



Consolidated Financial Statements
With Independent Auditors' Report

December 31, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Community Foundation for Monterey County
Monterey, California

Opinion

We have audited the accompanying consolidated financial statements of Community Foundation for Monterey County (a nonprofit organization) (the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, 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).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

A handwritten signature in black ink that reads "Hutchins and Bloodgood LLP". The signature is written in a cursive, flowing style.

April 23, 2024

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 28,011,972	\$ 25,358,903
Contributions receivable	3,634,100	33,907
Prepaid expenses	12,639	10,610
Property and equipment, net	2,240,577	1,810,196
Investments	316,010,112	279,291,418
Programmatic loans receivable	3,416,856	3,055,041
Right-of-use asset, net	107,005	147,463
Charitable gift annuities	4,589,794	4,132,006
Beneficial interest in remainder trusts administered by other trustees	860,500	791,765
Investments held in charitable remainder trusts	<u>21,246,372</u>	<u>17,330,744</u>
 Total assets	 <u><u>\$ 380,129,927</u></u>	 <u><u>\$ 331,962,053</u></u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 309,968	\$ 207,285
Grants payable	2,015,701	2,394,853
Deferred revenue	8,295	2,100
Lease liability	110,144	149,632
Liabilities under charitable gift annuities	2,272,125	2,267,553
Liabilities under charitable remainder trusts	7,958,561	6,885,867
Liabilities under split-interest agreements	4,030,838	3,641,421
Funds held for others	<u>65,409,553</u>	<u>59,474,265</u>
 Total liabilities	 <u>82,115,185</u>	 <u>75,022,976</u>
NET ASSETS		
Without donor restrictions	84,977,054	67,640,908
With donor restrictions	<u>213,037,688</u>	<u>189,298,169</u>
 Total net assets	 <u>298,014,742</u>	 <u>256,939,077</u>
	<u><u>\$ 380,129,927</u></u>	<u><u>\$ 331,962,053</u></u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support:			
Contributions	\$ 44,202,589	\$ 13,292,441	\$ 57,495,030
Amounts received on behalf of others	(2,565,301)	(4,647,492)	(7,212,793)
Total support	41,637,288	8,644,949	50,282,237
Revenue:			
Management fees, net of expenses	477,625	--	477,625
Miscellaneous income	185,807	--	185,807
Gain on sale of property	15,523	--	15,523
Net investment income	6,562,244	33,382,733	39,944,977
Net investment income allocated to funds held for others	--	(7,746,798)	(7,746,798)
Net assets released from restrictions	10,541,365	(10,541,365)	--
Total revenue	17,782,564	15,094,570	32,877,134
Total support and revenue	59,419,852	23,739,519	83,159,371
EXPENSES			
Program services:			
Grants awarded	39,269,652	--	39,269,652
Amounts distributed on behalf of others	(2,565,301)	--	(2,565,301)
Net grants awarded	36,704,351	--	36,704,351
Special programs	1,170,602	--	1,170,602
Grant making	777,339	--	777,339
Philanthropic services	244,496	--	244,496
Support services:			
Administration	2,213,473	--	2,213,473
Development	954,661	--	954,661
Fund management	18,784	--	18,784
Total program and support services	42,083,706	--	42,083,706
Increase in net assets	17,336,146	23,739,519	41,075,665
Net Assets, beginning	67,640,908	189,298,169	256,939,077
Net Assets, ending	\$ 84,977,054	\$ 213,037,688	\$ 298,014,742

