



Consolidated Financial Statements
With Independent Auditors' Report

December 31, 2018 and 2017

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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 statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hutchinson and Bloodgood LLP

April 23, 2019

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 13,311,928	\$ 10,944,308
Contributions receivable	2,356,063	22,043,668
Prepaid expenses	29,040	31,016
Property and equipment, net	23,144,247	1,721,524
Investments	176,734,074	195,888,081
Charitable gift annuities	3,449,120	3,716,462
Beneficial interest in remainder trusts administered by other trustees	2,770,159	3,067,916
Investments held in charitable remainder trusts	25,907,734	28,713,398
Total assets	<u>\$ 247,702,365</u>	<u>\$ 266,126,373</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 122,078	\$ 114,551
Grants payable	1,608,322	1,595,429
Deferred revenue	14,690	--
Liabilities under charitable gift annuities	2,190,393	2,239,453
Liabilities under charitable remainder trusts	10,971,695	12,257,126
Liabilities under split-interest agreements	6,955,452	7,777,824
Funds held for others	27,468,477	28,321,743
Total liabilities	<u>49,331,107</u>	<u>52,306,126</u>
COMMITMENTS (NOTE 15)		
NET ASSETS		
Without donor restrictions	44,106,196	43,004,346
With donor restrictions	154,265,062	170,815,901
Total net assets	<u>198,371,258</u>	<u>213,820,247</u>
	<u>\$ 247,702,365</u>	<u>\$ 266,126,373</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support:			
Contributions	\$ 14,841,748	\$ 5,743,423	\$ 20,585,171
Amounts received on behalf of others	(1,177,127)	(2,117,136)	(3,294,263)
Total support	<u>13,664,621</u>	<u>3,626,287</u>	<u>17,290,908</u>
Revenue:			
Management fees, net of expenses	320,925	--	320,925
Miscellaneous income	165,143	--	165,143
Net investment loss	(2,071,393)	(9,802,736)	(11,874,129)
Net investment loss allocated to funds held for others	--	1,491,192	1,491,192
Loss on contribution	--	(1,722,391)	(1,722,391)
Net assets released from restrictions	<u>10,143,191</u>	<u>(10,143,191)</u>	<u>--</u>
Total revenue	<u>8,557,866</u>	<u>(20,177,126)</u>	<u>(11,619,260)</u>
Total support and revenue	<u>22,222,487</u>	<u>(16,550,839)</u>	<u>5,671,648</u>
EXPENSES			
Program services:			
Grants awarded	18,634,172	--	18,634,172
Amounts distributed on behalf of others	(1,177,127)	--	(1,177,127)
Net grants awarded	17,457,045	--	17,457,045
Special programs	473,749	--	473,749
Grant making	1,104,633	--	1,104,633
Philanthropic services	459,522	--	459,522
Support services:			
Administration	1,146,759	--	1,146,759
Development	326,063	--	326,063
Fund management	<u>152,866</u>	<u>--</u>	<u>152,866</u>
Total program and support services	<u>21,120,637</u>	<u>--</u>	<u>21,120,637</u>
Increase (decrease) in net assets	1,101,850	(16,550,839)	(15,448,989)
Net Assets, beginning	<u>43,004,346</u>	<u>170,815,901</u>	<u>213,820,247</u>
Net Assets, ending	<u>\$ 44,106,196</u>	<u>\$ 154,265,062</u>	<u>\$ 198,371,258</u>

