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Here for Good
Community Foundation for Monterey County

Consolidated Financial Statements With Independent Auditors' Report

December 31, 2015 and 2014

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

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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 consolidated statements of financial position as of December 31, 2015 and 2014, 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 consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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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, 2015 and 2014, 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.

RGP, LLP

RGP, LLP
Walnut Creek, California
June 29, 2016

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

(See notes to consolidated financial statements)

ASSETS

	2015	2014
ASSETS		
Cash and cash equivalents	$ 10,980,840	$ 7,601,459
Contributions receivable, net	1,338,471	1,994,034
Prepaid expenses	34,090	29,565
Property and equipment, net	1,773,185	1,780,379
Investments	146,521,360	144,972,772
Charitable gift annuities	255,003	208,373
Beneficial interest in remainder trusts administered by other trustees	3,198,985	1,136,529
Investments held in charitable remainder trusts	16,182,264	20,145,104
Total assets	$ 180,284,198	$ 177,868,215

LIABILITIES AND NET ASSETS

	2015	2014
LIABILITIES		
Grants payable	$ 1,842,024	$ 1,043,561
Accounts payable and accrued expenses	90,472	114,403
Liabilities under charitable remainder trusts	7,975,485	9,359,652
Liabilities under split-interest agreements	3,627,864	3,820,474
Funds held for others	16,169,699	13,821,830
Total liabilities	29,705,544	28,159,920
NET ASSETS		
Unrestricted	23,930,431	19,289,093
Temporarily restricted	20,468,462	30,593,325
Permanently restricted	106,179,761	99,825,877
Total net assets	150,578,654	149,708,295
Total liabilities and net assets	$ 180,284,198	$ 177,868,215

COMMUNITY FOUNDATION FOR MONTEREY COUNTY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015
(See notes to consolidated financial statements)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions	$ 8,571,183	$ 3,793,533	$ 7,198,065	$ 19,562,781
Amounts received on behalf of others	-	(3,282,346)	(39,818)	(3,322,164)
Net contributions	8,571,183	511,187	7,158,247	16,240,617
Management fees	184,219	-	-	184,219
Other income	222,806	-	-	222,806
Total revenues and support	8,978,208	511,187	7,158,247	16,647,642
INVESTMENT INCOME				
Interest and dividend income	326,245	3,548,970	106,528	3,981,743
Net realized and unrealized losses on investments	(663,080)	(6,709,376)	(203,133)	(7,575,589)
Change in value of split-interest agreements	-	(400,920)	-	(400,920)
Net investment income allocated to funds held for others	-	367,239	96,605	463,844
Total investment income	(336,835)	(3,194,087)	-	(3,530,922)
NET ASSETS RELEASED FROM RESTRICTIONS	8,246,326	(7,441,963)	(804,363)	-
Total revenues and support, investment income, and net assets released from restrictions	16,887,699	(10,124,863)	6,353,884	13,116,720
EXPENSES				
Program services				
Grants awarded	9,710,595	-	-	9,710,595
Amounts distributed on behalf of others	(366,604)	-	-	(366,604)
Grants, net	9,343,991	-	-	9,343,991
Special programs	522,073	-	-	522,073
Grant making	562,613	-	-	562,613
Philanthropic services	222,502	-	-	222,502
Total program services	10,651,179	-	-	10,651,179
Supporting services				
Administration	1,065,030	-	-	1,065,030
Development	455,198	-	-	455,198
Fund management	74,954	-	-	74,954
Total supporting services	1,595,182	-	-	1,595,182
Total expenses	12,246,361	-	-	12,246,361
CHANGE IN NET ASSETS	4,641,338	(10,124,863)	6,353,884	870,359
NET ASSETS				
Beginning of year	19,289,093	30,593,325	99,825,877	149,708,295
End of year	$ 23,930,431	$ 20,468,462	$ 106,179,761	$ 150,578,654