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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support:			
Contributions	\$ 28,727,042	\$ 10,136,680	\$ 38,863,722
Amounts received on behalf of others	(2,565,301)	(7,108,523)	(9,673,824)
Total support	26,161,741	3,028,157	29,189,898
Revenue:			
Management fees, net of expenses	442,745	--	442,745
Miscellaneous income	386,719	--	386,719
Net investment loss	(9,231,324)	(42,585,892)	(51,817,216)
Net investment loss allocated to funds held for others	--	9,433,455	9,433,455
Net assets released from restrictions	1,992,808	(1,992,808)	--
Total revenue	(6,409,052)	(35,145,245)	(41,554,297)
Total support and revenue	19,752,689	(32,117,088)	(12,364,399)
EXPENSES			
Program services:			
Grants awarded	31,340,016	--	31,340,016
Amounts distributed on behalf of others	(2,565,301)	--	(2,565,301)
Net grants awarded	28,774,715	--	28,774,715
Special programs	1,441,566	--	1,441,566
Grant making	677,048	--	677,048
Philanthropic services	199,028	--	199,028
Support services:			
Administration	1,948,337	--	1,948,337
Development	849,206	--	849,206
Fund management	16,845	--	16,845
Total program and support services	33,906,745	--	33,906,745
Decrease in net assets	(14,154,056)	(32,117,088)	(46,271,144)
Net Assets, beginning	81,794,964	221,415,257	303,210,221
Net Assets, ending	\$ 67,640,908	\$ 189,298,169	\$ 256,939,077

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, 2023

	Program Services					Support Services				
	Grants	Special	Grant	Philanthropic	Total Program	Administration	Development	Fund	Total Support	Total
	Awarded	Programs	Making	Services	Services			Management	Services	
EXPENSES										
Grants awarded	\$ 39,269,652	\$ --	\$ --	\$ --	\$ 39,269,652	\$ --	\$ --	\$ --	\$ --	\$ 39,269,652
Amounts distributed on behalf of others	(2,565,301)	--	--	--	(2,565,301)	--	--	--	--	(2,565,301)
Net allocations	36,704,351	--	--	--	36,704,351	--	--	--	--	36,704,351
Advertising and promotion	--	4,968	15,410	4,023	24,401	35,118	11,873	169	47,160	71,561
Bank charges	--	88,128	3,272	854	92,254	7,456	2,521	36	10,013	102,267
Depreciation	--	3,860	18,141	4,735	26,736	41,340	13,977	199	55,516	82,252
Donor development	--	69,440	40,716	10,628	120,784	92,873	31,372	447	124,692	245,476
Dues/library	--	3,592	14,427	3,766	21,785	32,876	11,116	158	44,150	65,935
Insurance	--	1,314	6,177	1,612	9,103	14,076	4,759	68	18,903	28,006
Office supplies	--	1,018	4,785	1,249	7,052	10,905	3,687	52	14,644	21,696
Other fund management expense	--	136,793	12,219	3,190	152,202	27,846	9,415	134	37,395	189,597
Payroll taxes and benefits	--	79,366	108,853	37,300	225,519	333,956	153,327	1,549	488,832	714,351
Printing and postage	--	11,489	14,546	3,797	29,832	33,148	11,208	160	44,516	74,348
Professional development	--	14,571	8,382	2,188	25,141	19,100	6,458	92	25,650	50,791
Professional fees	--	394,765	9,005	2,351	406,121	68,176	37,628	8,695	114,499	520,620
Property taxes	--	92	431	113	636	983	332	5	1,320	1,956
Rent	--	1,977	9,291	2,425	13,693	21,172	7,159	102	28,433	42,126
Repairs and maintenance	--	16,051	75,433	19,691	111,175	171,902	58,121	827	230,850	342,025
Salaries and wages	--	326,325	400,546	137,254	864,125	1,221,176	564,197	5,699	1,791,072	2,655,197
Staff expense	--	9,984	3,422	893	14,299	7,798	2,637	38	10,473	24,772
Telephone	--	2,664	12,522	3,269	18,455	28,538	9,648	137	38,323	56,778
Utilities	--	4,205	19,761	5,158	29,124	45,034	15,226	217	60,477	89,601
	<u>\$ 36,704,351</u>	<u>\$ 1,170,602</u>	<u>\$ 777,339</u>	<u>\$ 244,496</u>	<u>\$ 38,896,788</u>	<u>\$ 2,213,473</u>	<u>\$ 954,661</u>	<u>\$ 18,784</u>	<u>\$ 3,186,918</u>	<u>\$ 42,083,706</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, 2022

