

HOSPICE GIVING FOUNDATION

FINANCIAL STATEMENTS

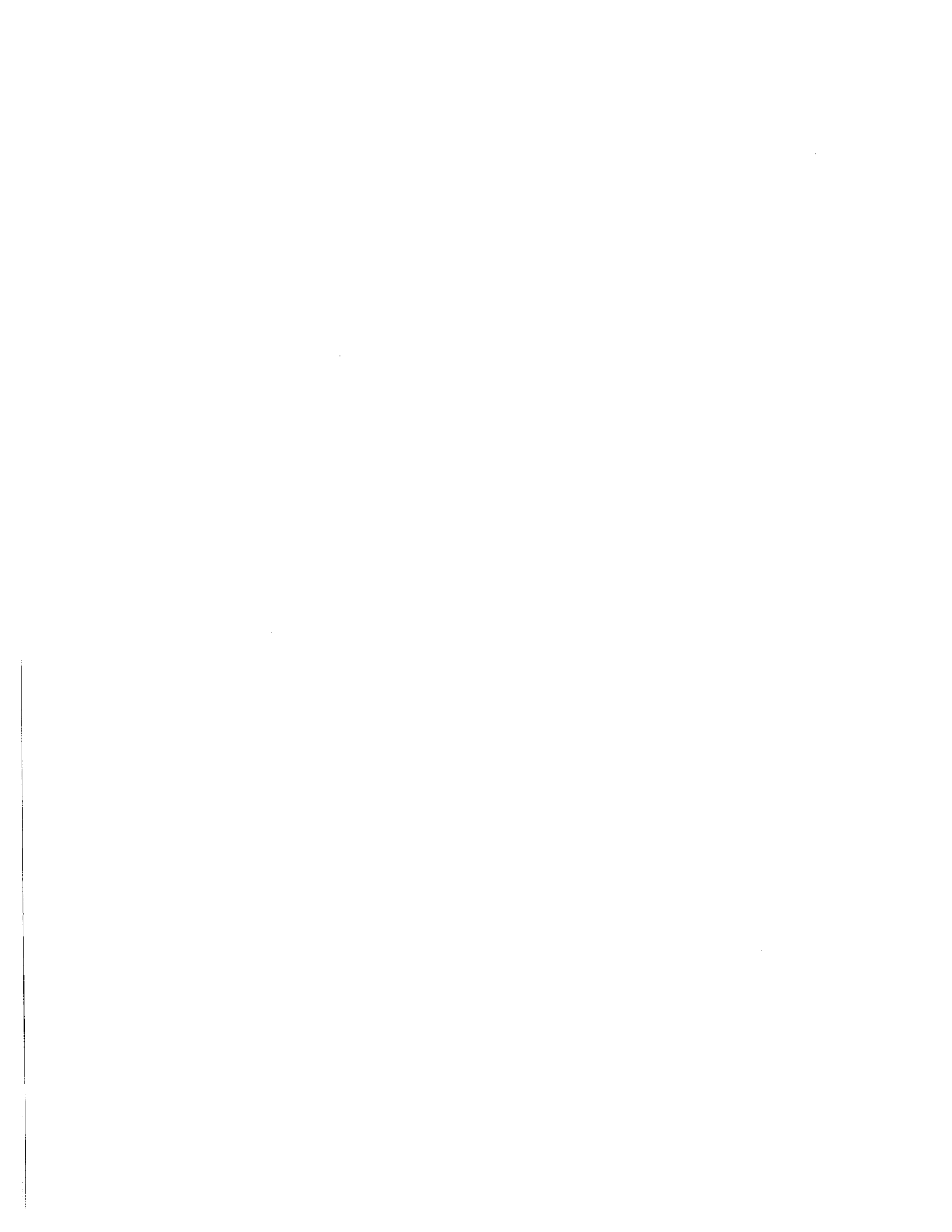
FOR THE YEARS ENDED
JUNE 30, 2017 AND 2016