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

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support:			
Contributions	\$ 15,053,502	\$ 33,101,628	\$ 48,155,130
Amounts received on behalf of others	(1,366,592)	(5,903,565)	(7,270,157)
Total support	<u>13,686,910</u>	<u>27,198,063</u>	<u>40,884,973</u>
Revenue:			
Management fees, net of expenses	275,773	--	275,773
Miscellaneous income	90,230	--	90,230
Rental income	--	11,100	11,100
Gain from sale of property	233	269,268	269,501
Net investment income	3,555,759	23,307,685	26,863,444
Net investment income allocated to funds held for others	--	(3,443,295)	(3,443,295)
Net assets released from restrictions	<u>10,910,224</u>	<u>(10,910,224)</u>	<u>--</u>
Total revenue	<u>14,832,219</u>	<u>9,234,534</u>	<u>24,066,753</u>
Total support and revenue	<u>28,519,129</u>	<u>36,432,597</u>	<u>64,951,726</u>
EXPENSES			
Program services:			
Grants awarded	16,712,903	--	16,712,903
Amounts distributed on behalf of others	(1,366,592)	--	(1,366,592)
Net grants awarded	15,346,311	--	15,346,311
Special programs	474,801	--	474,801
Grant making	812,573	--	812,573
Philanthropic services	387,517	--	387,517
Support services:			
Administration	877,867	--	877,867
Development	323,383	--	323,383
Fund management	<u>37,355</u>	<u>--</u>	<u>37,355</u>
Total program and support services	<u>18,259,807</u>	<u>--</u>	<u>18,259,807</u>
Increase in net assets	10,259,322	36,432,597	46,691,919
Net Assets, beginning	<u>32,745,024</u>	<u>134,383,304</u>	<u>167,128,328</u>
Net Assets, ending	<u>\$ 43,004,346</u>	<u>\$ 170,815,901</u>	<u>\$ 213,820,247</u>

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, 2018

	Program Services					Support Services				Total
	Grants Awarded	Special Programs	Grant Making	Philanthropic Services	Total Program Services	Administration	Development	Fund Management	Total Support Services	
EXPENSES										
Grants awarded	\$ 18,634,172	\$ --	\$ --	\$ --	\$ 18,634,172	\$ --	\$ --	\$ --	\$ --	\$ 18,634,172
Amounts distributed on behalf of others	(1,177,127)	--	--	--	(1,177,127)	--	--	--	--	(1,177,127)
Net allocations	17,457,045	--	--	--	17,457,045	--	--	--	--	17,457,045
Advertising and promotion	--	2,092	15,414	6,594	24,100	13,872	4,152	580	18,604	42,704
Bank charges	--	13,720	13,694	5,859	33,273	12,325	3,689	515	16,529	49,802
Depreciation	--	1,180	26,185	11,203	38,568	23,566	7,054	985	31,605	70,173
Donor development	--	68,804	52,583	21,743	143,130	46,002	18,423	1,913	66,338	209,468
Dues/library	--	1,689	7,519	3,217	12,425	6,766	2,025	283	9,074	21,499
Insurance	--	249	5,546	2,373	8,168	4,993	1,493	208	6,694	14,862
Office supplies	--	398	8,839	3,782	13,019	7,956	2,381	333	10,670	23,689
Other fund management expense	--	636	271,002	63,126	334,764	155,420	3,804	114,701	273,925	608,689
Payroll taxes and benefits	--	59,317	122,328	53,059	234,704	150,236	52,415	6,076	208,727	443,431
Printing and postage	--	7,218	11,993	5,131	24,342	10,794	3,231	451	14,476	38,818
Professional development	--	3,644	8,915	3,814	16,373	8,025	2,402	335	10,762	27,135
Professional fees	--	124,843	14,265	43,223	182,331	67,998	6,500	528	75,026	257,357
Property taxes	--	28	622	266	916	561	168	23	752	1,668
Rent	--	799	17,730	7,585	26,114	15,958	4,776	667	21,401	47,515
Repairs and maintenance	--	2,207	48,964	20,948	72,119	44,065	13,190	1,843	59,098	131,217
Salaries and wages	--	184,197	448,259	194,432	826,888	550,528	192,070	22,267	764,865	1,591,753
Staff expense	--	1,578	5,246	2,245	9,069	4,721	1,413	197	6,331	15,400
Telephone	--	298	6,617	2,831	9,746	5,955	1,782	249	7,986	17,732
Utilities	--	852	18,912	8,091	27,855	17,018	5,095	712	22,825	50,680
	<u>\$ 17,457,045</u>	<u>\$ 473,749</u>	<u>\$ 1,104,633</u>	<u>\$ 459,522</u>	<u>\$ 19,494,949</u>	<u>\$ 1,146,759</u>	<u>\$ 326,063</u>	<u>\$ 152,866</u>	<u>\$ 1,625,688</u>	<u>\$ 21,120,637</u>