EXPENSES	Program Services					Support Services				Total
	Grants	Special	Grant	Philanthropic	Total Program	Administration	Development	Fund	Total Support	
	Awarded	Programs	Making	Services	Services			Management	Services	
Grants awarded	\$ 31,340,016	\$ --	\$ --	\$ --	\$ 31,340,016	\$ --	\$ --	\$ --	\$ --	\$ 31,340,016
Amounts distributed on behalf of others	(2,565,301)	--	--	--	(2,565,301)	--	--	--	--	(2,565,301)
Net allocations	28,774,715	--	--	--	28,774,715	--	--	--	--	28,774,715
Advertising and promotion	--	30,363	14,240	3,618	48,221	31,587	10,679	152	42,418	90,639
Bank charges	--	106,032	2,934	745	109,711	6,507	2,200	31	8,738	118,449
Depreciation	--	4,061	15,592	3,961	23,614	34,584	11,693	166	46,443	70,057
Donor development	--	208,631	27,954	7,102	243,687	62,142	20,964	298	83,404	327,091
Dues/library	--	3,343	11,780	2,993	18,116	26,128	8,834	126	35,088	53,204
Insurance	--	1,863	7,151	1,817	10,831	15,863	5,363	76	21,302	32,133
Office supplies	--	1,403	5,385	1,368	8,156	11,944	4,038	57	16,039	24,195
Other fund management expense	--	195,070	688	175	195,933	1,525	516	7	2,048	197,981
Payroll taxes and benefits	--	75,135	98,275	30,405	203,815	279,819	131,259	1,266	412,344	616,159
Printing and postage	--	29,710	13,078	3,323	46,111	29,008	9,808	140	38,956	85,067
Professional development	--	927	4,285	1,089	6,301	9,505	3,214	46	12,765	19,066
Professional fees	--	480,558	9,104	2,313	491,975	174,347	62,299	8,638	245,284	737,259
Property taxes	--	98	376	96	570	834	282	4	1,120	1,690
Rent	--	2,442	9,376	2,382	14,200	20,795	7,031	100	27,926	42,126
Repairs and maintenance	--	7,950	30,522	7,755	46,227	67,698	22,889	326	90,913	137,140
Salaries and wages	--	283,491	390,024	120,667	794,182	1,095,571	520,926	5,025	1,621,522	2,415,704
Staff expense	--	2,372	5,123	1,301	8,796	11,362	3,842	55	15,259	24,055
Telephone	--	3,179	12,203	3,101	18,483	27,067	9,152	130	36,349	54,832
Utilities	--	4,938	18,958	4,817	28,713	42,051	14,217	202	56,470	85,183
	<u>\$ 28,774,715</u>	<u>\$ 1,441,566</u>	<u>\$ 677,048</u>	<u>\$ 199,028</u>	<u>\$ 31,092,357</u>	<u>\$ 1,948,337</u>	<u>\$ 849,206</u>	<u>\$ 16,845</u>	<u>\$ 2,814,388</u>	<u>\$ 33,906,745</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, 2023 and 2022

	2023	2022
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS		
FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 41,075,665	\$ (46,271,144)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	82,252	70,057
Net realized and unrealized (gains) losses on investments	(29,476,619)	57,774,809
Gain from sale of property	(15,523)	--
Contributions of stock	(8,568,149)	(3,018,357)
Contributions of property held for sale	(1,540,675)	--
Contributions restricted for endowments	(5,282,437)	(2,484,188)
Contributions to charitable remainder trusts	(1,713,802)	(317,209)
Contributions to charitable gift annuities	(108,037)	(226,759)
Terminations of charitable remainder trusts	--	871,062
Change in value of split interest agreements	(1,153,629)	2,535,455
Right-of-use asset, net	40,458	(147,463)
(Increase) decrease in:		
Contributions receivable	(3,600,193)	410,765
Prepaid expenses	(2,029)	(286)
Increase (decrease) in:		
Accounts payable and accrued expenses	102,683	4,357
Grants payable	(379,152)	356,239
Deferred revenue	6,195	(9,480)
Lease liability	(39,488)	149,632
Funds held for others	5,935,288	(5,347,154)
Net cash provided (used) by operating activities	<u>(4,637,192)</u>	<u>4,350,336</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid to purchase property and equipment	(512,633)	(40,953)
Cash paid to purchase investments	(32,794,394)	(7,526,410)
Cash received from sale of property	1,556,198	--
Cash received from sale of investments	31,818,730	4,495,093
Change in balance of cash and money market funds held for long-term investment purposes	2,301,738	1,646,188
Investment in programmatic loans	(1,864,959)	(1,231,824)
Cash received on repayment of programmatic loans	1,503,144	--
	<hr/>	<hr/>
Net cash provided (used) by investing activities	2,007,824	(2,657,906)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	5,282,437	2,484,188
	<hr/>	<hr/>
Net increase in cash and cash equivalents	2,653,069	4,176,618
Cash and Cash Equivalents, beginning	<hr/> 25,358,903	<hr/> 21,182,285
Cash and Cash Equivalents, ending	<hr/> \$ 28,011,972	<hr/> \$ 25,358,903

