others	-	(1,469,549)	(74,314)	(1,543,863)
Net contributions	2,002,077	6,993,576	5,055,350	14,051,003
Management fees	108,264	-	-	108,264
Other income	84,529	-	-	84,529
Total revenues and support	2,194,870	6,993,576	5,055,350	14,243,796
INVESTMENT INCOME (LOSS)				
Interest and dividend income	107,373	2,996,690	87,164	3,191,227
Net realized and unrealized gains on investments	592,012	9,978,736	311,214	10,881,962
Change in value of split-interest agreements	-	719,085	-	719,085
Less net investment income allocated to funds held for others		(453,422)	(398,378)	(851,800)
Total investment income	699,385	13,241,089	-	13,940,474
NET ASSETS RELEASED FROM RESTRICTIONS	9,538,980	(9,538,980)	-	-
Total revenues and support, investment income, and net assets released from restrictions	12,433,235	10,695,685	5,055,350	28,184,270
EXPENSES				
Program services				
Grants awarded	9,149,686	-	-	9,149,686
Amounts distributed on behalf of others	(397,558)	-	-	(397,558)
Grants, net	8,752,128	-	-	8,752,128
Special programs	567,891	-	-	567,891
Grant making	427,790	-	-	427,790
Philanthropic services	150,679	-	-	150,679
Total program services	9,898,488	-	-	9,898,488
Supporting services				
Administration	672,888	-	-	672,888
Development	250,061	-	-	250,061
Fund management	66,743	-	-	66,743
Total supporting services	989,692	-	-	989,692
Total expenses	10,888,180	-	-	10,888,180
CHANGE IN NET ASSETS	1,545,055	10,695,685	5,055,350	17,296,090
NET ASSETS				
Beginning of year	10,495,065	20,549,390	85,952,900	116,997,355
End of year	$ 12,040,120	$ 31,245,075	$ 91,008,250	$ 134,293,445

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011
(See notes to consolidated financial statements)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions	$ 5,026,007	$ 1,991,581	$ 3,952,502	$ 10,970,090
Amounts received on behalf of others	-	(537,000)	(54,096)	(591,096)
Net contributions	5,026,007	1,454,581	3,898,406	10,378,994
Management fees	111,020	-	-	111,020
Other income	82,355	-	-	82,355
Total revenues and support	5,219,382	1,454,581	3,898,406	10,572,369
INVESTMENT INCOME (LOSS)				
Interest and dividend income	86,530	2,425,344	73,413	2,585,287
Net realized and unrealized losses on investments	(142,128)	(4,510,119)	(132,576)	(4,784,823)
Change in value of split-interest agreements	-	(68,208)	-	(68,208)
Less net investment loss allocated to funds held for others	-	67,214	59,163	126,377
Total investment loss	(55,598)	(2,085,769)	-	(2,141,367)
NET ASSETS RELEASED FROM RESTRICTIONS	3,990,380	(3,990,380)	-	-
Total revenues and support, investment income (loss) and net assets released from restrictions	9,154,164	(4,621,568)	3,898,406	8,431,002
EXPENSES				
Program services				
Grants awarded	7,010,855	-	-	7,010,855
Amounts distributed on behalf of others	(330,264)	-	-	(330,264)
Grants, net	6,680,591	-	-	6,680,591
Special programs	558,387	-	-	558,387
Grant making	573,901	-	-	573,901
Philanthropic services	96,889	-	-	96,889
Total program services	7,909,768	-	-	7,909,768
Supporting services				
Administration	1,030,072	-	-	1,030,072
Development	152,251	-	-	152,251
Fund management	70,729	-	-	70,729
Total supporting services	1,253,052	-	-	1,253,052
Total expenses	9,162,820	-	-	9,162,820
CHANGE IN NET ASSETS	(8,656)	(4,621,568)	3,898,406	(731,818)
NET ASSETS				
Beginning of year	10,503,721	25,170,958	82,054,494	117,729,173
End of year	$ 10,495,065	$ 20,549,390	$ 85,952,900	$ 116,997,355

