Here for Good

Community Foundation for Monterey County

Consolidated Financial Statements

With Independent Auditors' Report

December 31, 2016 and 2015

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HUTCHINSON and BLOODGOOD LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

579 Auto Center Drive
Watsonville, CA 95076
t 831.724.2441 f 831.761.2136
www.hbllp.com

INDEPENDENT AUDITORS' REPORT

To the 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 organization), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 from 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 auditor's 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The consolidated financial statements of Community Foundation for Monterey County, as of and for the year ended December 31, 2015, were audited by other auditors, whose report, dated June 29, 2016, expressed an unmodified opinion on those statements.

TBD

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	**$ 11,219,874**	$ 10,980,840
Contributions receivable, net	**1,643,353**	1,338,471
Prepaid expenses	**32,732**	34,090
Property and equipment, net	**3,273,461**	1,773,185
Investments	**164,058,841**	146,521,360
Charitable gift annuities	**390,466**	255,003
Beneficial interest in remainder trusts administered by other trustees	**2,730,408**	3,198,985
Investments held in charitable remainder trusts	**24,614,873**	16,182,264
Total assets	**$ 207,964,008**	$ 180,284,198
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	**$ 92,810**	$ 87,472
Grants payable	**1,969,780**	1,842,024
Deferred revenue	**15,055**	3,000
Liabilities under charitable gift annuities	**247,250**	166,093
Liabilities under charitable remainder trusts	**11,351,421**	7,809,392
Liabilities under split-interest agreements	**6,556,278**	3,627,864
Funds held for others	**20,603,086**	16,169,699
Total liabilities	**40,835,680**	29,705,544
COMMITMENTS (NOTE 14)		
NET ASSETS		
Unrestricted	**33,009,639**	22,370,473
Temporarily restricted	**25,997,665**	21,387,613
Permanently restricted	**108,121,024**	106,820,568
Total net assets	**167,128,328**	150,578,654
	$ 207,964,008	$ 180,284,198

The notes to financial statements are an integral part of these statements.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended December 31, 2016
With Comparative Totals For Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
SUPPORT AND REVENUE					
Support:					
Contributions	$ 18,307,057	$ 8,947,042	$ 796,495	**$ 28,050,594**	$ 19,562,781
Amounts received on behalf of others	(1,005,153)	(4,087,204)	(162,015)	**(5,254,372)**	(3,322,164)
Total support	17,301,904	4,859,838	634,480	**22,796,222**	16,240,617
Revenue:					
Management fees, net of expenses	198,135	--	--	**198,135**	184,219
Miscellaneous income	62,362	--	--	**62,362**	222,806
Interest and dividend income	475,267	3,622,708	105,422	**4,203,397**	3,981,743
Net realized and unrealized gains (losses) on investments	698,536	6,559,172	189,711	**7,447,419**	(7,575,589)
Change in value of split-interest agreements	--	422,377	--	**422,377**	(400,920)
Net investment income allocated to funds held for others	--	(1,127,863)	(295,133)	**(1,422,996)**	463,844
Net assets released from restrictions	9,060,204	(9,726,180)	665,976	**--**	--
Total revenue	10,494,504	(249,786)	665,976	**10,910,694**	(3,123,897)
Total support and revenue	27,796,408	4,610,052	1,300,456	**33,706,916**	13,116,720
EXPENSES					
Program services:					
Grants awarded	15,150,730	--	--	**15,150,730**	9,710,595
Amounts distributed on behalf of others	(1,005,153)	--	--	**(1,005,153)**	(366,604)
Net grants awarded	14,145,577	--	--	**14,145,577**	9,343,991
Special programs	501,403	--	--	**501,403**	522,073
Grant making	626,143	--	--	**626,143**	562,613
Philanthropic services	245,794	--	--	**245,794**	222,502
Support services:					
Administration	1,179,039	--	--	**1,179,039**	1,065,030
Development	375,361	--	--	**375,361**	455,198
Fund management	83,925	--	--	**83,925**	74,954
Total program and support services	17,157,242	--	--	**17,157,242**	12,246,361
Increase in net assets	10,639,166	4,610,052	1,300,456	**16,549,674**	870,359
Net Assets, beginning	22,370,473	21,387,613	106,820,568	**150,578,654**	149,708,295
Net Assets, ending	$ 33,009,639	$ 25,997,665	$ 108,121,024	**$ 167,128,328**	$ 150,578,654