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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 681 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 consolidated 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, 2023 and 2022, the Foundation held \$7,569,558 and \$9,876,694, respectively, in cash that is designated primarily for use toward the Monterey County Gives Campaign grant program.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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, 2023 and 2022, 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 consolidated statements of activities. No amounts have been recorded for uncollectible contributions, as management believes all amounts to be collectible.

Programmatic loans receivable: The programmatic loans receivable are carried at outstanding principal balance, less an allowance for loan losses. Interest income is accrued on the principal loan balance. Management's determination of the level of allowance for loan losses rests upon various judgements and assumptions, including current and projected economic conditions. As of December 31, 2023 and 2022, the allowance for loan losses was \$0.

Real estate held for sale: Real estate that has been contributed by a donor is 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 net assets with donor restrictions are reclassified as net assets without donor restrictions.

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.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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

Investments (continued): 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 donor 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, 2023 and 2022 were 5.8% and 5.2%, respectively. Subsequent changes to the fair value of the assets and liabilities are reflected in the consolidated statements of activities and changes in net assets as a change in value of split-interest agreements.

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

The Foundation records the assets held in these trusts at their fair value based on quoted market values. A corresponding liability, liabilities under charitable remainder trusts, has been recorded to reflect the present value of required lifetime payments and remaining obligation to the named beneficiaries using discount rates commensurate with the risks involved, which were in existence at the date of gift, ranging from 1.6% to 7.4% for the years ended December 31, 2023 and 2022. 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, 2023 and 2022

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 funds' 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, programmatic loans receivable, charitable gift annuities, beneficial interest in remainder trusts administered by other trustees, investments held in charitable remainder trusts, accounts payable and accrued expenses, grants payable, deferred revenue, liabilities under charitable gift annuities, liabilities under charitable remainder trusts, liabilities under split-interest agreements and funds held for others.

For cash and cash equivalents, contributions receivable, prepaid expenses, programmatic loans receivable, 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, 2023 and 2022

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.

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.

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.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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

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

New Accounting Pronouncement: In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the company that are subject to the guidance in FASB ASC 326 were programmatic loans receivable. The Organization adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

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 availability of funding for grants from these endowments is based on the annual spending policy. In addition, the Foundation receives support without donor restrictions; in 2023 and 2022 such support was represented by approximately 83% and 91%, respectively, 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.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

NOTE 2. AVAILABILITY AND LIQUIDITY (Continued)

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.

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

	<u>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 28,011,972	\$ 25,358,903
Contributions receivable	3,634,100	33,907
Investments	316,010,112	279,291,418
Charitable gift annuities	4,589,794	4,132,006
Investments held in charitable remainder trusts	<u>21,246,372</u>	<u>17,330,744</u>
 Total financial assets	 <u>373,492,350</u>	 <u>326,146,978</u>
 Less amounts not available to be used within one year:		
Investments in non-liquid securities	14,203,754	11,651,637
Investments held in charitable gift annuities	4,589,794	4,132,006
Investments held in charitable remainder trusts	21,246,372	17,330,744
Portion of donor-restricted endowment to be retained in perpetuity	 <u>175,045,980</u>	 <u>169,616,487</u>
 Financial assets not available to be used within one year	 <u>215,085,900</u>	 <u>202,730,874</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 158,406,450</u>	 <u>\$ 123,416,104</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

NOTE 3. PROGRAMMATIC LOANS RECEIVABLE

Since 2019, the Foundation has invested in various community impact loans. The loans require interest only payments over the term of the loans, with the principal due upon maturity. The loans bear interest between 2.5% and 6.18% and mature on various dates between 2026 and 2028. Interest income on the loans is recognized over the term of the loans and is calculated using the simple-interest method on principal amounts outstanding. During the years ended December 31, 2023 and 2022, interest income of \$131,995 and \$55,320 was recognized, respectively.