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2014

(See notes to consolidated financial statements)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions	$ 6,110,847	$ 1,836,890	$ 4,025,983	$ 11,973,720
Amounts received on behalf of others	-	(776,170)	(181,216)	(957,386)
Net contributions	6,110,847	1,060,720	3,844,767	11,016,334
Management fees	167,126	-	-	167,126
Other income	46,380	-	643,266	689,646
Total revenues and support	6,324,353	1,060,720	4,488,033	11,873,106
INVESTMENT INCOME				
Interest and dividend income	292,765	3,802,767	119,756	4,215,288
Net realized and unrealized gains on investments	101,473	1,721,286	56,321	1,879,080
Change in value of split-interest agreements	-	625,659	-	625,659
Less net investment income allocated to funds held for others	-	(395,668)	(176,077)	(571,745)
Total investment income	394,238	5,754,044	-	6,148,282
NET ASSETS RELEASED FROM RESTRICTIONS	10,515,528	(9,465,654)	(1,049,874)	-
Total revenues and support, investment income and net assets released from restrictions	17,234,119	(2,650,890)	3,438,159	18,021,388
EXPENSES				
Program services				
Grants awarded	11,283,516	-	-	11,283,516
Amounts distributed on behalf of others	(634,314)	-	-	(634,314)
Grants, net	10,649,202	-	-	10,649,202
Special programs	540,439	-	-	540,439
Grant making	659,144	-	-	659,144
Philanthropic services	172,993	-	-	172,993
Total program services	12,021,778	-	-	12,021,778
Supporting services				
Administration	981,352	-	-	981,352
Development	399,664	-	-	399,664
Fund management	80,663	-	-	80,663
Total supporting services	1,461,679	-	-	1,461,679
Total expenses	13,483,457	-	-	13,483,457
CHANGE IN NET ASSETS	3,750,662	(2,650,890)	3,438,159	4,537,931
NET ASSETS				
Beginning of year	15,538,431	33,244,215	96,387,718	145,170,364
End of year	$ 19,289,093	$ 30,593,325	$ 99,825,877	$ 149,708,295

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(See notes to consolidated financial statements)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 870,359	$ 4,537,931
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	80,852	76,585
Gain on real estate held for sale	-	(540,720)
Net realized and unrealized (gains) losses on investments	7,575,589	(1,879,080)
Contributions of stock	(1,930,183)	(2,932,403)
Contributions restricted for endowments	(7,198,065)	(4,025,983)
Contributions to charitable remainder trusts	(104,976)	(448,116)
Contributions to charitable gift annuities	(18,967)	(40,582)
Terminations of charitable remainder trusts	-	637,472
Change in value of split interest agreements	400,920	(625,659)
Changes in operating assets and liabilities		
Contributions receivable, net	655,563	115,111
Prepaid expenses	(4,525)	(8,892)
Grants payable	798,463	(566,866)
Accounts payable and accrued expenses	(23,931)	(220,223)
Funds held for others	2,347,869	771,316
Net cash provided (used) by operating activities	3,448,968	(5,150,109)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	19,294,106	46,220,863
Purchases of investments	(26,419,021)	(46,685,299)
Change in balance of cash and money market funds held for long-term investment purposes	(69,079)	(389,108)
Proceeds from sale of real estate held for sale	-	1,165,517
Purchases of property and equipment	(73,658)	(42,313)
Net cash provided (used) by investing activities	(7,267,652)	269,660
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	7,198,065	4,025,983
Net cash provided by financing activities	7,198,065	4,025,983
Net change in cash and cash equivalents	3,379,381	(854,466)
CASH AND CASH EQUIVALENTS		
Beginning of year	7,601,459	8,455,925
End of year	$ 10,980,840	$ 7,601,459

NOTE 1 – NATURE OF OPERATIONS

The Community Foundation for Monterey County (Foundation) is a California nonprofit organization that administers over 380 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.

Principles of consolidation – These financial statements consolidate the statements of Community Foundation for Monterey County Real Estate #1 LLC, which is 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, 2015 and 2014, the Foundation held $3,122,649 and $1,344,613, respectively, in cash that is restricted primarily for use toward the Monterey County Gives Campaign 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. As of December 31, 2015 and 2014, all contributions receivable are scheduled to be collected within one year and are recorded at net realizable value. 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 had 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. The Foundation sold the real estate in 2014 and recorded a gain on sale of $540,720 which is reflected in other income on the accompanying consolidated statement of activities and changes in net assets.

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.

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

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. The Foundation has custody agreements with selected banks which process disbursements at the direction of authorized staff.

Charitable gift annuities – Charitable gift annuities require periodic payment of a fixed sum to designated beneficiaries and are terminated upon the death of the designated beneficiaries. Upon termination, the remaining assets of the annuity are then available for use by the Foundation in accordance with the donors' intent. The Foundation recognizes assets and temporarily restricted contribution revenue for its charitable gift annuities at the date the agreements are established, net of the liability recorded for the present value of the estimated future payments to be made to the donors and other beneficiaries based upon their life expectancies using IRS mortality tables and the appropriate discount rates. The carrying value of the assets is adjusted to fair value at the end of the year. 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.

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, 2015 and 2014 were 2.0% and 2.2%, 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, 2015 and 2014. 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, investments, charitable gift annuities, 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.

Investments, charitable gift annuities, 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.