The notes to financial statements are an integral part of this statement.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2016
With Comparative Totals For Year Ended December 31, 2015

	Program Services					Support Services					
	Grants Awarded	**Special Programs**	**Grant Making**	**Philanthropic Services**	**Total Program Services**	**Administration**	**Development**	**Fund Management**	**Total Support Services**	**2016 Total**	2015 Total
EXPENSES											
Grants awarded	$ 15,150,730	$ --	$ --	$ --	$ 15,150,730	$ --	$ --	$ --	$ --	**$ 15,150,730**	$ 9,710,595
Amounts distributed on behalf of others	(1,005,153)	--	--	--	(1,005,153)	--	--	--	--	**(1,005,153)**	(366,604)
Net allocations	14,145,577	--	--	--	14,145,577	--	--	--	--	**14,145,577**	9,343,991
Advertising and promotion	--	1,495	12,554	3,670	17,719	18,858	3,909	940	23,707	**41,426**	29,838
Bank charges	--	214	1,800	526	2,540	2,704	560	135	3,399	**5,939**	4,344
Depreciation	--	2,970	24,943	7,292	35,205	37,471	7,766	1,868	47,105	**82,310**	80,852
Donor development	--	73,210	34,892	10,201	118,303	52,605	15,938	2,614	71,157	**189,460**	342,181
Dues/library	--	2,177	5,214	1,524	8,915	7,834	1,623	391	9,848	**18,763**	25,049
Insurance	--	578	4,853	1,419	6,850	7,289	1,511	364	9,164	**16,014**	12,968
Office supplies	--	866	6,294	1,840	9,000	9,454	1,959	471	11,884	**20,884**	28,177
Other fund management expense	--	9,885	83,027	24,272	117,184	124,727	25,850	6,219	156,796	**273,980**	173,165
Payroll taxes and benefits	--	61,075	75,930	35,714	172,719	158,833	54,772	13,663	227,268	**399,987**	360,697
Printing and postage	--	1,286	7,676	2,244	11,206	11,531	2,390	575	14,496	**25,702**	24,198
Professional development	--	1,942	4,890	1,429	8,261	7,347	1,523	366	9,236	**17,497**	37,802
Professional fees	--	134,572	14,238	4,162	152,972	51,797	35,254	1,066	88,117	**241,089**	173,582
Property taxes	--	57	480	140	677	722	150	36	908	**1,585**	1,571
Rent	--	1,677	14,088	4,119	19,884	21,165	4,386	1,055	26,606	**46,490**	44,352
Repairs and maintenance	--	5,710	32,407	9,474	47,591	48,682	10,089	2,427	61,198	**108,789**	94,088
Salaries and wages	--	198,667	276,556	130,079	605,302	578,511	199,492	49,764	827,767	**1,433,069**	1,375,427
Staff expense	--	2,367	4,009	1,172	7,548	6,022	1,248	301	7,571	**15,119**	22,469
Telephone	--	610	5,120	1,497	7,227	7,691	1,594	384	9,669	**16,896**	16,461
Utilities	--	2,045	17,172	5,020	24,237	25,796	5,347	1,286	32,429	**56,666**	55,149
	$ 14,145,577	$ 501,403	$ 626,143	$ 245,794	$ 15,518,917	$ 1,179,039	$ 375,361	$ 83,925	$ 1,638,325	**$ 17,157,242**	$ 12,246,361