NOTE 4. PROPERTY AND EQUIPMENT, NET

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

	2023	2022
Land	\$ 461,627	\$ 461,627
Building	1,083,488	1,083,488
Building and leasehold improvements	777,712	775,841
Furniture and equipment	362,101	320,330
Software	453,859	--
	<u>3,138,787</u>	<u>2,641,286</u>
Less accumulated depreciation	<u>(898,210)</u>	<u>(831,090)</u>
	<u>\$ 2,240,577</u>	<u>\$ 1,810,196</u>

Depreciation expense totaled \$82,252 and \$70,057 for the years ended December 31, 2023 and 2022, respectively.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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:

2023	Total	Level 1	Level 2	Level 3
Mutual funds	\$ 191,674,019	\$ 191,674,019	\$ --	\$ --
Fixed income securities	83,179,679	83,179,679	--	--
Alternative investments	12,044,556	12,044,556	--	--
Cash and money market funds	14,908,104	14,908,104	--	--
Total recurring fair value measurements	301,806,358	<u>\$ 301,806,358</u>	<u>\$ --</u>	<u>\$ --</u>
Alternative investments measured at net asset value	<u>14,203,754</u>			
Total investments	<u>\$ 316,010,112</u>			
2022	Total	Level 1	Level 2	Level 3
Mutual funds	\$ 166,586,611	\$ 166,586,611	\$ --	\$ --
Fixed income securities	78,955,943	78,955,943	--	--
Alternative investments	11,183,354	11,183,354	--	--
Cash and money market funds	10,913,873	10,913,873	--	--
Total recurring fair value measurements	267,639,781	<u>\$ 267,639,781</u>	<u>\$ --</u>	<u>\$ --</u>
Alternative investments measured at net asset value	<u>11,651,637</u>			
Total investments	<u>\$ 279,291,418</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.

Alternative investments measured at net asset value: 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.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

NOTE 5. INVESTMENTS AND FAIR VALUE DISCLOSURES (Continued)

The sale, exchange, assign, transfer, convey, pledge, grant a security interest in or otherwise dispose of any or all of the Foundation's interest in ASB requires written consent at the sole discretion of the Member Manager.

The Foundation holds an investment in a core property fund. The Harrison Street Core Property Fund ("HSCPF"), is stated at fair value, as estimated in a privately traded market. The fair value of the Foundation's interest, or units, in HSCPF was determined based upon the most recent net asset value information provided by HSCPF.

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

	<u>2023</u>	<u>2022</u>
Interest and dividend income	\$ 9,568,204	\$ 8,771,478
Realized gains, net	17,493,772	471,000
Unrealized gains (losses), net	11,982,847	(58,245,809)
Change in value of split-interest agreements	<u>1,153,629</u>	<u>(2,596,806)</u>
Net investment income (loss) before external investment fees	40,198,452	(51,600,137)
External investment fees	<u>(253,475)</u>	<u>(217,079)</u>
Net investment income (loss)	<u>\$ 39,944,977</u>	<u>\$(51,817,216)</u>

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:

<u>2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held in charitable gift annuities	<u>\$ 4,589,794</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 4,589,794</u>
Liabilities under charitable gift annuities	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,272,125</u>	<u>\$ 2,272,125</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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

2022	Level 1	Level 2	Level 3	Total
Investments held in charitable gift annuities	\$ 4,132,006	\$ --	\$ --	<u>\$ 4,132,006</u>
Liabilities under charitable gift annuities	\$ --	\$ --	\$ 2,267,553	<u>\$ 2,267,553</u>

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	2023	2022
Beginning balance	\$ 2,267,553	\$ 2,130,575
Additions	101,963	228,324
Payments to income beneficiaries	(215,796)	(201,021)
Increase in value of liabilities under charitable gift annuities	<u>118,405</u>	<u>109,675</u>
Ending balance	<u>\$ 2,272,125</u>	<u>\$ 2,267,553</u>