AND INDEPENDENT AUDITORS' REPORT

HOSPICE GIVING FOUNDATION

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HOSPICE GIVING FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 112,022	\$ 229,341
Contributions receivable	11,000	367,300
Short-term investments	7,953,659	35,262
Prepaid expenses	11,465	5,865
Total current assets	8,088,146	637,768
PROPERTY AND EQUIPMENT – Net	16,087	17,361
OTHER ASSETS:		
Deposits	3,250	3,000
Long-term investments	20,211,852	25,929,854
Trusts receivable	2,254,531	2,145,064
Beneficial interest in real estate	–	521,933
Total other assets	22,469,633	28,599,851
TOTAL ASSETS	\$ 30,573,866	\$ 29,254,980
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 21,990	\$ 22,247
Accrued liabilities	22,119	40,201
Endowment assets to be transferred to CHOMP	7,351,761	–
Contractual payment to CHOMP	450,797	455,463
Current portion of trust and annuity liabilities	9,595	60,083
Total current liabilities	7,856,262	577,994
TRUST AND ANNUITY LIABILITIES	31,377	155,713
Total liabilities	7,887,639	733,707
NET ASSETS:		
Unrestricted:		
Undesignated	184,921	621,464
Board designated	9,894,736	8,734,579
Program endowment	6,271,510	12,809,853
Total unrestricted net assets	16,351,167	22,165,896
Temporarily restricted	2,791,304	2,831,650
Permanently restricted	3,543,756	3,523,727
Total net assets	22,686,227	28,521,273
TOTAL LIABILITIES AND NET ASSETS	\$ 30,573,866	\$ 29,254,980

See Notes to Financial Statements.

HOSPICE GIVING FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS:		
OPERATING SUPPORT AND REVENUE:		
Contributions and pledges	\$ 148,033	\$ 157,130
Special events	315,995	208,724
Bequests	310,541	352,894
Other income	3,185	17,563
Net assets released from restrictions	840,975	1,504,662
Total operating support and revenue	1,618,729	2,240,973
OPERATING EXPENSES:		
General and administrative	442,675	445,411
Fund development	393,495	297,522
Community education / public relations	136,931	118,431
Special events	109,356	105,646
Total operating expenses before grants	1,082,457	967,010
Grant expenses	785,462	954,000
Total operating expenses	1,867,919	1,921,010
Changes in unrestricted net assets from operations	(249,190)	319,963
OTHER CHANGES:		
Investment income (loss) – net:		
Board designated	739,183	(42,627)
Program endowment	1,368,244	(127,004)
Trust and annuities	7,487	3,669
Change in value of split-interest agreements	(675)	(53,212)
Contractual payment to CHOMP	(450,797)	(455,463)
Final Payout to CHOMP	(7,351,761)	–
Gain (loss) on disposition of real estate	122,780	(78,121)
Total other changes	(5,565,539)	(752,758)
DECREASE IN UNRESTRICTED NET ASSETS	\$ (5,814,729)	\$ (432,795)

HOSPICE GIVING FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(Continued)

	<u>2017</u>	<u>2016</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	\$ 126,853	\$ 127,518
Investment income (loss) – net –		
Donor restricted endowment	399,830	(49,117)
Interest income – Gardner beautification fund	–	11
Change in value of split-interest agreements	273,946	121,093
Net assets released from restrictions	<u>(840,975)</u>	<u>(1,504,662)</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(40,346)</u>	<u>(1,305,157)</u>
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS –		
Contributions	<u>20,029</u>	<u>2,000</u>
CHANGE IN NET ASSETS	(5,835,046)	(1,735,952)
NET ASSETS, BEGINNING OF YEAR	<u>28,521,273</u>	<u>30,257,225</u>
NET ASSETS, END OF YEAR	<u>\$ 22,686,227</u>	<u>\$ 28,521,273</u>

See Notes to Financial Statements.