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

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 are classified as Level 1, Level 2 or Level 3, depending of the nature of the composition. Investments in commodity funds are classified as Level 2 because the commodity funds hold Level 1 assets however the shares of the commodity funds are privately traded. Investments in core real estate funds are classified as Level 3 because the core real estate funds hold Level 3 assets and the shares of the funds are privately traded. Charitable gift annuities, 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 249 individual funds established for a variety of purposes. The endowment funds are composed of donor-restricted and donor-advised funds. 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.

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

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 7.9% 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 – For the years ended December 31, 2015 and 2014, the Foundation distributed a payout of 4.5% and 4.75%, respectively, 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.

In 2015, the spending rate was updated. The payout for the year ending December 31, 2016, will be calculated as 4.5% of the trailing 12 quarters' balance for all funds with a balance that is equal to or greater than their historic balance, 4.2% of the trailing 12 quarters' balance for all funds with a balance that is equal to or greater than 99% but less than 100% than their historic balance, 3.9% of the trailing 12 quarters' balance for all funds with a balance that is equal to or greater than 98% but less than 99% than their historic balance, 3.6% of the trailing 12 quarters' balance for all funds with a balance that is equal to or greater than 97% but less than 98% than their historic balance and 3% of the trailing 12 quarters for all funds with a balance that is less than 97% of their historic balance.

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 $114,414 and $100,377 as of December 31, 2015 and 2014, respectively.

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

Major contributions – During 2015, two donors contributed amounts representing 41% of total 2015 contribution revenue. During 2014, two donors contributed amounts representing 23% of total 2014 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 2012.

Reclassifications – Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE 3 – CONTRIBUTIONS RECEIVABLE, NET

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

	2015	2014
Bequests receivable	$ 800,418	$ 1,039,615
Contributions receivable – notes receivable	181,413	188,639
Contributions receivable – leasehold interest	21,770	29,184
Other contributions and pledges receivable	334,870	736,596
	$ 1,338,471	$ 1,994,034

NOTE 4 – PROPERTY AND EQUIPMENT, NET

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

	2015	2014
Land	$ 461,627	$ 461,627
Building	1,083,488	1,083,488
Leasehold improvements	409,760	401,430
Furniture and equipment	230,481	193,661
	2,185,356	2,140,206
Less accumulated depreciation	(412,171)	(359,827)
	$ 1,773,185	$ 1,780,379

Depreciation expense totaled $80,852 and $76,585 for the years ended December 31, 2015 and 2014, respectively.

NOTE 5 – 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.

2015	Level 1	Level 2	Level 3	Total
Mutual funds	$ 73,197,307	$ -	$ -	$ 73,197,307
Fixed income securities	40,619,536	-	-	40,619,536
Alternative investments	16,058,860	5,487,896	3,332,569	24,879,325
Cash and money market funds	7,825,192	-	-	7,825,192
	$137,700,895	$ 5,487,896	$ 3,332,569	$146,521,360

2014	Level 1	Level 2	Level 3	Total
Mutual funds	$ 72,527,316	$ -	$ -	$ 72,527,316
Fixed income securities	41,210,207	-	-	41,210,207
Alternative investments	17,169,380	6,332,504	-	23,501,884
Cash and money market funds	7,733,365	-	-	7,733,365
	$138,640,268	$ 6,332,504	$ -	$144,972,772

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 5 – INVESTMENTS AND FAIR VALUE DISCLOSURES *(continued)*

The Foundation holds an investment in a commodity fund classified as Level 2. The TAP CommodityBuilder Fund, L.L.C. (TAP), is stated at fair value as estimated in a privately traded market. The fair value of the Foundation's interest, or units, in TAP is determined based upon the most recent net asset value information provided by TAP. TAP invests in commodity futures contracts and United States Treasury Securities. Futures contracts are freely tradable and are listed on a national futures exchange. Fair values are determined at their last sales price as of the last business day of the year. The fair value of United States Treasury Securities is generally based on quoted prices in active markets. When quoted prices are not available, fair value is determine based on a valuation model that uses inputs that include interest rate yield curves similar to the bond in terms of issuer, maturity and seniority. While this investment may create indirect exposure to the Foundation, the Foundation’s risk is limited to its capital balance in these investments. The sale, exchange, assign, transfer, convey, pledge, grant a security interest in or otherwise dispose of any or all of the Foundation’s interest in TAP requires written consent at the sole discretion of the Member Manager.

The following table provides a roll forward of the assets listed above measured at fair value using significant observable inputs (Level 2) during the years ended December 31.