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:

	2023 (Level 3)	2022 (Level 3)
Beneficial interest in remainder trusts administered by other trustees	<u>\$ 860,500</u>	<u>\$ 791,765</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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:

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 791,765	\$ 978,035
Increase (decrease) due to change in market values and actuarial life expectancy	<u>68,735</u>	<u>(186,270)</u>
Ending balance	<u>\$ 860,500</u>	<u>\$ 791,765</u>

NOTE 8. CHARITABLE REMAINDER TRUSTS AND FAIR VALUE DISCLOSURES

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

	<u>2023</u>	<u>2022</u>
Marketable securities - equities	\$ 13,713,004	\$ 10,933,466
Marketable securities - debt	7,214,339	6,107,530
Money market funds and cash	<u>319,029</u>	<u>289,748</u>
	<u>\$ 21,246,372</u>	<u>\$ 17,330,744</u>

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>2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held in charitable remainder trusts	<u>\$ 21,246,372</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 21,246,372</u>
Liabilities under charitable remainder trusts	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,958,561</u>	<u>\$ 7,958,561</u>
Liabilities under split-interest agreements	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 4,030,838</u>	<u>\$ 4,030,838</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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

2022	Level 1	Level 2	Level 3	Total
Investments held in charitable remainder trusts	\$ 17,330,744	\$ --	\$ --	\$ 17,330,744
Liabilities under charitable remainder trusts	\$ --	\$ --	\$ 6,885,867	\$ 6,885,867
Liabilities under split-interest agreements	\$ --	\$ --	\$ 3,641,421	\$ 3,641,421

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	2023	2022
Beginning balance	\$ 6,885,867	\$ 8,813,418
Contribution to trust at present value	1,280,282	316,810
Termination of trust	--	(163,884)
Decrease in value due to change in market value and actuarial value of assets	<u>(207,588)</u>	<u>(2,080,477)</u>
Ending balance	<u>\$ 7,958,561</u>	<u>\$ 6,885,867</u>

Liabilities under split-interest agreements	2023	2022
Beginning balance	\$ 3,641,421	\$ 4,401,408
Additions	83,863	111,883
Increase (decrease) due to change in value of liabilities under charitable remainder trusts	<u>305,554</u>	<u>(871,870)</u>
Ending balance	<u>\$ 4,030,838</u>	<u>\$ 3,641,421</u>

NOTE 9. GRANTS PAYABLE

As of December 31, 2023, the balance included in grants payable is expected to be paid as follows:

2024	\$ 1,947,701
2025	46,000
2026	<u>22,000</u>
	<u>\$ 2,015,701</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

NOTE 10. FUNDS HELD FOR OTHERS

At December 31, 2023 and 2022, the Foundation held 139 and 133 nonprofit funds for others, respectively, with balances as follows:

	<u>2023</u>	<u>2022</u>
Stewardship funds	\$ 57,290,579	\$ 52,184,742
Agency designated funds	<u>8,118,974</u>	<u>7,289,523</u>
	<u>\$ 65,409,553</u>	<u>\$ 59,474,265</u>

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

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 59,474,265	\$ 64,821,419
Amounts raised in contributions or transferred in	4,647,492	7,108,523
Dividend and interest income	1,889,554	1,739,793
Net realized and unrealized gains (losses)	5,857,244	(11,173,248)
Fees	(503,177)	(456,921)
Grants	<u>(5,955,825)</u>	<u>(2,565,301)</u>
Ending balance	<u>\$ 65,409,553</u>	<u>\$ 59,474,265</u>

NOTE 11. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
Endowment funds	\$ 200,602,546	\$ 179,838,495
Investments held in charitable remainder trusts	21,246,372	17,330,744
Charitable gift annuities	4,589,794	4,132,006
Beneficial interest in remainder trusts administered by other trustees	860,500	791,765
Liabilities under charitable gift annuities	(2,272,125)	(2,267,553)
Liabilities under charitable remainder trusts	(7,958,561)	(6,885,867)
Liabilities under split-interest agreements	<u>(4,030,838)</u>	<u>(3,641,421)</u>
Ending balance	<u>\$ 213,037,688</u>	<u>\$ 189,298,169</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