HOSPICE GIVING FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (5,835,046)	\$ (1,735,952)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	3,144	3,184
Gain (loss) on disposition of real estate	(122,780)	78,121
Change in value of split-interest agreements	(273,271)	(67,881)
Net realized/unrealized (gain)/loss on investments	(1,914,815)	1,012,289
(Increase) decrease in:		
Contributions receivable	356,300	49,132
Other receivables	-	1,300
Prepaid expenses	(5,600)	(5,865)
Deposits	(250)	-
Increase (decrease) in:		
Accounts payable	(257)	(957)
Accrued liabilities	(18,082)	16,744
Endowment assets to be transferred to CHOMP	7,351,761	-
Contractual payment to CHOMP	(4,666)	2,286
Contributions restricted for endowment	(20,029)	(2,000)
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 (483,591)	 (649,599)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,870)	-
Purchases of investments	(1,697,679)	(2,503,427)
Proceeds from the sale of real estate	644,713	1,111,412
Proceeds from the sale of investments	1,412,099	2,154,074
 NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	 357,263	 762,059
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds of contributions restricted for endowment	20,029	2,000
Payments on annuity contracts	(11,020)	(60,624)
 NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	 9,009	 (58,624)
 NET INCREASE (DECREASE) IN CASH	 (117,319)	 53,836
 CASH AT BEGINNING OF YEAR	 229,341	 175,505
 CASH AT END OF YEAR	 \$ 112,022	 \$ 229,341

See Notes to Financial Statements.

HOSPICE GIVING FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations – Hospice Giving Foundation (the Foundation) is an independent nonprofit foundation that raises, manages, and invests donor funds in order to award grants to a network of agencies that provide end-of-life care in Monterey and San Benito counties. The Foundation ensures donor dollars are properly directed, conducts thorough vetting of all prospective grantee organizations, and supports a breadth and depth of end-of-life services throughout the identified communities. By funding direct patient care, family support, community education, and planning the Foundation supports a continuum of services.

Basis of Presentation – The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The net assets, revenues, gains and losses, other support and expenses and other changes in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of the Foundation and changes therein are classified as follows:

- **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed restrictions. This includes certain amounts designated by the Board for endowment and other purposes.
- **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed restrictions that may be or will be met either by actions of the Foundation and/or the passage of time.
- **Permanently Restricted Net Assets** – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or a part of the income earned on related investments for general or donor-restricted purposes.

Recognition of Donor Restriction – Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. In the absence of explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Revenue Recognition – Contributions, which include unconditional promises to give, are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Cash – The Foundation considers all highly liquid investments with an initial maturity of three months or less at the date of purchase to be cash except for money market funds held in investment brokerage accounts, which are classified as investments.

Contributions Receivable – Contributions receivable, which include unconditional promises to give, that are expected to be collected within one year are recorded at net realizable value. Contributions that are expected to be collected over periods in excess of one year are recorded at the present value of the estimated cash flows beyond one year. The discounts on those amounts are computed using an estimated discount rate applicable to the years in which the promises are received.

The Foundation uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management analysis of specific contributions made. The allowance has been estimated at zero for the years ended June 30, 2017 and 2016.

Investments – Marketable debt and equity securities are measured at fair value. Increases or decreases in market value are recognized in the period in which they occur.

Property and Equipment – All equipment acquired by purchase is stated at cost. Donated property is stated at fair market value at the date of gift. Major improvements are capitalized to the property accounts, while maintenance and repairs which do not extend the life of the respective assets are expensed currently. The Foundation typically capitalizes items costing or valued at \$500 or more with an estimated useful life of more than one year.

Depreciation – Depreciation is computed by use of the straight-line method based on the estimated useful lives of the respective assets, which range from five to fifteen years.

Accrued Compensated Absences – All employees of the Foundation accrue vacation and sick leave. The rate of accrual is based on seniority. Vacation accrues at the rate of 10 days for one year but less than five years of service, 15 days for 5 years but less than 10 years, and 20 days for 10 years and over. Sick leave accrues at a rate of 10 days per year. Vacation is allowed to carryover at a maximum of 10 days. Any unused vacation accrual is paid upon termination. The President/CEO's accrued vacation and sick leave is negotiated as part of their annual contract with the board.