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, 2017

	Program Services					Support Services				Total
	Grants Awarded	Special Programs	Grant Making	Philanthropic Services	Total Program Services	Administration	Development	Fund Management	Total Support Services	
EXPENSES										
Grants awarded	\$ 16,712,903	\$ --	\$ --	\$ --	\$ 16,712,903	\$ --	\$ --	\$ --	\$ --	\$ 16,712,903
Amounts distributed on behalf of others	(1,366,592)	--	--	--	(1,366,592)	--	--	--	--	(1,366,592)
Net allocations	15,346,311	--	--	--	15,346,311	--	--	--	--	15,346,311
Advertising and promotion	--	3,073	12,013	5,140	20,226	10,812	3,236	452	14,500	34,726
Bank charges	--	585	12,982	5,554	19,121	11,683	3,497	489	15,669	34,790
Depreciation	--	1,224	27,167	11,623	40,014	24,449	7,318	1,022	32,789	72,803
Donor development	--	64,753	42,821	18,320	125,894	39,404	23,329	1,612	64,345	190,239
Dues/library	--	2,075	7,276	3,113	12,464	6,547	1,960	274	8,781	21,245
Insurance	--	275	6,099	2,610	8,984	5,489	1,643	229	7,361	16,345
Office supplies	--	356	7,897	3,379	11,632	7,108	2,127	297	9,532	21,164
Other fund management expense	--	100,701	15,854	6,345	122,900	12,468	4,185	1,604	18,257	141,157
Payroll taxes and benefits	--	57,694	119,032	50,173	226,899	134,312	50,838	5,699	190,849	417,748
Printing and postage	--	8,664	12,519	5,357	26,540	11,268	3,372	471	15,111	41,651
Professional development	--	417	7,648	3,271	11,336	6,882	2,060	288	9,230	20,566
Professional fees	--	47,370	15,537	50,515	113,422	32,846	8,135	582	41,563	154,985
Property taxes	--	27	597	256	880	538	161	22	721	1,601
Rent	--	778	17,265	7,386	25,429	15,537	4,651	650	20,838	46,267
Repairs and maintenance	--	1,504	33,382	14,282	49,168	30,043	8,993	1,256	40,292	89,460
Salaries and wages	--	182,249	444,225	187,247	813,721	501,250	189,727	21,270	712,247	1,525,968
Staff expense	--	1,910	4,845	2,073	8,828	4,360	1,305	182	5,847	14,675
Telephone	--	283	6,273	2,684	9,240	5,646	1,690	236	7,572	16,812
Utilities	--	863	19,141	8,189	28,193	17,225	5,156	720	23,101	51,294
	<u>\$ 15,346,311</u>	<u>\$ 474,801</u>	<u>\$ 812,573</u>	<u>\$ 387,517</u>	<u>\$ 17,021,202</u>	<u>\$ 877,867</u>	<u>\$ 323,383</u>	<u>\$ 37,355</u>	<u>\$ 1,238,605</u>	<u>\$ 18,259,807</u>