The notes to financial statements are an integral part of this statement.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016	2015
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 16,549,674	$ 870,359
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	82,310	80,852
Net realized and unrealized (gains) losses on investments	(7,564,446)	7,575,589
Contributions of stock	(7,578,270)	(1,930,183)
Contributions of property held for sale	(1,570,000)	--
Contributions restricted for endowments	(634,480)	(7,198,065)
Contributions to charitable remainder trusts	(1,918,854)	(104,976)
Contributions to charitable gift annuities	(53,844)	(18,967)
Terminations of charitable remainder trusts	847,180	--
Change in value of split interest agreements	(422,377)	400,920
(Increase) decrease in:		
Contributions receivable, net	(304,882)	655,563
Prepaid expenses	1,358	(4,525)
Increase (decrease) in:		
Accounts payable and accrued expenses	5,338	(23,931)
Grants payable	127,756	798,463
Deferred revenue	12,055	--
Funds held for others	4,433,387	2,347,869
Net cash provided by operating activities	2,011,905	3,448,968
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid to purchase property and equipment	(12,586)	(73,658)
Cash paid to purchase investments	(16,349,232)	(26,419,021)
Cash received from sale of investments	10,634,947	19,294,106
Change in balance of cash and money market funds held for long-term investment purposes	3,319,520	(69,079)
Net cash used by investing activities	(2,407,351)	(7,267,652)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	634,480	7,198,065
Net increase in cash and cash equivalents	239,034	3,379,381
Cash and Cash Equivalents, beginning	10,980,840	7,601,459
Cash and Cash Equivalents, ending	$ 11,219,874	$ 10,980,840

The notes to financial statements are an integral part of these statements.

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Community Foundation for Monterey County (the Foundation) is a California nonprofit organization that administers over 430 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.

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 1. NATURE OF OPERATIONS AND 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, 2016 and 2015, the Foundation held $3,656,263 and $3,122,649, 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: 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, 2016 and 2015, 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 has been recorded at its fair value at the contribution date based on an independent valuation. 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. Subsequent to year end, the Foundation sold the real estate and recorded a gain on sale of $269,268.

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 1. NATURE OF OPERATIONS AND 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, 2016 and 2015 were 1.8% and 2.0%, 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.

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Charitable remainder trusts (continued): 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 1.4% to 8.2% for each of the years ended December 31, 2016 and 2015, respectively. 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.

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 of its entire fund's principal at any time upon written request by the Board of Directors of the nonprofit agency and evidence of a board vote authorizing the distribution.

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

For cash and cash equivalents, contributions receivable, prepaid expenses, accounts payable and accrued expenses, grants payable, deferred revenue and funds held for others, the carrying value approximates fair value.

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued): Investments, charitable gift annuities, beneficial interest in remainder trusts administered by other trustees, investments held in charitable remainder trusts, liabilities under charitable gift annuities, 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.

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 on 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. Beneficial interest in remainder trusts administered by other trustees, liabilities under charitable gift annuities, 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.

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurements (continued): 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: As of December 31, 2016, the Foundation's endowment funds are comprised of 245 individual funds established for a variety of purposes. 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 that the Foundation must hold in perpetuity. 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 equal to or greater than the policy index. 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.

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment investment policy (continued): To satisfy its long-term 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 year ended December 31, 2016, the Foundation distributed a payout of 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% of 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% of 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% of 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.

For the year ended December 31, 2015, the Foundation distributed a payout of 4.5% 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.

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 $1,182,305 and $1,674,372 as of December 31, 2016 and 2015, respectively.

Major contributions: During 2016, two donors contributed amounts representing 30% of total 2016 contribution revenue. During 2015, two donors contributed amounts representing 41% of total 2015 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.

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation's tax years 2013 through 2016 remain open and could be subject to examination by the federal tax jurisdiction. For the state tax jurisdiction, the tax years 2012 through 2016 remain open and could be subject to examination.