Donated Services – Donated services are not recorded unless such services create or enhance nonfinancial assets or require specialized skills and are so essential that they would be purchased if not provided by donation.

Income Taxes – As a tax exempt not-for-profit organization, the Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state franchise tax under California Revenue and Taxation Code Section 23701(d), but is subject to taxes on unrelated business income when earned.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management has considered the Foundation's tax positions and believes that all of the positions taken in federal and state tax returns are more likely than not to be sustained upon examination. The Foundation's returns are subject to income tax examinations by the federal and state tax authorities, generally for three years and four years, respectively, after they are filed.

Functional Allocation of Expenses – The costs of providing program services and other activities have been presented on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair Value of Financial Instruments – The carrying amount of financial instruments including cash, contributions receivable, accounts payable and accrued expenses approximate their fair values because of the relatively short maturity of these instruments.

Reclassifications – Certain reclassifications have been made to the prior year comparative financial statements to conform with the current year presentation.

Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

Recent Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a robust framework for addressing revenue recognition issues and, upon its effective date, will replace almost all pre-existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles (GAAP). Implementation for non-public entities must occur in years beginning after December 15, 2018. Early application of the amendments in this Update is permitted. The Foundation has no plan for early implementation of this Statement. At this time the Foundation is not certain of the effect the adoption of ASU 2014-09 will have on the accompanying financial statements.

On February 25, 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). Non-public entities are required to adopt the standard for reporting periods beginning after December 15, 2019. All entities may elect to early-adopt. The core principle of the new leases standard is that lessees should recognize assets and liabilities arising from all leases, except for leases with a lease term of 12 months or less. This will significantly gross-up many entities balance sheets. The Foundation has no plan for early implementation of this Statement. At this time the Foundation is not certain of the effect the adoption of ASU 2016-02 will have on the accompanying financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, representing the first time since the mid-1990s that financial reporting for not-for-profit organizations has been addressed. While the guidance is effective for fiscal years beginning after December 15, 2017, early adoption is allowed. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The Foundation has no plan for early implementation of this Statement. At this time the Foundation is not certain of the effect the adoption of ASU 2016-14 will have on the accompanying financial statements.

Subsequent Events – Subsequent events have been evaluated through November 20, 2017, which is the date the financial statements were available to be issued.

NOTE 2. CONCENTRATION OF CREDIT RISK

The Foundation maintains cash balances at several financial institutions located in California. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2017 and June 30, 2016, all the Foundation's cash was covered by FDIC Insurance.

NOTE 3. FAIR VALUE MEASUREMENTS

The Foundation measures its assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

The guidance establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The guidance expands disclosures about instruments measured at fair value. The guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, the guidance does not require any new fair value measurements.

As noted above, the guidance establishes a three level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial statement.

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurements.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30, by caption on the statement of financial position by the valuation hierarchy defined above:

	2017			2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Investments (Note 5)	\$ 28,165,511	\$ -	\$ -	\$ 25,965,116	\$ -	\$ -
Trusts receivable (Note 6)	\$ -	\$ -	\$ 2,254,531	\$ -	\$ -	\$ 2,145,064
Beneficial interest in real estate (Note 6)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 521,933

Following is a description of the Foundation's valuation methodologies for assets and liabilities measured at fair value:

Fair value for Level 1 is based upon quoted market prices. Inputs are obtained from various sources including market participants, dealers, brokers and financial institutions.