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, 2018 and 2017

	2018	2017
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (15,448,989)	\$ 46,691,919
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	70,173	72,803
Net realized and unrealized (gains) losses on investments	16,360,328	(19,641,351)
Gain from sale of property	--	(269,501)
Contributions of stock	(2,912,295)	(4,473,765)
Contributions restricted for endowments	(1,062,543)	(3,835,437)
Contributions to charitable remainder trusts	(484,998)	(910,583)
Contributions to charitable gift annuities	(26,773)	(1,184,331)
Terminations of charitable gift annuities	--	42,637
Change in value of split interest agreements	1,725,671	(1,590,298)
(Increase) decrease in:		
Contributions receivable, net	(1,312,395)	(20,400,315)
Prepaid expenses	1,976	1,716
Increase (decrease) in:		
Accounts payable and accrued expenses	7,527	21,741
Grants payable	12,893	(374,351)
Deferred revenue	14,690	(15,055)
Funds held for others	(853,266)	7,718,657
Net cash provided (used) by operating activities	<u>(3,908,001)</u>	<u>1,854,486</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid to purchase property and equipment	(492,896)	(90,866)
Cash paid to purchase investments	(3,013,423)	(1,022,166)
Cash received from sale of property	--	1,839,501
Cash received from sale of investments	2,044,839	112,809
Change in balance of cash and money market funds held for long-term investment purposes	<u>6,674,558</u>	<u>(6,804,767)</u>
Net cash provided (used) by investing activities	<u>5,213,078</u>	<u>(5,965,489)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	<u>1,062,543</u>	<u>3,835,437</u>
Net increase (decrease) in cash and cash equivalents	2,367,620	(275,566)
Cash and Cash Equivalents, beginning	<u>10,944,308</u>	<u>11,219,874</u>
Cash and Cash Equivalents, ending	<u>\$ 13,311,928</u>	<u>\$ 10,944,308</u>
SUPPLEMENTAL DISCLOSURES		
Noncash transactions:		
Decrease in contributions receivable	\$ (19,687,605)	\$ --
Contributed property held for sale	<u>21,000,000</u>	<u>--</u>
Net increase in contributions receivable	<u>\$ 1,312,395</u>	<u>\$ --</u>
Acquisition of property and equipment	\$ 21,492,896	\$ --
Contributed property held for sale	<u>(21,000,000)</u>	<u>--</u>
Cash paid for property and equipment	<u>\$ 492,896</u>	<u>\$ --</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

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 514 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 net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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.

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, 2018 and 2017, the Foundation held \$5,361,565 and \$4,805,568, respectively, in cash that is restricted primarily for use toward the Monterey County Gives Campaign grant program.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

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

Cash and cash equivalents (continued): 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, 2018 and 2017, 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.

Property and equipment: Property and equipment purchased are recorded at cost and donated property and equipment are recorded at estimated fair value on the date contributed to the Foundation. The cost of property and equipment purchased in excess of \$1,000 is capitalized. Maintenance and repairs which do not extend the useful life of the respective assets are expensed as incurred. Depreciation is provided on the straight line method over the estimated useful lives of the assets of five to thirty-nine years.

Assets donated with explicit restrictions regarding their use and contributions of cash that are restricted to property and equipment purchases are reported as restricted support. Absent donor stipulations regarding how long those donated assets are to be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in their specified service, at which time the temporarily restricted net assets are reclassified as unrestricted.

Investments: 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.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

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

Investments (continued): 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, 2018 and 2017 were 3.6% and 2.6%, respectively. Subsequent changes to the fair value of the assets and liabilities are reflected in the consolidated statements of activities and changes in net assets as a change in value of split-interest agreements.

Charitable remainder trusts: The Foundation has been designated as the trustee for several irrevocable charitable remainder trusts. The trust agreements generally require the Foundation to make annual payments to the trust beneficiaries based on stipulated payment rates ranging from 5% to 10%, applied to the fair value of the trust assets, as determined annually. Upon the death of the beneficiaries, or other termination of the trusts as may be defined in the individual agreements, the remaining trust assets will be distributed by the Foundation to itself and to other beneficiaries, as stipulated in the trust agreements.