	2015	2014
Beginning balance	$ 6,332,504	$ -
Purchases	1,000,000	7,123,000
Change in fair market value	(1,844,608)	(790,496)
Ending balance	$ 5,487,896	$ 6,332,504

The Foundation holds an investment in a core real estate fund classified as Level 3. The ASB Allegiance Real Estate Fund (ASB), is stated at fair value as estimated in a privately traded market. The fair value of the Foundation's interest, or units, in ASB is determined based upon the most recent net asset value information provided by ASB. ASB is a real estate private equity investment vehicle that invests in office, multifamily, retail and industrial properties in major urban markets in the United States. ASB’s real estate investment values are estimated based on appraisals prepared externally by independent real estate appraisers, as well as income, cost, and sales comparisons. While this investment may create indirect exposure to the Foundation, the Foundation’s risk is limited to its capital balance in its investment. The sale, exchange, assign, transfer, convey, pledge, grant a security interest in or otherwise dispose of any or all of the Foundation’s interest in ASB requires written consent at the sole discretion of the Member Manager.

NOTE 5 – INVESTMENTS AND FAIR VALUE DISCLOSURES *(continued)*

The following table provides a roll forward of the assets listed above measured at fair value using significant observable inputs (Level 3) during the years ended December 31, 2015.

Beginning balance	$ -
Purchases	3,192,000
Change in fair market value	140,569
Ending balance	$ 3,332,569

Investment fees paid to investment managers were $141,659 and $103,443 for the years ended December 31, 2015 and 2014.

NOTE 6 – CHARITABLE GIFT ANNUITIES AND FAIR VALUE DISCLOSURES

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

	2015 (Level 3)	2014 (Level 3)
Charitable gift annuities	$ 255,003	$ 208,373

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.

	2015	2014
Beginning balance	$ 208,373	$ 97,687
Contribution at present value	18,967	40,582
Increase in value due to change in market values and actuarial life expectancy	27,663	70,104
Ending balance	$ 255,003	$ 208,373

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.

	2015 (Level 3)	2014 (Level 3)
Beneficial interest in remainder trusts administered by other trustees	$ 3,198,985	$ 1,136,529

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.

NOTE 7 – BENEFICIAL INTEREST IN REMAINDER TRUSTS ADMINISTERED BY OTHER TRUSTEES AND FAIR VALUE DISCLOSURES *(continued)*

	2015	2014
Beginning balance	$ 1,136,529	$ 1,354,069
Transfer from charitable remainder trust administered by the Foundation	2,802,448	-
Termination of trust	-	(637,472)
Increase (decrease) in value due to change in market values and actuarial life expectancy	(739,992)	419,932
Ending balance	$ 3,198,985	$ 1,136,529

NOTE 8 – CHARITABLE REMAINDER TRUSTS AND FAIR VALUE DISCLOSURES

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

	2015	2014
Marketable securities - equities	$ 10,417,714	$ 12,177,815
Marketable securities - debt	5,082,865	6,872,817
Money market funds and cash	381,685	794,472
Note receivable	300,000	300,000
	$ 16,182,264	$ 20,145,104

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.

2015	Level 1	Level 2	Level 3	Total
Investments held in charitable remainder trusts	$ 16,182,264	$ -	$ -	$ 16,182,264
Liabilities under charitable remainder trusts	$ -	$ -	$ (7,975,485)	$ (7,975,485)
Liabilities under split-interest agreements	$ -	$ -	$ (3,627,864)	$ (3,627,864)

2014	Level 1	Level 2	Level 3	Total
Investments held in charitable remainder trusts	$ 20,145,104	$ -	$ -	$ 20,145,104
Liabilities under charitable remainder trusts	$ -	$ -	$ (9,359,652)	$ (9,359,652)
Liabilities under split-interest agreements	$ -	$ -	$ (3,820,474)	$ (3,820,474)

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

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	**2015**	**2014**
Beginning balance	$ 9,359,652	$ 9,253,717
Contribution to trust at present value	156,777	488,698
Transfer to trust administered by other trustee	(577,285)	-
Decrease in value due to change in market value and actuarial value of assets	(963,659)	(382,763)
Ending balance	$ 7,975,485	$ 9,359,652

Liabilities under split-interest agreements	**2015**	**2014**
Beginning balance	$ 3,820,474	$ 3,723,834
Increase (decrease) in liabilities due to change in value of liabilities under charitable remainder trusts	(192,610)	96,640
Ending balance	$ 3,627,864	$ 3,820,474

NOTE 9 – GRANTS PAYABLE

Grants payable are expected to be paid as follows at December 31, 2015.

