Here for Good
Community Foundation
for Monterey County

Consolidated Financial Statements
With Independent Auditors' Report

December 31, 2017 and 2016

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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, 2017, 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 (collectively, the 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 financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation for Monterey County as of December 31, 2017, 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

We have previously audited Community Foundation for Monterey County's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

TBD

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	**$ 10,944,308**	$ 11,219,874
Contributions receivable	**22,043,668**	1,643,353
Prepaid expenses	**31,016**	32,732
Property and equipment, net	**1,721,524**	3,273,461
Investments	**195,888,081**	164,058,841
Charitable gift annuities	**3,716,462**	390,466
Beneficial interest in remainder trusts administered by other trustees	**3,067,916**	2,730,408
Investments held in charitable remainder trusts	**28,713,398**	24,614,873
Total assets	**$ 266,126,373**	$ 207,964,008
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	**$ 114,551**	$ 92,810
Grants payable	**1,595,429**	1,969,780
Deferred revenue	**--**	15,055
Liabilities under charitable gift annuities	**2,239,453**	247,250
Liabilities under charitable remainder trusts	**12,257,126**	11,351,421
Liabilities under split-interest agreements	**7,777,824**	6,556,278
Funds held for others	**28,321,743**	20,603,086
Total liabilities	**52,306,126**	40,835,680
COMMITMENTS (NOTE 15)		
NET ASSETS		
Unrestricted	**43,164,783**	33,009,639
Temporarily restricted	**58,605,031**	25,997,665
Permanently restricted	**112,050,433**	108,121,024
Total net assets	**213,820,247**	167,128,328
	$ 266,126,373	$ 207,964,008

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended December 31, 2017
With Comparative Totals For Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
SUPPORT AND REVENUE					
Support:					
Contributions	$ 15,053,502	$ 27,945,238	$ 5,156,390	**$ 48,155,130**	$ 28,050,594
Amounts received on behalf of others	(1,366,592)	(4,582,612)	(1,320,953)	**(7,270,157)**	(5,254,372)
Total support	13,686,910	23,362,626	3,835,437	**40,884,973**	22,796,222
Revenue:					
Management fees, net of expenses	275,773	--	--	**275,773**	198,135
Miscellaneous income	90,230	--	--	**90,230**	62,362
Rental income	--	11,100	--	**11,100**	--
Interest and dividend income	891,827	4,833,474	163,200	**5,888,501**	4,203,397
Net realized and unrealized gains on investments	2,920,638	16,215,053	505,660	**19,641,351**	7,447,419
Gain from sale of property	233	269,268	--	**269,501**	--
Change in value of split-interest agreements	--	1,590,298	--	**1,590,298**	422,377
Net investment income allocated to funds held for others	--	(2,774,435)	(668,860)	**(3,443,295)**	(1,422,996)
Net assets released from restrictions	10,806,046	(10,900,018)	93,972	**--**	--
Total revenue	14,984,747	9,244,740	93,972	**24,323,459**	10,910,694
Total support and revenue	28,671,657	32,607,366	3,929,409	**65,208,432**	33,706,916
EXPENSES					
Program services:					
Grants awarded	16,712,903	--	--	**16,712,903**	15,150,730
Amounts distributed on behalf of others	(1,366,592)	--	--	**(1,366,592)**	(1,005,153)
Net grants awarded	15,346,311	--	--	**15,346,311**	14,145,577
Special programs	479,935	--	--	**479,935**	501,403
Grant making	907,554	--	--	**907,554**	626,143
Philanthropic services	428,590	--	--	**428,590**	245,794
Support services:					
Administration	965,147	--	--	**965,147**	1,179,039
Development	349,054	--	--	**349,054**	375,361
Fund management	39,922	--	--	**39,922**	83,925
Total program and support services	18,516,513	--	--	**18,516,513**	17,157,242
Increase in net assets	10,155,144	32,607,366	3,929,409	**46,691,919**	16,549,674
Net Assets, beginning	33,009,639	25,997,665	108,121,024	**167,128,328**	150,578,654
Net Assets, ending	$ 43,164,783	$ 58,605,031	$ 112,050,433	**$ 213,820,247**	$ 167,128,328