The Foundation records the assets held in these trusts at their fair value based on quoted market values. A corresponding liability, liabilities under charitable remainder trusts, has been recorded to reflect the present value of required lifetime payments and remaining obligation to the named beneficiaries using discount rates commensurate with the risks involved, which were in existence at the date of gift, ranging from 1.4% to 8.2% for each of the years ended December 31, 2018 and 2017. Valuations are calculated annually by management by updating life expectancy of the income beneficiaries and investment values.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

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

Charitable remainder trusts (continued): Liabilities under split-interest agreements represent the present value of the investments held in charitable remainder trusts owed to outside remainder beneficiaries at the settlement of the trust. These liabilities are calculated as a percentage of the present value of the investments held in charitable remainder trusts.

The difference between the fair value of the assets received and liabilities under charitable remainder trusts and under split-interest agreements is recognized as contribution revenue in the year the agreement is signed. Realized and unrealized gains and losses, interest and dividend income from the investments and changes in actuarial assumptions and accretions of the liabilities are recorded as changes to split-interest agreements in the accompanying consolidated statements of financial position.

Funds held for others: The Foundation accepts funds from unrelated nonprofit organizations which desire to have the Foundation provide efficient investment management, programmatic expertise and technical assistance. A liability is recorded at the readily determinable estimated fair value of assets deposited with the Foundation by nonprofit organizations. The Foundation refers to such funds as restricted purpose, designated and stewardship funds. In addition, related amounts received or distributed, investment income or loss and expenses are presented separately on the accompanying consolidated 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, 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.

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.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

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

Fair value measurements: Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Foundation considers the principal or most advantageous market in which it would transact, and considers assumptions that market participants would use when pricing the asset or liability.

The three-level hierarchy for fair value measurements is defined as follows:

Level 1: Valuation is based on observable inputs using quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Valuation is based on inputs from sources other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. This may include quoted prices for similar assets in an active market, quoted prices for similar assets in a market that is not active or valuation methods using models, interest rates and yield curves as observable inputs.

Level 3: Valuation is based on unobservable inputs for the assets, reflecting the Foundation's consideration about the assumptions that a market participant would use in pricing the asset or liability, to the extent that observable inputs (Levels 1 and 2) are not available. Level 3 assets and liabilities include situations where there is little or no market activity for the asset or liabilities, and significant management judgment or estimates are required.

Investments 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.

Major contributions: During 2018, one donor contributed an amount representing 17% of total 2018 contribution revenue. During 2017, one donor contributed an amount representing 51% of total 2017 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.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

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

Functional expense allocation: Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. Operating expenses are allocated based on a time study, with contract services, legal and other fund management expenses allocated to the specific function related to the expense.

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 miscellaneous 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.

Upcoming accounting pronouncement: In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

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

New Accounting Pronouncement: On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly, applying the changes retrospectively to the comparative period presented.

The new standards change the following aspects of the Foundation’s financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 2).
- A reclassification has been made from net assets without donor restrictions to net assets with donor restrictions for the \$104,178 deficit on the endowment funds as of December 31, 2017, which had funds with original gift values of \$142,963 and fair values of \$44,795, as referred to in Note 12.

The changes have the following effect on net assets as of December 31, 2017:

Net Assets	As Originally Presented	After Adoption of ASU 2016-14 and reclassifications
Unrestricted	\$ 43,164,783	\$ --
Temporarily restricted	58,605,031	--
Permanently restricted	112,050,433	--
Without donor restrictions	--	43,004,346
With donor restrictions	--	170,815,901
	<u>\$ 213,820,247</u>	<u>\$ 213,820,247</u>

Reclassifications: \$104,178 has been reclassified from net assets with donor restrictions to net assets without donor restrictions in the 2017 financial statements, related to implementation of ASU 2016-14. Additionally, \$264,615 has been reclassified from net assets without donor restrictions to net assets with donor restrictions, related to restrictions that have not yet been released. The result of the reclassifications is a net change in net asset classes of \$160,437.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

NOTE 2. AVAILABILITY AND LIQUIDITY

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund grants. In addition, the Foundation receives support without donor restrictions; in 2018 such support was represented by approximately 81% of non-endowed grants and contributions to fund operating needs, with the remainder funded by investment income without donor restrictions and management fees.