Fair value for Level 3 utilizes the key input of a discount rate to convert the expected future cash flows from the trusts to a single present value amount. The Foundation utilizes an estimated discount rate at June 30, 2017 and 2016 and develops measurement criteria based on the best information possible. The net present value of the split-interest agreements in which the Foundation does not serve as trustee utilizes significant unobservable inputs in estimating fair value. The following is a comparative summary of activities for the years ended June 30, 2017 and 2016 for assets and liabilities measured at fair value based on Level 3 inputs:

	2017	
	Trusts Receivable	Beneficial Interest in Real Estate
Balance, beginning of year	\$ 2,145,064	\$ 521,933
Dyer trust pay out	-	(521,933)
Change in value of split-interest agreements	109,467	-
Balance, end of year	<u>\$ 2,254,531</u>	<u>\$ -</u>

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

	<u>2016</u>	
	<u>Trusts Receivable</u>	<u>Beneficial Interest in Real Estate</u>
Balance, beginning of year	\$ 2,003,186	\$ 1,727,794
Bellman trust pay out	-	(1,175,000)
Change in value of split-interest agreements	<u>141,878</u>	<u>(30,861)</u>
Balance, end of year	<u>\$ 2,145,064</u>	<u>\$ 521,933</u>

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with 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 the reporting date.

NOTE 4. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, consists of the following:

	<u>2017</u>	<u>2016</u>
Osorio Trust	\$ -	\$ 300,000
Lagerholm Trust	-	36,300
Monterey Peninsula Foundation	-	30,000
Other	1,000	1,000
Bethany Ann Beckman Trust	<u>10,000</u>	<u>-</u>
Total	<u>\$ 11,000</u>	<u>\$ 367,300</u>

NOTE 5. INVESTMENTS

The Foundation classifies its investments as follows:

Board Designated Fund – The Board Designated Fund accounts for those funds which are not restricted and will be expended for specific purposes as designated by the Board of Directors.

Donor Restricted Endowment Fund – The Donor Restricted Endowment Fund accounts for funds donated to the Foundation in which the principal is to be invested and only the related income and appreciation in the value of the endowment investments can be expended.

NOTE 5. INVESTMENTS (Continued)

Program Endowment Fund – The Program Endowment Fund accounted for funds which were contractually obligated for the benefit of Hospice of the Central Coast, payable to Community Hospital of the Monterey Peninsula. Effective June 30, 2017 these funds are no longer contractually obligated.

Charitable Gift Annuities Fund – The Charitable Gift Annuities Fund accounts for funds donated to the Foundation in which the donor is to be paid annuity payments for life. The Foundation invests these funds based upon regulations of the California Department of Insurance and the Florida Office of Insurance Regulation.

At June 30, 2017 and 2016, \$37,815 and \$201,507, respectively, of the charitable gift annuities fund and other funds as needed, are required as reserves to meet the expected future payment obligations under the Foundation’s outstanding annuity contracts.

Investments are stated at fair market value based on quoted market prices (Level 1). The investments portfolio included the following at June 30:

	2017				Total
	Board Designated Fund	Donor Restricted Endowment Fund	Program Endowment Fund	Charitable Gift Annuities Fund	
Money Market	\$ 115,162	\$ 7,810,718	\$ 19,612	\$ 8,167	\$ 7,953,659
U. S. Government notes, bonds and T-bills	–	–	–	74,367	74,367
Domestic corporate bonds and bond funds	4,315,081	2,507,689	1,298,817	13,241	8,134,828
Domestic stocks and stock funds	2,764,080	2,115,204	1,432,347	23,726	6,335,357
International fixed income	–	–	–	19,255	19,255
International stocks and stock funds	2,226,172	1,453,754	1,008,879	7,307	4,696,112
Other	474,241	298,971	178,721	–	951,933
Total	\$ 9,894,736	\$ 14,186,336	\$ 3,938,376	\$ 146,063	\$ 28,165,511

NOTE 5. INVESTMENTS (Continued)

	2016				Total
	Board Designated Fund	Donor Restricted Endowment Fund	Program Endowment Fund	Charitable Gift Annuities Fund	
Money Market	\$ 9,978	\$ 3,089	\$ 9,581	\$ 12,614	\$ 35,262
U. S. Government notes, bonds and T-bills	–	–	–	40,125	40,125
Domestic corporate bonds and bond funds	3,915,381	1,279,337	5,292,369	30,458	10,517,545
Domestic stocks and stock funds	2,498,964	1,309,202	4,185,964	30,179	8,024,309
International fixed income	–	–	–	28,729	28,729
International stocks and stock funds	1,845,309	913,135	3,170,198	5,365	5,934,007
Other	464,947	197,515	720,549	2,128	1,385,139
Total	\$ 8,734,579	\$ 3,702,278	\$ 13,378,661	\$ 149,598	\$ 25,965,116