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017
With Comparative Totals For Year Ended December 31, 2016

	Program Services					Support Services					
	Grants Awarded	**Special Programs**	**Grant Making**	**Philanthropic Services**	**Total Program Services**	**Administration**	**Development**	**Fund Management**	**Total Support Services**	**2017 Total**	2016 Total
EXPENSES											
Grants awarded	$ 16,712,903	$ --	$ --	$ --	$ 16,712,903	$ --	$ --	$ --	$ --	**$ 16,712,903**	$ 15,150,730
Amounts distributed on behalf of others	(1,366,592)	--	--	--	(1,366,592)	--	--	--	--	**(1,366,592)**	(1,005,153)
Net allocations	15,346,311	--	--	--	15,346,311	--	--	--	--	**15,346,311**	14,145,577
Advertising and promotion	--	3,073	12,013	5,140	20,226	10,812	3,236	452	14,500	**34,726**	41,426
Bank charges	--	585	12,982	5,554	19,121	11,683	3,497	489	15,669	**34,790**	5,939
Depreciation	--	1,224	27,167	11,623	40,014	24,449	7,318	1,022	32,789	**72,803**	82,310
Donor development	--	64,753	42,821	18,320	125,894	39,404	23,329	1,612	64,345	**190,239**	189,460
Dues/library	--	2,075	7,276	3,113	12,464	6,547	1,960	274	8,781	**21,245**	18,763
Insurance	--	275	6,099	2,610	8,984	5,489	1,643	229	7,361	**16,345**	16,014
Office supplies	--	356	7,897	3,379	11,632	7,108	2,127	297	9,532	**21,164**	20,884
Other fund management expense	--	105,835	110,835	47,418	264,088	99,748	29,856	4,171	133,775	**397,863**	273,980
Payroll taxes and benefits	--	57,694	119,032	50,173	226,899	134,312	50,838	5,699	190,849	**417,748**	399,987
Printing and postage	--	8,664	12,519	5,357	26,540	11,268	3,372	471	15,111	**41,651**	25,702
Professional development	--	417	7,648	3,271	11,336	6,882	2,060	288	9,230	**20,566**	17,497
Professional fees	--	47,370	15,537	50,515	113,422	32,846	8,135	582	41,563	**154,985**	241,089
Property taxes	--	27	597	256	880	538	161	22	721	**1,601**	1,585
Rent	--	778	17,265	7,386	25,429	15,537	4,651	650	20,838	**46,267**	46,490
Repairs and maintenance	--	1,504	33,382	14,282	49,168	30,043	8,993	1,256	40,292	**89,460**	108,789
Salaries and wages	--	182,249	444,225	187,247	813,721	501,250	189,727	21,270	712,247	**1,525,968**	1,433,069
Staff expense	--	1,910	4,845	2,073	8,828	4,360	1,305	182	5,847	**14,675**	15,119
Telephone	--	283	6,273	2,684	9,240	5,646	1,690	236	7,572	**16,812**	16,896
Utilities	--	863	19,141	8,189	28,193	17,225	5,156	720	23,101	**51,294**	56,666
	$ 15,346,311	$ 479,935	$ 907,554	$ 428,590	$ 17,162,390	$ 965,147	$ 349,054	$ 39,922	$ 1,354,123	**$ 18,516,513**	$ 17,157,242