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, development and fund management expenses, and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term grant commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative, general, and development expenses, plus an amount that represents the next expected payment for grant commitments.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

NOTE 2. AVAILABILITY AND LIQUIDITY (Continued)

The table below presents financial assets available for general expenditures within one year at December 31, 2018:

Financial assets at year end:	
Cash and cash equivalents	\$ 13,311,928
Contributions receivable	2,356,063
Investments	176,734,074
Charitable gift annuities	3,449,120
Investments held in charitable remainder trusts	<u>25,907,734</u>
 Total financial assets	 <u>221,758,919</u>
 Less amounts not available to be used within one year:	
Investments in non-liquid securities	17,694,281
Investments held in charitable gift annuities	3,449,120
Investments held in charitable remainder trusts	25,907,734
Contributions receivable - due after one year, net	656,365
Portion of donor-restricted endowment to be retained in perpetuity	<u>113,186,401</u>
 Financial assets not available to be used within one year	 <u>160,893,901</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 60,865,018</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

NOTE 3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Bequests receivable	\$ 316,588	\$ 21,264,615
Other contributions and pledges receivable	<u>2,039,475</u>	<u>779,053</u>
	<u>\$ 2,356,063</u>	<u>\$ 22,043,668</u>

NOTE 4. PROPERTY AND EQUIPMENT, NET

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

	<u>2018</u>	<u>2017</u>
Land	\$ 461,627	\$ 461,627
Building	1,083,488	1,083,488
Building and leasehold improvements	650,013	481,395
Furniture and equipment	<u>243,385</u>	<u>228,057</u>
	2,438,513	2,254,567
Less accumulated depreciation	<u>(603,216)</u>	<u>(533,043)</u>
	1,835,297	1,721,524
Property held for sale	<u>21,308,950</u>	<u>--</u>
	<u>\$ 23,144,247</u>	<u>\$ 1,721,524</u>

Depreciation expense totaled \$70,173 and \$72,803 for the years ended December 31, 2018 and 2017, respectively.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

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:

2018	Total	Level 1	Level 2	Level 3
Mutual Funds	\$ 97,407,053	\$ 97,407,053	\$ --	\$ --
Fixed income securities	54,213,181	54,213,181	--	--
Alternative investments	4,529,325	4,529,325	--	--
Cash and money market funds	2,890,234	2,890,234	--	--
Total reoccurring fair value measurements	159,039,793	<u>\$ 159,039,793</u>	<u>\$ --</u>	<u>\$ --</u>
Alternative investments measured at net asset value	<u>17,694,281</u>			
Total investments	<u>\$ 176,734,074</u>			
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 reoccurring fair value measurements	178,111,817	<u>\$ 178,111,817</u>	<u>\$ --</u>	<u>\$ --</u>
Alternative investments measured at net asset value	<u>17,776,264</u>			
Total investments	<u>\$ 195,888,081</u>			

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

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

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 determined 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.

Net investment income (loss): Net investment income (loss) consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 6,467,608	\$ 5,888,501
Realized gains (losses), net	147,276	2,766
Unrealized gains (losses), net	(16,507,604)	19,638,585
Change in value of split-interest agreements	<u>(1,725,671)</u>	<u>1,590,298</u>
Net investment income (loss)		
before external investment fees	(11,618,391)	27,120,150
External investment fees	<u>(255,738)</u>	<u>(256,706)</u>
Net investment income (loss)	<u><u>\$(11,874,129)</u></u>	<u><u>\$ 26,863,444</u></u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

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:

2018	Level 1	Level 2	Level 3	Total
Investments held in charitable gift annuities	\$ 3,449,120	\$ --	\$ --	\$ 3,449,120
Liabilities under charitable gift annuities	\$ --	\$ --	\$ 2,190,393	\$ 2,190,393

