Here for Good

Community Foundation for Monterey County

Consolidated Financial Statements With Independent Auditors' Report

December 31, 2013 and 2012

PMB Helin Donovan
CERTIFIED PUBLIC ACCOUNTANTS

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

TABLE OF CONTENTS

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, 2013 and 2012, 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, 2013 and 2012, 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 22, 2014

100 Clock Tower Place, Suite 120 • Carmel, CA 93923
tel (831) 625-5111 • fax (831) 625-9308

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2013 AND 2012

(See notes to consolidated financial statements)

ASSETS

	2013	2012
ASSETS		
Cash and cash equivalents	$ 8,455,925	$ 8,297,015
Contributions receivable, net	2,109,145	7,259,894
Prepaid expenses	20,673	13,934
Real estate held for sale	624,797	624,797
Property and equipment, net	1,814,651	1,844,992
Investments	139,307,745	118,163,145
Beneficial interest in remainder trusts administered by other trustees	1,354,069	1,237,611
Investments held in charitable remainder trusts	19,456,477	18,349,016
Total assets	$ 173,143,482	$ 155,790,404

LIABILITIES AND NET ASSETS

	2013	2012
LIABILITIES		
Grants payable	$ 1,610,427	$ 1,309,073
Accounts payable and accrued expenses	334,626	219,691
Liabilities under charitable remainder trusts	9,253,717	8,846,184
Liabilities under split-interest agreements	3,723,834	3,347,959
Funds held for others	13,050,514	7,774,052
Total liabilities	27,973,118	21,496,959
NET ASSETS		
Unrestricted	15,538,431	12,040,120
Temporarily restricted	33,244,215	31,245,075
Permanently restricted	96,387,718	91,008,250
Total net assets	145,170,364	134,293,445
Total liabilities and net assets	$ 173,143,482	$ 155,790,404

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2013

(See notes to consolidated financial statements)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions	$ 6,196,645	$ 4,484,458	$ 1,353,706	$ 12,034,809
Amounts received on behalf of others	-	(3,961,676)	(444,713)	(4,406,389)
Net contributions	6,196,645	522,782	908,993	7,628,420
Management fees	123,336	-	-	123,336
Other income	29,165	-	-	29,165
Total revenues and support	6,349,146	522,782	908,993	7,780,921
INVESTMENT INCOME				
Interest and dividend income	99,915	2,623,168	77,143	2,800,226
Net realized and unrealized gains on investments	727,144	11,778,911	345,937	12,851,992
Change in value of split-interest agreements	-	951,550	-	951,550
Less net investment income allocated to funds held for others	-	(787,268)	(423,080)	(1,210,348)
Total investment income	827,059	14,566,361	-	15,393,420
NET ASSETS RELEASED FROM RESTRICTIONS	8,619,528	(13,090,003)	4,470,475	-
Total revenues and support, investment income, and net assets released from restrictions	15,795,733	1,999,140	5,379,468	23,174,341
EXPENSES				
Program services				
Grants awarded	9,929,448	-	-	9,929,448
Amounts distributed on behalf of others	(256,201)	-	-	(256,201)
Grants, net	9,673,247	-	-	9,673,247
Special programs	781,025	-	-	781,025
Grant making	458,255	-	-	458,255
Philanthropic services	143,794	-	-	143,794
Total program services	11,056,321	-	-	11,056,321
Supporting services				
Administration	841,246	-	-	841,246
Development	329,286	-	-	329,286
Fund management	70,569	-	-	70,569
Total supporting services	1,241,101	-	-	1,241,101
Total expenses	12,297,422	-	-	12,297,422
CHANGE IN NET ASSETS	3,498,311	1,999,140	5,379,468	10,876,919
NET ASSETS				
Beginning of year	12,040,120	31,245,075	91,008,250	134,293,445
End of year	$ 15,538,431	$ 33,244,215	$ 96,387,718	$ 145,170,364