Investment income (loss) – net is comprised of the following for the years ended June 30:

	2017				Total
	Board Designated Fund	Donor Restricted Endowment Fund	Program Endowment Fund	Trust and Annuities	
Interest/dividend income	\$ 214,944	\$ 97,988	\$ 341,436	\$ 3,569	\$ 657,937
Realized/unrealized gains (losses) on investments	542,567	308,570	1,059,761	3,918	1,914,816
Investment fees	(18,328)	(6,728)	(32,953)	–	(58,009)
Total investment Income (loss) – net	\$ 739,183	\$ 399,830	\$ 1,368,244	\$ 7,487	\$ 2,514,744

	2016				Total
	Board Designated Fund	Donor Restricted Endowment Fund	Program Endowment Fund	Trust and Annuities	
Interest/dividend income	\$ 278,228	\$ 128,130	\$ 442,877	\$ 8,534	\$ 857,769
Realized/unrealized gains (losses) on investments	(301,604)	(170,373)	(535,447)	(4,865)	(1,012,289)
Investment fees	(19,251)	(6,874)	(34,434)	–	(60,559)
Total investment Income (loss) – net	\$ (42,627)	\$ (49,117)	\$ (127,004)	\$ 3,669	\$ (215,079)

NOTE 6. SPLIT-INTEREST AGREEMENTS

Trusts Receivable –The Foundation is a remainderman beneficiary of four charitable remainder trusts for which the Foundation does not serve as Trustee. The assets of these trusts are in no way subject to the control of the Foundation at this time and are recorded at the estimated net present value of the assets to be received. The charitable remainder trust agreements stipulate that certain amounts are to be paid to individuals from trust income until such time that the trust is terminated. The Foundation also has eight charitable gift annuities. The assets donated are recorded at fair market value. The charitable gift annuity agreements stipulate that the Foundation will pay an annual annuity for the life of the donor.

The net present value of assets and trust and annuity liabilities are recorded based on the present value of future payments calculated using IRS life expectancy tables in IRS Publication 590, dated December 2016 and discounted to its net present value at an estimated discount rate for the period of time at the date of the gift. The change in value of the trust agreements is recorded for the amortization of the discount and any changes in actuarial assumptions.

Upon the death of the last beneficiary of each trust, the assets of the individual trusts will become the property of the Foundation.

Beneficial Interest in Real Estate – The Foundation has been deeded a personal residence in which the donor reserved the right to use the property for the remainder of their life. The donor and the Foundation are each responsible for a portion of shared costs and the upkeep and when the donor dies, the deed transfers full ownership to the Foundation. The residence deeded is in a retained life estate included as part of a charitable gift annuity. These assets are recorded as a beneficial interest in real estate on the statement of financial position. The balances are recorded at the net present value based on actuarially determined life expectancies and discounted at an estimated discount rate of return of 0% and 3.35% at June 30, 2017 and 2016, respectively.

The carrying value of the split-interest agreements at June 30 consists of the following:

	<u>2017</u>	<u>2016</u>
Charitable remainder trusts in which the Foundation does not serve as Trustee – net present value:		
Remainder interest in Sidney Williams trust	\$ 312,824	\$ 298,158
Remainder interest in Costello Family trust	345,439	303,155
Remainder interest in Armstrong trust	44,219	42,010
Remainder interest in Christensen Charitable Trust	<u>1,552,049</u>	<u>1,501,741</u>
Total	<u>\$ 2,254,531</u>	<u>\$ 2,145,064</u>
Beneficial Interest in Real Estate in which the Foundation does not serve as Trustee – net present value –		
Remainder interest in Dyer trust	<u>\$ –</u>	<u>\$ 521,933</u>
Total	<u>\$ –</u>	<u>\$ 521,933</u>