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(See notes to consolidated financial statements)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 17,296,090	$ (731,818)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	61,391	30,154
Net realized and unrealized (gains) losses on investments	(11,532,214)	4,512,734
Contributions of stock	(1,814,632)	(652,231)
Contributions restricted for endowments	(5,129,664)	(3,898,406)
Contributions to charitable remainder trusts	(11,895)	-
Change in value of split interest agreements	(719,085)	68,208
Changes in operating assets and liabilities		
Contributions receivable, net	(4,178,659)	(448,662)
Prepaid expenses	6,479	15,243
Grants payable	752,373	(270,772)
Accounts payable and accrued expenses	(100,681)	(132,851)
Funds held for others	1,927,481	60,287
Net cash used by operating activities	(3,443,016)	(1,448,114)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	94,562,730	4,251,301
Purchases of investments	(100,616,266)	(3,511,327)
Change in balance of cash and money market funds held for long-term investment purposes	4,032,249	(1,693,818)
Purchases of property and equipment	(172,458)	(1,572,175)
Net cash used by investing activities	(2,193,745)	(2,526,019)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	5,129,664	3,898,406
Net change in cash and cash equivalents	(507,097)	(75,727)
CASH AND CASH EQUIVALENTS		
Beginning of year	8,804,112	8,879,839
End of year	$ 8,297,015	$ 8,804,112

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 – NATURE OF OPERATIONS

The Community Foundation for Monterey County (Foundation) is a California nonprofit organization that administers over 300 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.

NOTE 2 – 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 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents – Cash and cash 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, 2012 and 2011, the Foundation held $808,591 and $672,468, respectively, in cash that is restricted primarily for use toward the Monterey County Weekly grant program.

Concentrations of market risks exist for cash and cash equivalents. Cash and cash 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 believes it mitigates the risk of concentration by depositing at major financial institutions. 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 ended December 31, 2012 and 2011, such unconditional promises to give were recorded at present value using a discount rate of 1.2% and 2.4%, respectively. 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 fair 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 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 thirty-nine 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.

NOTE 2 – 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. During 2012, the Board of Directors and the investment committee approved a revised comprehensive policy over the Foundation's investments. 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, 2012 and 2011 were 1.2% and 1.6%, 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, 2012 and 2011. 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.

NOTE 2 – 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. In addition, related amounts received or distributed, investment income or loss and expenses are presented separately on the accompanying consolidated statements of activities. 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 cash equivalents, net 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 cash equivalents, net 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 charitable remainder trusts and liabilities under split-interest agreements 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.

NOTE 2 – 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 239 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 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.

NOTE 2 – 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 rise in charitable distributions that keep pace with inflation, 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 – The Foundation distributed a payout of 4.75% 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. The endowment funds average fair value is calculated as the average fund value for the 12 quarters prior to September 30 of each year.

For 2011 spending, because many of the funds in the 3% payout bucket recovered significant value in late 2010 and early 2011, the Foundation adopted a one-time policy of distributing a payout of 4% from the funds that had recovered to their historic value as of January 31, 2011. The 4% payout was calculated as the average fund value for the 12 quarters prior to January 31, 2011.

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 $852,560 and $2,835,885 as of December 31, 2012 and 2011, respectively.

Major contributions – During 2012, two donors contributed amounts representing 48% of total 2012 contribution revenue. During 2011, four donors contributed amounts representing 56% of total 2011 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

The Foundation has adopted the provisions related to accounting for uncertainty in income taxes, which defines a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Foundation's management has considered its tax positions and believes that all of the positions taken in its federal and state tax returns are more likely than not to be sustained upon examination. The Foundation's returns for the years ended December 31, 2011, 2010 and 2009 are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

NOTE 3 – CONTRIBUTIONS RECEIVABLE, NET

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

	2012	2011
Bequests receivable	$ 5,764,615	$ 2,148,365
Contributions receivable – notes receivable	278,082	609,275
Contributions receivable – leasehold interest	200,000	300,000
Other contributions and pledges receivable	1,033,416	40,400
	7,276,113	3,098,040
Discount to present value	(16,219)	(16,805)
	$ 7,259,894	$ 3,081,235

Contributions receivable are due as follows as of December 31, 2012.

Due within one year	$ 6,257,448
Due within two to four years	1,018,665
	7,276,113
Discount to present value	(16,219)
	$ 7,259,894

NOTE 4 – 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.