NOTE 12. ENDOWMENT DISCLOSURES

As of December 31, 2023 and 2022, the Foundation's endowment funds are comprised of 308 and 299 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 year ended December 31, 2023, the Foundation distributed a payout of 4.25% for funds above their historic balance and including a collared payout rate of 3.95% for funds at 99% of their historic balance, 3.65% for funds at 98% of their historic balance, 3.35% for funds at 97% of their historic balance, and 3.0% for funds below 97% of their historic balance. For the year ended December 31, 2022, the Foundation distributed a payout of 4.00%, of the trailing 12 quarters' balance for all funds with a balance that is equal to or greater than 100% of their historic balance, and 3-3.95% of the trailing 12 quarters for all funds with a balance that is less than 100% their historic balance.

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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, 2023, funds with original gift values of \$26,732,548, fair values of \$26,132,551, and deficiencies of \$599,997 were reported in net assets with donor restrictions. As of December 31, 2022, funds with original gift values of \$61,155,356, fair values of \$57,107,726, and deficiencies of \$4,047,630 were reported in net assets with donor restrictions.

During the years ended December 31, 2023 and 2022, endowment net asset activity was as follows:

	With Donor Restrictions
Endowment net assets, December 31, 2021	<u>\$ 209,093,034</u>
Investment income (dividends and interest)	5,622,675
Net realized and unrealized losses	<u>(36,178,306)</u>
Total investment loss	(30,555,631)
Contributions	2,504,782
Miscellaneous income	25,615
Appropriated for spending	(7,263,900)
Administration fees	<u>(2,620,731)</u>
Net endowment activity	<u>(37,909,865)</u>
Transfers of income to (from) endowment, net	<u>8,655,326</u>
Endowment net assets, December 31, 2022	<u>179,838,495</u>
Investment income (dividends and interest)	5,813,992
Net realized and unrealized gains	<u>18,668,314</u>
Total investment income	24,482,306
Contributions	5,301,187
Miscellaneous income	22,553
Appropriated for spending	(6,240,541)
Administration fees	<u>(2,603,467)</u>
Net endowment activity	<u>20,962,038</u>
Transfers of income to (from) endowment, net	<u>(197,987)</u>
Endowment net assets, December 31, 2023	<u><u>\$ 200,602,546</u></u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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 \$37,144 and \$38,153 for 2023 and 2022, 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 \$208,004 and \$173,329 in 2023 and 2022, respectively.

NOTE 15. OPERATING LEASE

The Foundation leases office space in Salinas, California under a non-cancelable operating lease that expires July 2024, with an option to extend the lease for an additional two years, and requires monthly payments of \$3,289, which escalates 3% annually in August. Rent expense amounted to \$42,126 for each of the years ended December 31, 2023 and 2022.

Other Information

Cash paid for amounts included in the measurement of lease liabilities

Operating cash flows from operating leases	\$ 41,155
Weighted-average remaining lease term in years for operating leases	3
Weighted-average discount rate for operating leases	1.30%

Maturity Analysis

2024	\$ 42,391
2025	43,663
2026	<u>25,910</u>
Total undiscounted cash flows	111,964
Less: present value discount	<u>(1,820)</u>
Total lease liabilities	<u>\$ 110,144</u>

COMMUNITY FOUNDATION FOR MONTEREY COUNTY

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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 started at \$7,500 and increase by 3% annually each January.

Future commitments for the operating fund repaying the general endowment as of December 31, 2023 are as follows:

2024	\$	128,364
2025		132,216
2026		136,188
2027		140,268
Thereafter		<u>485,217</u>
		1,022,253
Amount representing interest		<u>(140,590)</u>
	\$	<u><u>881,663</u></u>

NOTE 17. RELATED PARTY TRANSACTIONS

Approximately \$93,918 and \$23,936 in donations were received from members of the Board of Directors during the years ended December 31, 2023 and 2022, respectively.

NOTE 18. SUBSEQUENT EVENTS

Management has evaluated its December 31, 2023 and 2022 consolidated financial statements for subsequent events through April 23, 2024, the date of issuance of the consolidated financial statements. The Foundation is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.