NOTE 6. SPLIT-INTEREST AGREEMENTS (Continued)

At June 30 trust and annuity liabilities consists of the following:

	<u>2017</u>	<u>2016</u>
Payable for charitable gift annuities	\$ 40,972	\$ 215,796
Total trust and annuity liabilities	<u>\$ 40,972</u>	<u>\$ 215,796</u>

NOTE 7. PROPERTY AND EQUIPMENT – NET

Property and equipment at June 30 consists of the following:

	<u>2017</u>	<u>2016</u>
Furniture and fixtures	\$ 72,318	\$ 70,448
Less accumulated depreciation	<u>56,231</u>	<u>53,087</u>
Property and equipment – net	<u>\$ 16,087</u>	<u>\$ 17,361</u>

Depreciation expense was \$3,144 and \$3,184 for the years ended June 30, 2017 and 2016, respectively.

NOTE 8. CONTRACTUAL PAYMENT TO CHOMP

Pursuant to an agreement with Community Hospital of the Monterey Peninsula (CHOMP), the acquisition consideration for the purchase of Hospice assets of \$10 million and a portion of the earnings were contractually obligated for the benefit of Hospice of the Central Coast, provided CHOMP continued to deliver hospice services. The agreement stipulated that the \$10 million of funds received were to be placed in an endowment fund, accordingly the Foundation recorded and tracked these funds in the Program Endowment Fund. The portion of the Program Endowment Fund obligated for the benefit of Hospice of the Central Coast was reflected as Unrestricted – Program Endowment on the Statement of Financial Position. Further, pursuant to the agreement, the Foundation annually calculated expendable endowment income and was required to distribute that amount to CHOMP within 30 days of year end. Expendable endowment income was \$450,797 and \$455,463 for the years ended June 30, 2017 and 2016, respectively. The liability due to CHOMP at June 30, 2017 and 2016 is \$450,797 and \$455,463, respectively. The Foundation was also entitled to an administrative fee each year. This fee was also calculated annually. This agreement was terminated upon execution of a new agreement.

NOTE 8. CONTRACTUAL PAYMENT TO CHOMP (Continued)

Effective June 30, 2017 the new agreement was signed between Montage Health (the parent company for CHOMP) and the Foundation that altered the structure of the Program Endowment Fund while enabling both organizations to support end-of-life care in the community more fully. Restructuring this fund will allow both organizations to be more responsive to patient needs and families facing end-of-life concerns. The commitment remains to ensure the future of quality end-of-life care in the community. The organizations concluded that funding would be more effective if the two entities divided the original endowment and deployed the funds independently. Under the new agreement, a portion of the resources that once benefited only Hospice of the Central Coast will be pooled with the Foundation's other funds, bolstering the impact of the Foundation's grants to a range of organizations. In addition, a portion of the endowment fund will be transferred to Montage Health Foundation, the philanthropic arm of CHOMP's parent company, Montage Health. Those funds will support expanded end-of-life programs, including hospice, palliative care, transitional care to hospice, and a variety of support for patients and their families by the hospital and related Montage entities. Pursuant to this new agreement the assets to be transferred to Montage Health Foundation are \$7,351,761 and that obligation is reflected in the Statement of Financial Position as a liability. The Foundation will continue to record and track the remaining funds as a Program Endowment Fund until such time as the board chooses whether or not the funds will be otherwise designated.