	2012 (Level 2)	2011 (Level 2)
Real estate held for sale	$ 624,797	$ 624,797

NOTE 5 – PROPERTY AND EQUIPMENT, NET

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

	2012	2011
Land	$ 461,627	$ 461,627
Building	1,083,488	1,083,488
Leasehold improvements	377,323	249,473
Furniture and equipment	188,657	144,049
	2,111,095	1,938,637
Less accumulated depreciation	266,103	204,712
	$ 1,844,992	$ 1,733,925

Depreciation expense amounted to $61,391 and $30,154 for the years ended December 31, 2012 and 2011, respectively.

NOTE 6 – 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.

	2012 (Level 1)	2011 (Level 1)
Mutual funds	$ 57,671,214	$ 65,234,495
Fixed income securities	32,028,435	17,485,770
Alternative investments (Exchange Traded Funds)	21,886,833	10,116,085
Cash and money market funds	6,576,663	9,958,662
	$118,163,145	$102,795,012

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

NOTE 6 – INVESTMENTS AND FAIR VALUE DISCLOSURES *(continued)*

Investment fees paid to investment managers were $86,941 and $29,439 for the years ended December 31, 2012 and 2011, and are included in fund management expenses in the accompanying consolidated statements of activities and changes in net assets.

NOTE 7 – 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.

	2012 (Level 3)	2011 (Level 3)
Beneficial interest in remainder trusts administered by other trustees	$ 1,237,611	$ 874,856

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.

	2012	2011
Beginning balance	$ 874,856	$ 732,484
Transfer to trust at present value	297,068	-
Increase in value due to change in actuarial life expectancy	65,687	142,372
Ending balance	$ 1,237,611	$ 874,856

NOTE 8 – CHARITABLE REMAINDER TRUSTS AND FAIR VALUE DISCLOSURES

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

	2012	2011
Marketable securities - equities	$ 12,092,342	$ 11,251,135
Marketable securities - debt	5,434,943	5,575,803
Money market funds and cash	521,731	392,111
Note receivable	300,000	300,000
	$ 18,349,016	$ 17,519,049

NOTE 8 – CHARITABLE REMAINDER TRUSTS AND FAIR VALUE DISCLOSURES *(continued)*

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.

2012	Level 1	Level 2	Level 3	Total
Investments held in charitable remainder trusts	$ 18,349,016	$ -	$ -	$ 18,349,016
Liabilities under charitable remainder trusts	$ -	$ -	$ (8,846,184)	$ (8,846,184)
Liabilities under split-interest agreements	$ -	$ -	$ (3,347,959)	$ (3,347,959)

2011	Level 1	Level 2	Level 3	Total
Investments held in charitable remainder trusts	$ 17,519,049	$ -	$ -	$ 17,519,049
Liabilities under charitable remainder trusts	$ -	$ -	$ (8,731,600)	$ (8,731,600)
Liabilities under split-interest agreements	$ -	$ -	$ (3,000,801)	$ (3,000,801)

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.

Liabilities under charitable remainder trusts	2012	2011
Beginning balance	$ 8,731,600	$ 9,731,982
Contribution to trust at present value	33,105	-
Transfer of trust at present value	(109,338)	-
Increase (decrease) in value due to change in actuarial value of assets	190,817	(1,000,382)
Ending balance	$ 8,846,184	$ 8,731,600

Liabilities under split-interest agreements	2012	2011
Beginning balance	$ 3,000,801	$ 3,150,742
Increase (decrease) in liabilities due to change in value of liabilities under charitable remainder trusts	347,158	(149,941)
Ending balance	$ 3,347,959	$ 3,000,801

NOTE 9 – GRANTS PAYABLE

Grants payable are expected to be paid as follows at December 31, 2012.

2013	$ 793,073
2014	508,000
2015	8,000
	$ 1,309,073

NOTE 10 – FUNDS HELD FOR OTHERS

At December 31, 2012 and 2011, the Foundation held 65 and 57 nonprofit funds held for others, respectively, with balances as follows.