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, 2017 and 2016

	2017	2016
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 46,691,919	$ 16,549,674
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	72,803	82,310
Net realized and unrealized gains on investments	(19,641,351)	(7,564,446)
Gain from sale of property	(269,501)	--
Contributions of stock	(4,473,765)	(7,578,270)
Contributions of property held for sale	--	(1,570,000)
Contributions restricted for endowments	(3,835,437)	(634,480)
Contributions to charitable remainder trusts	(910,583)	(1,918,854)
Contributions to charitable gift annuities	(1,184,331)	(53,844)
Terminations of charitable remainder trusts	--	847,180
Terminations of charitable gift annuities	42,637	--
Change in value of split interest agreements	(1,590,298)	(422,377)
(Increase) decrease in:		
Contributions receivable, net	(20,400,315)	(304,882)
Prepaid expenses	1,716	1,358
Increase (decrease) in:		
Accounts payable and accrued expenses	21,741	5,338
Grants payable	(374,351)	127,756
Deferred revenue	(15,055)	12,055
Funds held for others	7,718,657	4,433,387
Net cash provided by operating activities	1,854,486	2,011,905
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid to purchase property and equipment	(90,866)	(12,586)
Cash paid to purchase investments	(1,022,166)	(23,906,241)
Cash received from sale of property	1,839,501	--
Cash received from sale of investments	112,809	10,634,947
Change in balance of cash and money market funds held for long-term investment purposes	(6,804,767)	10,876,529
Net cash used by investing activities	(5,965,489)	(2,407,351)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	3,835,437	634,480
Net increase (decrease) in cash and cash equivalents	(275,566)	239,034
Cash and Cash Equivalents, beginning	11,219,874	10,980,840
Cash and Cash Equivalents, ending	$ 10,944,308	$ 11,219,874

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 497 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, 2017 and 2016, the Foundation held $4,805,568 and $3,656,263, 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, 2017 and 2016, 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. During the year ended December 31, 2017, 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: Alternative investments are carried at fair value based on net asset value per share as a practical expedient. All fixed income 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, 2017 and 2016 were 2.6% and 1.8%, 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, 2017 and 2016. 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 statement 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 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, other 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, other 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. 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.

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

NOTE 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, 2017 and 2016, the Foundation's endowment funds are comprised of 245 and 257 individual funds, respectively, 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.

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.

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

Endowment spending policy: For the year ended December 31, 2017, 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.

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.

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 $104,178 and $1,182,305 as of December 31, 2017 and 2016, respectively.

Major contributions: During 2017, one donor contributed an amount representing 51% of total 2017 contribution revenue. During 2016, two donors contributed amounts representing 30% of total 2016 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.

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

Income tax status (continued): 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.

Reclassifications: Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation, related to the consolidated statement of cash flows.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS AND CHANGE IN ACCOUNTING POLICY

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This ASU improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Association is assessing the impact this ASU will have on its financial statements.

ASU 2015-07: In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the statement of financial position. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2015. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016. Upon adoption, the amendments shall be applied retrospectively to all periods presented. The Foundation adopted this Update for the year ended December 31, 2017, and it was retrospectively applied to December 31, 2016. Prior year disclosures have been revised to reflect the retrospective application of this Update. The impact of adopting this Update is reflected in Note 5.

NOTE 3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consists of the following at December 31:

	2017	2016
Bequests receivable	$ 21,264,615	$ 264,615
Other contributions and pledges receivable	779,053	1,378,738
	$ 22,043,668	$ 1,643,353

NOTE 4. PROPERTY AND EQUIPMENT, NET

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

	2017	2016
Land	$ 461,627	$ 461,627
Building	1,083,488	1,083,488
Building and Leasehold improvements	481,395	411,210
Furniture and equipment	228,057	241,617
	2,254,567	2,197,942
Less accumulated depreciation	(533,043)	(494,481)
	1,721,524	1,703,461
Property held for sale	--	1,570,000
	$ 1,721,524	$ 3,273,461

Depreciation expense totaled $72,803 and $82,310 for the years ended December 31, 2017 and 2016, 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:

2017	Total	Level 1	Level 2	Level 3
Mutual Funds	$ 109,892,922	$ 109,892,922	$ --	$ --
Fixed income securities	49,081,628	49,081,628	--	--
Alternative investments	5,154,599	5,154,599	--	--
Cash and money market funds	13,982,668	13,982,668	--	--
Total reoccuring fair value measurements	178,111,817	$ 178,111,817	$ --	$ --
Alternative investments measured at net asset value	17,776,264			
Total investments	$ 195,888,081			