Reclassifications: Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation, related to net asset classification and liabilities under charitable gift annuities.

NOTE 2. CONTRIBUTIONS RECEIVABLE, NET

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

	2016	2015
Bequests receivable	$ 264,615	$ 800,418
Contributions receivable - notes receivable	--	181,413
Contributions receivable - leasehold interest	--	21,770
Other contributions and pledges receivable	1,378,738	334,870
	$ 1,643,353	$ 1,338,471

NOTE 3. PROPERTY AND EQUIPMENT, NET

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

	2016	2015
Land	$ 461,627	$ 461,627
Building	1,083,488	1,083,488
Building and Leasehold improvements	411,210	409,760
Furniture and equipment	241,617	230,481
	2,197,942	2,185,356
Less accumulated depreciation	(494,481)	(412,171)
	1,703,461	1,773,185
Property held for sale	1,570,000	--
	$ 3,273,461	$ 1,773,185

Depreciation expense totaled $82,310 and $80,852 for the years ended December 31, 2016 and 2015, respectively.

NOTE 4. 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:

2016	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 90,106,654	$ --	$ --	$ 90,106,654
Fixed income securities	46,945,787	--	--	46,945,787
Alternative investments	5,081,611	8,443,041	8,968,135	22,492,787
Cash and money market funds	4,513,613	--	--	4,513,613
	$ 146,647,665	$ 8,443,041	$ 8,968,135	$ 164,058,841

NOTE 4. INVESTMENTS AND FAIR VALUE DISCLOSURES (Continued)

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

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

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:

	2016	2015
Beginning balance	$ 5,487,896	$ 6,332,504
Purchases	2,400,000	1,000,000
Change in fair market value	555,145	(1,844,608)
Ending balance	$ 8,443,041	$ 5,487,896

NOTE 4. INVESTMENTS AND FAIR VALUE DISCLOSURES (Continued)

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.

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:

	2016	2015
Beginning balance	$ 3,332,569	$ --
Purchases	5,408,000	3,192,000
Change in fair market value	227,566	140,569
Ending balance	$ 8,968,135	$ 3,332,569

Investment fees paid to investment managers were $144,384 and $141,659 for the years ended December 31, 2016 and 2015.

NOTE 5. 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:

2016	Level 1	Level 2	Level 3	Total
Investments held in charitable gift annuities	$ 390,466	$ --	$ --	$ 390,466
Liabilities under charitable gift annuities	$ --	$ --	$ 247,250	$ 247,250

NOTE 5. CHARITABLE GIFT ANNUITIES AND FAIR VALUE DISCLOSURES (Continued)

2015	Level 1	Level 2	Level 3	Total
Investments held in charitable gift annuities	$ 255,003	$ --	$ --	$ 255,003
Liabilities under charitable gift annuities	$ --	$ --	$ 166,093	$ 166,093

The following table provides 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 gift annuities	2016	2015
Beginning balance	$ 166,093	$ 130,060
Additions	81,157	36,033
Payments to income beneficiaries	(17,679)	(6,988)
Increase in value of liabilities under charitable gift annuities	17,679	6,988
Ending balance	$ 247,250	$ 166,093

NOTE 6. 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:

	2016 (Level 3)	2015 (Level 3)
Beneficial interest in remainder trusts administered by other trustees	$ 2,730,408	$ 3,198,985

NOTE 6. BENEFICIAL INTEREST IN REMAINDER TRUSTS ADMINISTERED BY OTHER TRUSTEES AND FAIR VALUE DISCLOSURES (Continued)

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

	2016	2015
Beginning balance	$ 3,198,985	$ 1,136,529
Transfer from charitable remainder trust administered by the Foundation	--	2,802,448
Termination of trust	(406,995)	--
Decrease in value due to change in market values and actuarial life expectancy	(61,582)	(739,992)
Ending balance	$ 2,730,408	$ 3,198,985

NOTE 7. CHARITABLE REMAINDER TRUSTS AND FAIR VALUE DISCLOSURES

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

	2016	2015
Marketable securities - equities	$ 11,980,002	$ 10,417,714
Marketable securities - debt	7,033,336	5,082,865
Money market funds and cash	531,346	381,685
Note receivable	5,070,189	300,000
	$ 24,614,873	$ 16,182,264

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.