2016	$ 1,789,024
2017	34,000
2018	19,000
	$ 1,842,024

NOTE 10 – FUNDS HELD FOR OTHERS

At December 31, 2015 and 2014, the Foundation held 89 and 78 nonprofit funds held for others, respectively, with balances as follows.

	2015	2014
Stewardship funds	$ 12,277,600	$ 9,680,535
Agency designated funds	3,892,099	4,141,295
	$ 16,169,699	$ 13,821,830

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

	2015	2014
Beginning balance	$ 13,821,830	$ 13,050,514
Amounts raised in contributions or transferred in	3,322,164	969,488
Dividend and interest income	425,204	396,003
Fees	(143,847)	(135,603)
Net realized and unrealized gains (losses)	(889,048)	175,742
Grants	(366,604)	(634,314)
	$ 16,169,699	$ 13,821,830

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

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

	2015	2014
Endowment earnings	$ 11,113,837	$ 20,306,160
Investments held in charitable remainder trusts	16,182,264	20,145,104
Charitable gift annuities	255,003	208,373
Bequests receivable and future pledges	1,118,539	1,759,462
Beneficial interest in remainder trusts administered by other trustees	3,198,985	1,136,529
Contributions receivable – notes receivable	181,413	188,639
Contributions receivable – leasehold interest	21,770	29,184
Liabilities under split-interest agreements	(3,627,864)	(3,820,474)
Liabilities under charitable remainder trusts	(7,975,485)	(9,359,652)
	$ 20,468,462	$ 30,593,325

NOTE 12 – ENDOWMENT DISCLOSURES

During the years ended December 31, 2015 and 2014, endowment net asset activity was as follows.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, December 31, 2013	$ (94,966)	$ 23,318,823	$ 96,387,718	$119,611,575
Contributions	-	93,429	4,488,033	4,581,462
Investment income (dividends and interest)	-	3,526,520	-	3,526,520
Net realized and unrealized gains	-	1,601,865	-	1,601,865
Total investment return	-	5,128,385	-	5,128,385
Appropriated for spending	-	(5,750,502)	-	(5,750,502)
Administration fees	-	(2,489,386)	-	(2,489,386)
Net endowment activity	-	(3,018,074)	4,488,033	1,469,959
Transfers of income to (from) endowment, net	-	-	(1,049,874)	(1,049,874)
Reclassification of deficient endowment fund activity	(5,411)	5,411	-	-
Endowment net assets, December 31, 2014	(100,377)	20,306,160	99,825,877	120,031,660
Contributions	-	33,321	7,158,247	7,191,568
Investment income (dividends and interest)	-	3,230,294	-	3,230,294
Net realized and unrealized losses	-	(6,023,461)	-	(6,023,461)
Total investment return	-	(2,793,167)	-	(2,793,167)
Appropriated for spending	-	(5,255,709)	-	(5,255,709)
Administration fees	-	(1,190,805)	-	(1,190,805)
Net endowment activity	-	(9,206,360)	7,158,247	(2,048,113)
Transfers of income to (from) endowment, net	-	-	(804,363)	(804,363)
Reclassification of deficient endowment fund activity	(14,037)	14,037	-	-
Endowment net assets, December 31, 2015	$ (114,414)	$ 11,113,837	$106,179,761	$117,179,184

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 $40,372 and $42,264 for 2015 and 2014, 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 when hired and have a six month vesting period. Contributions by the Foundation charged to expense were $67,792 and $63,126 in 2015 and 2014, 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 as of December 31, 2013 of $50,000 was paid out in 2014. The funds were invested in the Foundation's investment pool and sold in 2014 resulting in an additional payout of the cumulative gains of approximately $115,000 which is reflected in administration expenses on the accompanying consolidated statement of activities and changes in net assets.

NOTE 15 – COMMITMENTS

The Foundation leases space in Salinas, California under a noncancelable operating lease that expires December 2016 and requires monthly payments of $3,717 which escalate annually in January. Future commitments under this lease agreement as of December 31, 2015 are as follows.

2016	$ 46,267

Rent expense amounted to $44,352 and $45,933 for the years ended December 31, 2015 and 2014, 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, 2015 are as follows.

2016	$ 101,304
2017	104,352
2018	107,484
2019	110,712
2020	114,036
Thereafter	1,385,312
	1,923,200
Amount representing interest	(517,469)
	$ 1,405,731

NOTE 17 – RELATED PARTY TRANSACTIONS

Approximately $115,000 and $56,500 in donations were received from members of the Board of Directors during the years ended December 31, 2015 and 2014, respectively.

NOTE 18 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events for potential recognition and/or disclosure through June 29, 2016, the date which the consolidated financial statements were available to be issued.