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

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	2018	2017
Beginning balance	\$ 2,239,453	\$ 247,250
Additions	33,227	2,095,669
Terminations	--	(28,276)
Payments to income beneficiaries	(177,834)	(111,854)
Increase in value of liabilities under charitable gift annuities	95,547	36,664
Ending balance	\$ 2,190,393	\$ 2,239,453

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

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:

	<u>2018</u> <u>(Level 3)</u>	<u>2017</u> <u>(Level 3)</u>
Beneficial interest in remainder trusts administered by other trustees	<u>\$ 2,770,159</u>	<u>\$ 3,067,916</u>

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:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 3,067,916	\$ 2,730,408
Increase (decrease) due to change in market values and actuarial life expectancy	<u>(297,757)</u>	<u>337,508</u>
Ending balance	<u>\$ 2,770,159</u>	<u>\$ 3,067,916</u>

NOTE 8. CHARITABLE REMAINDER TRUSTS AND FAIR VALUE DISCLOSURES

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

	<u>2018</u>	<u>2017</u>
Marketable securities - equities	\$ 16,545,244	\$ 18,558,135
Marketable securities - debt	8,626,203	8,524,319
Money market funds and cash	736,287	751,232
Note receivable	--	879,712
	<u>\$ 25,907,734</u>	<u>\$ 28,713,398</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

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

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.

<u>2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held in charitable remainder trusts	<u>\$ 25,907,734</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 25,907,734</u>
Liabilities under charitable remainder trusts	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 10,971,695</u>	<u>\$ 10,971,695</u>
Liabilities under split-interest agreements	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 6,955,452</u>	<u>\$ 6,955,452</u>
<u>2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held in charitable remainder trusts	<u>\$ 28,713,398</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 28,713,398</u>
Liabilities under charitable remainder trusts	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 12,257,126</u>	<u>\$ 12,257,126</u>
Liabilities under split-interest agreements	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,777,824</u>	<u>\$ 7,777,824</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

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

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

<u>Liabilities under charitable remainder trusts</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 12,257,126	\$ 11,351,421
Contribution to trust at present value	458,352	1,102,326
Decrease in value due to change in market value and actuarial value of assets	<u>(1,743,783)</u>	<u>(196,621)</u>
Ending balance	<u>\$ 10,971,695</u>	<u>\$ 12,257,126</u>

<u>Liabilities under split-interest agreements</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 7,777,824	\$ 6,556,278
Additions	53,403	430,563
Increase (decrease) due to change in value of liabilities under charitable remainder trusts	<u>(875,775)</u>	<u>790,983</u>
Ending balance	<u>\$ 6,955,452</u>	<u>\$ 7,777,824</u>

NOTE 9. GRANTS PAYABLE

As of December 31, 2018, the balance included in grants payable is expensed to be paid as follows:

2019	\$ 1,396,322
2020	168,000
2021	<u>44,000</u>
	<u>\$ 1,608,322</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

NOTE 10. FUNDS HELD FOR OTHERS

At December 31, 2018 and 2017, the Foundation held 117 and 108 nonprofit funds for others, respectively, with balances as follows:

	<u>2018</u>	<u>2017</u>
Stewardship funds	\$ 21,850,007	\$ 22,394,260
Agency designated funds	<u>5,618,470</u>	<u>5,927,483</u>
	<u>\$ 27,468,477</u>	<u>\$ 28,321,743</u>

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

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 28,321,743	\$ 20,603,086
Amounts raised in contributions or transferred in	2,117,136	5,903,565
Dividend and interest income	955,260	816,749
Net realized and unrealized gains (losses)	(2,446,455)	2,626,546
Fees	(302,080)	(261,611)
Grants	<u>(1,177,127)</u>	<u>(1,366,592)</u>
Ending balance	<u>\$ 27,468,477</u>	<u>\$ 28,321,743</u>

NOTE 11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions, as of December 31, consist of the following:

	<u>2018</u>	<u>2017</u>
Endowment funds	\$ 141,189,002	\$ 135,783,913
Investments held in charitable remainder trusts	25,907,734	28,713,398
Charitable gift annuities	3,449,120	3,716,462
Bequests receivable and future pledges	1,066,587	21,808,615
Beneficial interest in remainder trusts administered by other trustees	2,770,159	3,067,916
Liabilities under charitable gift annuities	(2,190,393)	(2,239,453)
Liabilities under charitable remainder trusts	(10,971,695)	(12,257,126)
Liabilities under split-interest agreements	<u>(6,955,452)</u>	<u>(7,777,824)</u>
Ending balance	<u>\$ 154,265,062</u>	<u>\$ 170,815,901</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

NOTE 12. ENDOWMENT DISCLOSURES

As of December 31, 2018 and 2017, the Foundation's endowment funds are comprised of 263 and 245 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 the Uniform Prudent Management and Institutional Funds Act (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 net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

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 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.

Endowment spending policy: For the years ended December 31, 2018 and 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.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2018

NOTE 12. ENDOWMENT DISCLOSURES (Continued)

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by the donor or law, or the historical value of endowment gifts as a result of unfavorable market fluctuations. As of December 31, 2018, funds with original gift values of \$46,720,169, fair values of \$44,470,155, and deficiencies of \$2,250,014 were reported in net assets with donor restrictions. As of December 31, 2017, funds with original gift values of \$142,963, fair values of \$44,795, and deficiencies of \$98,168 were reported in net assets with donor restrictions.

During the years ended December 31, 2018 and 2017, endowment net asset activity was as follows:

	With Donor Restrictions
Endowment net assets, December 31, 2016	<u>\$ 120,443,446</u>
Investment income (dividends and interest)	4,179,925
Net realized and unrealized gains	<u>14,094,400</u>
Total investment return	18,274,325
Contributions	3,886,078
Appropriated for spending	(4,429,585)
Administration fees	<u>(2,059,066)</u>
Net endowment activity	<u>15,671,752</u>
Transfers of income to (from) endowment, net	<u>(331,285)</u>
Endowment net assets, December 31, 2017	<u>135,783,913</u>
Investment income (dividends and interest)	4,427,383
Net realized and unrealized losses	<u>(11,013,256)</u>
Total investment loss	(6,585,873)
Contributions	1,081,843
Appropriated for spending	(5,046,894)
Administration fees	<u>(4,530,428)</u>
Net endowment activity	<u>(15,081,352)</u>
Transfers of income to (from) endowment, net	<u>20,486,441</u>
Endowment net assets, December 31, 2018	<u><u>\$ 141,189,002</u></u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
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NOTE 13. 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 \$58,212 and \$51,720 for 2018 and 2017, 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 \$78,399 and \$73,198 in 2018 and 2017, 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 \$10,833 and \$9,600 for the years ended December 31, 2018 and 2017, 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 \$47,515 and \$46,267 for the years ended December 31, 2018 and 2017, respectively.

The aggregate future commitments under these lease agreements as of December 31, 2018 are as follows.

2019	\$	58,503
2020		<u>50,557</u>
	\$	<u><u>109,060</u></u>

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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, 2018 are as follows:

2019	\$ 110,712
2020	114,036
2021	117,456
2022	120,984
2023	124,620
Thereafter	<u>1,022,254</u>
	1,610,062
Amount representing interest	<u>(357,275)</u>
	<u>\$ 1,252,787</u>

NOTE 17. RELATED PARTY TRANSACTIONS

Approximately \$210,574 and \$89,122 in donations were received from members of the Board of Directors during the years ended December 31, 2018 and 2017, 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.

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Notes to Consolidated Financial Statements
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NOTE 19. SUBSEQUENT EVENTS

Management has evaluated its December 31, 2018 and 2017 financial statements for subsequent events through April 23, 2019, 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.