2016	Level 1	Level 2	Level 3	Total
Investments held in charitable remainder trusts	$ 24,614,873	$ --	$ --	$ 24,614,873
Liabilities under charitable remainder trusts	$ --	$ --	$ 11,351,421	$ 11,351,421
Liabilities under split-interest agreements	$ --	$ --	$ 6,556,278	$ 6,556,278

NOTE 7. CHARITABLE REMAINDER TRUSTS AND FAIR VALUE DISCLOSURES (Continued)

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	$ --	$ --	$ 7,809,392	$ 7,809,392
Liabilities under split-interest agreements	$ --	$ --	$ 3,627,864	$ 3,627,864

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	2016	2015
Beginning balance	$ 7,809,392	$ 9,229,592
Contribution to trust at present value	4,800,823	120,744
Transfer to trust administered by other trustee	--	(570,297)
Termination of trust	(236,404)	--
Decrease in value due to change in market value and actuarial value of assets	(1,022,390)	(970,647)
Ending balance	$ 11,351,421	$ 7,809,392

Liabilities under split-interest agreements	2016	2015
Beginning balance	$ 3,627,864	$ 3,820,474
Additions	3,005,255	--
Termination of trust	(462,762)	--
Increase (decrease) in liabilities due to change in value of liabilities under charitable remainder trusts	385,921	(192,610)
Ending balance	$ 6,556,278	$ 3,627,864

NOTE 8. GRANTS PAYABLE

Grants payable are expected to be paid as follows at December 31, 2016:

2017	$ 1,618,780
2018	329,000
2019	22,000
	$ 1,969,780

NOTE 9. FUNDS HELD FOR OTHERS

At December 31, 2016 and 2015, the Foundation held 97 and 89 nonprofit funds held for others, respectively, with balances as follows:

	2016	2015
Stewardship funds	$ 16,483,330	$ 12,277,600
Agency designated funds	4,119,756	3,892,099
	$ 20,603,086	$ 16,169,699

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

	2016	2015
Beginning balance	$ 16,169,699	$ 13,821,830
Amounts raised in contributions or transferred in	4,249,219	3,338,834
Dividend and interest income	495,204	425,204
Net realized and unrealized gains (losses)	927,792	(889,048)
Fees	(187,798)	(160,517)
Grants	(1,051,030)	(366,604)
Ending balance	$ 20,603,086	$ 16,169,699

NOTE 10. TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Endowment earnings	$ 13,504,727	$ 12,032,988
Investments held in charitable remainder trusts	24,614,873	16,182,264
Charitable gift annuities	390,466	255,003
Bequests receivable and future pledges	1,342,140	1,118,539
Beneficial interest in remainder trusts administered by other trustees	2,730,408	3,198,985
Contributions receivable - notes receivable	--	181,413
Contributions receivable - leasehold interest	--	21,770
Property held for sale	1,570,000	--
Liabilities under charitable gift annuities	(247,250)	(166,093)
Liabilities under charitable remainder trusts	(11,351,421)	(7,809,392)
Liabilities under split-interest agreements	(6,556,278)	(3,627,864)
Ending balance	$ 25,997,665	$ 21,387,613