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				
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 STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(See notes to consolidated financial statements)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 10,876,919	$ 17,296,090
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	72,189	61,391
Net realized and unrealized gains on investments	(13,108,193)	(11,532,214)
Contributions of stock	(4,246,867)	(1,814,632)
Contributions restricted for endowments	(1,353,706)	(5,129,664)
Contributions to charitable remainder trusts	(162,641)	(11,895)
Terminations of charitable remainder trusts	673,680	-
Change in value of split interest agreements	(951,550)	(719,085)
Changes in operating assets and liabilities		
Contributions receivable, net	5,150,749	(4,178,659)
Prepaid expenses	(6,739)	6,479
Grants payable	301,354	752,373
Accounts payable and accrued expenses	114,935	(100,681)
Funds held for others	5,276,462	1,927,481
Net cash provided (used) by operating activities	2,636,592	(3,443,016)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	14,403,611	94,562,730
Purchases of investments	(17,651,019)	(100,616,266)
Change in balance of cash and money market funds held for long-term investment purposes	(542,132)	4,032,249
Purchases of property and equipment	(41,848)	(172,458)
Net cash used by investing activities	(3,831,388)	(2,193,745)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	1,353,706	5,129,664
Net cash provided by financing activities	1,353,706	5,129,664
Net change in cash and cash equivalents	158,910	(507,097)
CASH AND CASH EQUIVALENTS		
Beginning of year	8,297,015	8,804,112
End of year	$ 8,455,925	$ 8,297,015

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

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.

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

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.

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, 2013 and 2012, the Foundation held $1,093,277 and $808,591, 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, 2013 and 2012, such unconditional promises to give were recorded at present value using a discount rate of 1.2%. 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.

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

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.

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, 2013 and 2012 were 2.0% and 1.2%, 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, 2013 and 2012. Valuations are calculated annually by management by updating life expectancy of the income beneficiaries and investment values.

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

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.

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.

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

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.

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.

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

Endowment funds – The Foundation's endowment funds are comprised of 249 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.

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 and 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.

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

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 $94,966 and $852,560 as of December 31, 2013 and 2012, respectively.

Major contributions – During 2013, three donors contributed amounts representing 43% of total 2013 contribution revenue. During 2012, two donors contributed amounts representing 48% of total 2012 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.

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. With few exceptions, the Foundation is no longer subject to federal tax examinations by tax authorities for years before 2010.

NOTE 3 – CONTRIBUTIONS RECEIVABLE, NET

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

	2013	2012
Bequests receivable	$ 764,615	$ 5,764,615
Contributions receivable – notes receivable	195,514	278,082
Contributions receivable – leasehold interest	100,000	200,000
Other contributions and pledges receivable	1,056,070	1,033,416
	2,116,199	7,276,113
Discount to present value	(7,054)	(16,219)
	$ 2,109,145	$ 7,259,894

Contributions receivable are due as follows as of December 31, 2013.

Due within one year	$ 1,656,866
Due within two years	459,333
	2,116,199
Discount to present value	(7,054)
	$ 2,109,145

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.

	2013 (Level 2)	2012 (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.

	2013	2012
Land	$ 461,627	$ 461,627
Building	1,083,488	1,083,488
Leasehold improvements	377,323	377,323
Furniture and equipment	175,455	188,657
	2,097,893	2,111,095
Less accumulated depreciation	283,242	266,103
	$ 1,814,651	$ 1,844,992

Depreciation expense amounted to $72,189 and $61,391 for the years ended December 31, 2013 and 2012, 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.

	2013 (Level 1)	2012 (Level 1)
Mutual funds	$ 76,660,474	$ 57,671,214
Fixed income securities	35,586,867	32,028,435
Alternative investments (exchange traded funds)	19,728,300	21,886,833
Cash and money market funds	7,332,104	6,576,663
	$139,307,745	$118,163,145

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 $93,568 and $86,941 for the years ended December 31, 2013 and 2012, 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.

	2013 (Level 3)	2012 (Level 3)
Beneficial interest in remainder trusts administered by other trustees	$ 1,354,069	$ 1,237,611

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.

	2013	2012
Beginning balance	$ 1,237,611	$ 874,856
Transfer to trust at present value	-	297,068
Increase in value due to change in actuarial life expectancy	116,458	65,687
Ending balance	$ 1,354,069	$ 1,237,611

NOTE 8 – CHARITABLE REMAINDER TRUSTS AND FAIR VALUE DISCLOSURES

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

	2013	2012
Marketable securities - equities	$ 11,825,160	$ 12,092,342
Marketable securities - debt	6,482,121	5,434,943
Money market funds and cash	849,196	521,731
Note receivable	300,000	300,000
	$ 19,456,477	$ 18,349,016

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.