	2012	2011
Stewardship funds	$ 4,523,929	$ 2,936,828
Agency designated funds	3,250,123	2,909,743
	$ 7,774,052	$ 5,846,571

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

	2012	2011
Beginning balance	$ 5,846,571	$ 5,786,284
Amounts raised in contributions or transferred in	1,543,863	591,096
Dividend and interest income	201,550	145,724
Fees	(70,624)	(74,168)
Net realized and unrealized gains (losses)	650,250	(272,101)
Grants	(397,558)	(330,264)
	$ 7,774,052	$ 5,846,571

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

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

	2012	2011
Investments held in charitable remainder trusts	$ 18,349,016	$ 17,519,049
Endowment earnings	16,203,111	10,823,401
Bequests receivable and future pledges	7,262,617	2,172,015
Beneficial interest in remainder trusts administered by other trustees	1,237,611	874,856
Contributions receivable – notes receivable	203,082	609,275
Contributions receivable – leasehold interest	200,000	300,000
Discount on receivables	(16,219)	(16,805)
Liabilities under split-interest agreements	(3,347,959)	(3,000,801)
Liabilities under charitable remainder trusts	(8,846,184)	(8,731,600)
	$ 31,245,075	$ 20,549,390

NOTE 12 – ENDOWMENT DISCLOSURES

During the years ended December 31, 2012 and 2011, endowment net asset activity was as follows.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, December 31, 2010	$ (833,686)	$ 15,965,072	$ 82,054,494	$ 97,185,880
Contributions	-	58,040	3,898,406	3,956,446
Investment income (dividends and interest)	-	2,353,033	-	2,353,033
Net realized and unrealized losses	-	(4,370,594)	-	(4,370,594)
Total investment return	-	(2,017,561)	-	(2,017,561)
Appropriated for spending	-	(3,596,458)	-	(3,596,458)
Administration fees	-	(1,587,891)	-	(1,587,891)
Net endowment activity	-	(7,143,870)	3,898,406	(3,245,464)
Reclassification of deficient endowment fund activity	(2,002,199)	2,002,199	-	-
Endowment net assets, December 31, 2011	(2,835,885)	10,823,401	85,952,900	93,940,416
Contributions	-	478,160	5,055,350	5,533,510
Investment income (dividends and interest)	-	2,882,304	-	2,882,304
Net realized and unrealized gains	-	9,639,700	-	9,639,700
Total investment return	-	12,522,004	-	12,522,004
Appropriated for spending	-	(4,195,512)	-	(4,195,512)
Administration fees	-	(1,441,617)	-	(1,441,617)
Net endowment activity	-	7,363,035	5,055,350	12,418,385
Reclassification of deficient endowment fund activity	1,983,325	(1,983,325)	-	-
Endowment net assets, December 31, 2012	$ (852,560)	$ 16,203,111	$ 91,008,250	$106,358,001

NOTE 13 – 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 $37,641 and $38,573 for 2012 and 2011, respectively.

NOTE 14 – 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 $44,265 and $49,982 in 2012 and 2011, 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 total balance in the fund was $150,000 and $250,000 as of December 31, 2012 and 2011, respectively. As of December 31, 2012, the deferred compensation plan is expected to be paid out as follows.

2013	$ 100,000
2014	50,000
	$ 150,000

NOTE 15 – COMMITMENTS

The Foundation leased administrative space in Monterey, California under a lease that expired in December 2011. In December 2011, the Foundation purchased the building that they were renting.

The Foundation also leases space in Salinas, California under an operating lease that expires December 2016 and requires monthly payments of $2,419 which escalate annually in January. Future commitments under this lease agreement as of December 31, 2012 are as follows.

2013	$ 42,185
2014	43,546
2015	44,906
2016	46,267
	$ 176,904

NOTE 15 – COMMITMENTS *(continued)*

Rent expense amounted to $38,464 and $151,592 for the years ended December 31, 2012 and 2011, respectively.

NOTE 16 – INTERFUND BORROWING

In December 2011, the Foundation purchased the building they were renting in Monterey, California. The total purchase price for the building and land was $1,545,115. The Foundation paid for the purchase using operating funds borrowed from their general endowment. The operating fund is paying the general endowment back monthly over 231 months and at an interest rate equal to 4% per annum. Monthly payments are $7,500 and increase by 3% annually in January. Future commitments for the operating fund repaying the general endowment as of December 31, 2012 are as follows.

2013	$ 92,700
2014	95,484
2015	98,352
2016	101,304
2017	104,352
Thereafter	1,717,543
	2,209,735
Amount representing interest	(693,339)
	$ 1,516,396

NOTE 17 – RELATED PARTY TRANSACTIONS

Approximately $68,850 and $64,000 in donations were received from members of the Board of Directors during the years ended December 31, 2012 and 2011, respectively.

NOTE 18 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events for potential recognition and/or disclosure through April 23, 2013, the date which the consolidated financial statements were available to be issued.