2016	Total	Level 1	Level 2	Level 3
Mutual Funds	$ 90,106,654	$ 90,106,654	$ --	$ --
Fixed income securities	46,945,787	46,945,787	--	--
Alternative investments	5,081,611	5,081,611	--	--
Cash and money market funds	4,513,613	4,513,613	--	--
Total reoccuring fair value measurements	146,647,665	$ 146,647,665	$ --	$ --
Alternative investments measured at net asset value	17,411,176			
Total investments	$ 164,058,841			

Investments include certain reserved balances required to be kept in separate investment accounts or to be used for specific purposes as designated by donors. Investment fees paid to investment managers were $256,706 and $144,384 for the years ended December 31, 2017 and 2016, respectively.

NOTE 5. INVESTMENTS AND FAIR VALUE DISCLOSURES (Continued)

Alternative investments measured at net asset value: The Foundation holds an investment in a commodity fund. 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 Foundation holds an investment in a core real estate fund. 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 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:

2017	Level 1	Level 2	Level 3	Total
Investments held in charitable gift annuities	$ 3,716,462	$ --	$ --	$ 3,716,462
Liabilities under charitable gift annuities	$ --	$ --	$ 2,239,453	$ 2,239,453

NOTE 6. CHARITABLE GIFT ANNUITIES AND FAIR VALUE DISCLOSURES (Continued)

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

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	2017	2016
Beginning balance	$ 247,250	$ 166,093
Additions	2,095,669	81,157
Terminations	(28,276)	--
Payments to income beneficiaries	(111,854)	(17,679)
Increase in value of liabilities under charitable gift annuities	36,664	17,679
Ending balance	$ 2,239,453	$ 247,250

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:

	2017 (Level 3)	2016 (Level 3)
Beneficial interest in remainder trusts administered by other trustees	$ 3,067,916	$ 2,730,408

NOTE 7. 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:

	2017	2016
Beginning balance	$ 2,730,408	$ 3,198,985
Termination of trust	--	(406,995)
Increase (decrease) due to change in market values and actuarial life expectancy	337,508	(61,582)
Ending balance	$ 3,067,916	$ 2,730,408

NOTE 8. CHARITABLE REMAINDER TRUSTS AND FAIR VALUE DISCLOSURES

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

	2017	2016
Marketable securities - equities	$ 18,558,135	$ 11,980,002
Marketable securities - debt	8,524,319	7,033,336
Money market funds and cash	751,232	531,346
Note receivable	879,712	5,070,189
	$ 28,713,398	$ 24,614,873

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

2017	Level 1	Level 2	Level 3	Total
Investments held in charitable remainder trusts	$ 28,713,398	$ --	$ --	$ 28,713,398
Liabilities under charitable remainder trusts	$ --	$ --	$ 12,257,126	$ 12,257,126
Liabilities under split-interest agreements	$ --	$ --	$ 7,777,824	$ 7,777,824

NOTE 8. CHARITABLE REMAINDER TRUSTS AND FAIR VALUE DISCLOSURES (Continued)

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

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	2017	2016
Beginning balance	$ 11,351,421	$ 7,809,392
Contribution to trust at present value	1,102,326	4,800,823
Termination of trust	--	(236,404)
Decrease in value due to change in market value and actuarial value of assets	(196,621)	(1,022,390)
Ending balance	$ 12,257,126	$ 11,351,421

Liabilities under split-interest agreements	2017	2016
Beginning balance	$ 6,556,278	$ 3,627,864
Additions	430,563	3,005,255
Termination of trust	--	(462,762)
Increase due to change in value of liabilities under charitable remainder trusts	790,983	385,921
Ending balance	$ 7,777,824	$ 6,556,278

NOTE 9. GRANTS PAYABLE

Grants payable are expected to be paid as follows at December 31, 2017:

2018	$ 1,479,429
2019	69,000
2020	47,000
	$ 1,595,429

NOTE 10. FUNDS HELD FOR OTHERS

At December 31, 2017 and 2016, the Foundation held 108 and 97 nonprofit funds for others, respectively, with balances as follows:

	2017	2016
Stewardship funds	$ 22,394,260	$ 16,483,330
Agency designated funds	5,927,483	4,119,756
	$ 28,321,743	$ 20,603,086