NOTE 11. ENDOWMENT DISCLOSURES

During the years ended December 31, 2016 and 2015, endowment net asset activity was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, December 31, 2014	$ (318,303)	$ 20,173,199	$ 100,176,764	**$ 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 gains	--	(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	--	(1,480,725)		(1,480,725)
Net endowment activity	--	(9,496,280)	7,158,247	(2,338,033)
Transfers of income to (from) endowment, net	--	--	(514,443)	(514,443)
Reclassification of deficient endowment fund activity	(1,356,069)	1,356,069	--	--
Endowment net assets, December 31, 2015	(1,674,372)	12,032,988	106,820,568	**117,179,184**
Contributions	--	33,031	634,480	667,511
Investment income (dividends and interest)	--	3,232,926	--	3,232,926
Net realized and unrealized gains	--	5,821,091	--	5,821,091
Total investment return	--	9,054,017	--	9,054,017
Appropriated for spending	--	(4,845,820)	--	(4,845,820)
Administration fees	--	(1,861,393)	--	(1,861,393)
Net endowment activity	--	2,379,835	634,480	3,014,315
Transfers of income to (from) endowment, net	--	(416,029)	665,976	249,947
Reclassification of deficient endowment fund activity	492,067	(492,067)	--	--
Endowment net assets, December 31, 2016	$ (1,182,305)	$ 13,504,727	$ 108,121,024	**$ 120,443,446**

NOTE 12. MANAGEMENT FEES

The Foundation assesses a 0.5% to 2.00% 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 $34,549 and $40,372 for 2016 and 2015, respectively.

NOTE 13. 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 $70,707 and $67,792 in 2016 and 2015, respectively.

NOTE 14. COMMITMENTS

Equipment Lease Commitments: The Foundation leases two copiers/printers through one vendor. The leases total $785 per month, plus taxes and applicable usage fees. The lease term expires in January 2020. At the end of the terms the Foundation may purchase the equipment for fair market value. Rental expenses, included with repairs and maintenance on the consolidated statement of functional expenses, for those leases were $15,059 and $15,163 for the years ended December 31, 2016 and 2015, respectively.

Office Lease Commitments: The Foundation leases space in Salinas, California under a non-cancelable operating lease that expired December 2016 and required monthly payments of $3,717, which escalated annually in January. Subsequent to year end the lease was extended for one year, with the option of a three year renewal thereafter. Monthly payments beginning January 2017 are $3,856 and increase 3% annually. Rent expense amounted to $46,490 and $44,352 for the years ended December 31, 2016 and 2015, respectively.

Information Technology Services Commitments: The Foundation is in contract with one vendor for information technology system support. The monthly service fee is $2,889. The service contract ends in September 2018, with an automatic one year renewal thereafter. Fees paid, included with repairs and maintenance on the consolidated statement of functional expenses, were $34,574 and $34,538 for the years ended December 31, 2016 and 2015, respectively.

NOTE 14. COMMITMENTS (Continued)

The aggregate future commitments under these lease agreements as of December 31, 2016 are as follows.

2017	$ 90,353
2018	83,074
2019	58,503
2020	50,557
	$ 282,488

NOTE 15. 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 on a monthly basis over 231 months, at an interest rate equal to 4% per annum. Monthly payments are $7,500 and increase by 3% annually each January. Future commitments for the operating fund repaying the general endowment as of December 31, 2016 are as follows:

2017	$ 104,352
2018	107,484
2019	110,712
2020	114,036
2021	117,456
Thereafter	1,267,858
	1,821,898
Amount representing interest	(562,077)
	$ 1,259,821

NOTE 16. RELATED PARTY TRANSACTIONS

Approximately $81,476 and $115,000 in donations were received from members of the Board of Directors during the years ended December 31, 2016 and 2015, respectively.

NOTE 17. KING FOUNDATION

In 2011, the Foundation (CFMC) was named successor owner of assets held by the Dan and Lillian King Foundation, which was created through Mrs. King's estate. Mrs. King's written intent was to have the King Foundation's assets transfer to CFMC once the initially named chair was no longer serving. In 2013, the King Foundation's Board disputed this interpretation, and hired counsel to defend their position. On September 14, 2016, a judge ruled in favor of CFMC, which the King Foundation has since appealed. The matter is ongoing.

NOTE 18. SUBSEQUENT EVENTS

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