2013	Level 1	Level 2	Level 3	Total
Investments held in charitable remainder trusts	$ 19,456,477	$ -	$ -	$ 19,456,477
Liabilities under charitable remainder trusts	$ -	$ -	$ (9,253,717)	$ (9,253,717)
Liabilities under split-interest agreements	$ -	$ -	$ (3,723,834)	$ (3,723,834)

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)

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	2013	2012
Beginning balance	$ 8,846,184	$ 8,731,600
Contribution to trust at present value	162,641	33,105
Termination of trust	(673,680)	-
Transfer of trust at present value	-	(109,338)
Increase (decrease) in value due to change in actuarial value of assets	918,572	190,817
Ending balance	$ 9,253,717	$ 8,846,184

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

Liabilities under split-interest agreements	2013	2012
Beginning balance	$ 3,347,959	$ 3,000,801
Increase (decrease) in liabilities due to change in value of liabilities under charitable remainder trusts	375,875	347,158
Ending balance	$ 3,723,834	$ 3,347,959

NOTE 9 – GRANTS PAYABLE

Grants payable are expected to be paid as follows at December 31, 2013.

2014	$ 964,277
2015	344,575
2016	135,000
2017	166,575
	$ 1,610,427

NOTE 10 – FUNDS HELD FOR OTHERS

At December 31, 2013 and 2012, the Foundation held 72 and 65 nonprofit funds held for others, respectively, with balances as follows.

	2013	2012
Stewardship funds	$ 9,081,360	$ 4,523,929
Agency designated funds	3,969,154	3,250,123
	$ 13,050,514	$ 7,774,052

NOTE 10 – FUNDS HELD FOR OTHERS *(continued)*

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

	2013	2012
Beginning balance	$ 7,774,056	$ 5,846,571
Amounts raised in contributions or transferred in	4,415,803	1,543,863
Dividend and interest income	222,094	201,550
Fees	(93,492)	(70,624)
Net realized and unrealized gains	988,254	650,250
Grants	(256,201)	(397,558)
	$ 13,050,514	$ 7,774,052

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

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

	2013	2012
Endowment earnings	$ 23,318,824	$ 16,203,111
Investments held in charitable remainder trusts	19,456,477	18,349,016
Bequests receivable and future pledges	1,803,936	7,262,617
Beneficial interest in remainder trusts administered by other trustees	1,354,069	1,237,611
Contributions receivable – notes receivable	195,514	203,082
Contributions receivable – leasehold interest	100,000	200,000
Discount on receivables	(7,054)	(16,219)
Liabilities under split-interest agreements	(3,723,834)	(3,347,959)
Liabilities under charitable remainder trusts	(9,253,717)	(8,846,184)
	$ 33,244,215	$ 31,245,075

NOTE 12 – ENDOWMENT DISCLOSURES

During the years ended December 31, 2013 and 2012, endowment net asset activity was as follows.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
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	$106,358,801
Contributions	-	47,485	908,993	956,478
Investment income (dividends and interest)	-	2,478,217	-	2,478,217
Net realized and unrealized gains	-	11,136,594	-	11,136,594
Total investment return	-	13,614,811	-	13,614,811
Appropriated for spending	-	(4,078,320)	-	(4,078,320)
Administration fees	-	(1,710,670)	-	(1,710,670)
Net endowment activity	-	7,873,306	908,993	8,782,299
Transfers of income to (from) endowment, net	-	-	4,470,475	4,470,475
Reclassification of deficient endowment fund activity	757,594	(757,594)	-	-
Endowment net assets, December 31, 2013	$ (94,966)	$ 23,318,823	$ 96,387,718	$119,611,575

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 $37,306 and $37,641 for 2013 and 2012, 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 $44,307 and $44,265 in 2013 and 2012, 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 $50,000 and $150,000 as of December 31, 2013 and 2012, respectively. The balance of the fund as of December 31, 2013 is scheduled to be paid out in 2014.

NOTE 15 – COMMITMENTS

The Foundation 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, 2013 are as follows.

2014	$ 43,546
2015	44,906
2016	46,267
	$ 134,719

Rent expense amounted to $44,886 and $38,464 for the years ended December 31, 2013 and 2012, 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, 2013 are as follows.

2014	$ 95,484
2015	98,352
2016	101,304
2017	104,352
2018	107,484
Thereafter	1,610,060
	2,117,036
Amount representing interest	1,483,759
	$ 633,277

NOTE 17 – RELATED PARTY TRANSACTIONS

Approximately $184,350 and $68,850 in donations were received from members of the Board of Directors during the years ended December 31, 2013 and 2012, respectively.

NOTE 18 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events for potential recognition and/or disclosure through April 22, 2014, the date which the consolidated financial statements were available to be issued.