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

	2017	2016
Beginning balance	$ 20,603,086	$ 16,169,699
Amounts raised in contributions or transferred in	5,903,565	4,249,219
Dividend and interest income	816,749	495,204
Net realized and unrealized gains	2,626,546	927,792
Fees	(261,611)	(187,798)
Grants	(1,366,592)	(1,051,030)
Ending balance	$ 28,321,743	$ 20,603,086

NOTE 11. TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Endowment earnings	$ 23,837,658	$ 13,504,727
Investments held in charitable remainder trusts	28,713,398	24,614,873
Charitable gift annuities	3,716,462	390,466
Bequests receivable and future pledges	21,544,000	1,342,140
Beneficial interest in remainder trusts administered by other trustees	3,067,916	2,730,408
Property held for sale	--	1,570,000
Liabilities under charitable gift annuities	(2,239,453)	(247,250)
Liabilities under charitable remainder trusts	(12,257,126)	(11,351,421)
Liabilities under split-interest agreements	(7,777,824)	(6,556,278)
Ending balance	$ 58,605,031	$ 25,997,665

NOTE 12. ENDOWMENT DISCLOSURES

During the years ended December 31, 2017 and 2016, endowment net asset activity was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
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**
Contributions	--	50,641	3,835,437	3,886,078
Investment income (dividends and interest)	--	4,179,925	--	4,179,925
Net realized and unrealized gains	--	14,094,400	--	14,094,400
Total investment return	--	18,274,325	--	18,274,325
Appropriated for spending	--	(4,429,585)	--	(4,429,585)
Administration fees	--	(2,059,066)	--	(2,059,066)
Net endowment activity	--	11,836,315	3,835,437	15,671,752
Transfers of income to (from) endowment, net	--	(425,257)	93,972	(331,285)
Reclassification of deficient endowment fund activity	1,078,127	(1,078,127)	--	--
Endowment net assets, December 31, 2017	$ (104,178)	$ 23,837,658	$ 112,050,433	**$ 135,783,913**

NOTE 13. MANAGEMENT FEES

The Foundation assesses a 0.35% 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 $51,720 and $34,549 for 2017 and 2016, respectively.

NOTE 14. RETIREMENT PLAN

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 $73,198 and $70,707 in 2017 and 2016, respectively.

NOTE 15. 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 $9,600 and $15,059 for the years ended December 31, 2017 and 2016, respectively.

Office Lease Commitments: The Foundation leases space in Salinas, California under a non-cancelable operating lease that expires December 2020 and requires monthly payments of $3,856, which escalate 3% annually in January. Rent expense amounted to $46,267 and $46,490 for the years ended December 31, 2017 and 2016, 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 $34,668 and $34,574 for the years ended December 31, 2017 and 2016, respectively.

NOTE 15. COMMITMENTS (Continued)

The aggregate future commitments under these lease agreements as of December 31, 2017 are as follows.

2018	$ 83,074
2019	58,503
2020	50,557
	$ 192,134

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 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, 2017 are as follows:

2018	$ 107,484
2019	110,712
2020	114,036
2021	117,456
2022	120,984
Thereafter	1,146,874
	1,717,546
Amount representing interest	(408,610)
	$ 1,308,936

NOTE 17. RELATED PARTY TRANSACTIONS

Approximately $89,122 and $81,476 in donations were received from members of the Board of Directors during the years ended December 31, 2017 and 2016, respectively.

NOTE 18. 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 appealed. On November 8, 2017, CFMC and the Dan and Lillian King Foundation entered into a settlement agreement. Through the settlement agreement, the King Foundation dropped its appeal, and agreed that CFMC is the successor owner of the assets once the founding chair of the board of the King Foundation ceases to serve in this position.

NOTE 19. SUBSEQUENT EVENTS

Management has evaluated its December 31, 2017 and 2016 financial statements for subsequent events through TBD, the date of issuance of the financial statements. The Foundation is not aware of any subsequent events that would require recognition or disclosure in the financial statements.