NOTE 9. TEMPORARILY RESTRICTED NET ASSETS

At June 30 temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Split-interest agreements	\$ 2,254,531	\$ 2,502,518
Dalton statue fund	10,000	10,000
Other	165	455
Gardner beautification fund for Westland House	-	7,762
Palliative care	24,213	24,213
Hospice care	50	425
Patient care	-	-
Children end-of-life	41,885	41,885
Community education	60,540	60,540
Endowment earnings:		
Community outreach and education	2,902	1,113
Hospice care at Westland House	4,227	4,407
Hospice care – Westland Fund	88,452	53,255
Alzheimer's	2,454	4,091
General	<u>301,885</u>	<u>120,986</u>
Total	<u>\$ 2,791,304</u>	<u>\$ 2,831,650</u>

NOTE 9. TEMPORARILY RESTRICTED NET ASSETS (Continued)

During the course of the year, net assets that were subject to donor imposed restrictions were fulfilled by actions of the Foundation pursuant to those restrictions. These net assets are shown in the Statement of Activities as "Net assets released from restriction." The detail of the net assets released from restrictions at June 30 is as follows:

	<u>2017</u>	<u>2016</u>
Split-interest agreements	\$ 521,933	\$ 1,175,000
Other	455	2,710
Gardner beautification fund for Westland House	7,762	-
Palliative care	24,213	38,893
Hospice care	425	2,460
Patient care	-	2,615
Children end-of-life	41,885	36,202
Community education	60,540	29,805
Endowment earnings:		
Community outreach and education	1,113	-
Hospice care at Westland House	7,500	6,509
Hospice care – Westland Fund	53,255	95,489
Alzheimer's	4,000	-
General	<u>117,894</u>	<u>114,979</u>
Total	<u>\$ 840,975</u>	<u>\$ 1,504,662</u>

NOTE 10. PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2017 and 2016, permanently restricted net assets are composed of various donor restricted contributions to the Foundation's endowment fund. Under the terms of these contributions, the original donation must be kept in perpetuity and depending on the donors' wishes, the earnings are available for unrestricted or temporarily restricted uses. The total of these permanently restricted contributions at June 30, 2017 and 2016 was \$3,543,756 and \$3,523,727, respectively.

The Foundation's endowment consists of eight individual funds, three established for general operating purposes, one for the Westland House and the remaining are for patient care, community outreach and education, and Alzheimer's. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 10. PERMANENTLY RESTRICTED NET ASSETS (Continued)

Interpretation of Relevant Law – The Foundation’s Board of Directors has interpreted the Uniform Prudent Management of 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. 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 fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (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
- (7) The investment policies of the Foundation

Spending Policy – Each year up to eighty percent (80%) of the earnings in each donor-restricted endowment fund, shall be appropriated and then distributed in the following year according to the written criteria, and twenty percent (20%) shall be left in each fund, for growth. The percentage shall be reviewed annually by the Foundation’s investment committee, which may make recommendations to the board as to any recommended changes. Distributions from the donor-restricted endowment funds were \$183,762 and \$216,977 for the year ending June 30, 2017 and 2016, respectively. Distributions from the donor-restricted endowment funds for the year ending June 30, 2017 was approximately 5% of the 3-year rolling average of donor-restricted endowment funds. Each year four percent (4%) of the adjusted market value of the program endowment fund was appropriated and then distributed in the following year in accordance with the agreement with CHOMP. This agreement was replaced by a new agreement effective June 30, 2017.

NOTE 10. PERMANENTLY RESTRICTED NET ASSETS (Continued)

Investment Policy –

Investment Objective: The Fund is a balanced portfolio composed of equity, fixed income, and cash equivalent securities and, as such, is intended to be more aggressive than fixed income-oriented portfolios and less aggressive than equity-oriented portfolios. In this context “aggressive” relates to such issues as investment vehicles, diversification among economic and industry sectors and individual securities, and expected long-term rates of return and return volatility. Within this framework, the investment objectives for the Fund are stated below in order of importance:

A. Preservation of Purchasing Power – Asset growth, exclusive of contributions and withdrawals, should, exceed the rate of inflation in order to preserve purchasing power of the Foundation’s assets.

B. Growth of Capital – Asset growth is expected to be consistent with the investment consultant’s stated style characteristics over a complete market cycle (generally three to five years).

C. Preservation of Capital – Over the investment time horizon, capital gains are to be protected. A positive return must be experienced over the investment time horizon.

Asset Allocation Limitations: Common Stocks 40% to 70%; International Stocks 10% to 20% and Fixed Income Assets 20% to 50%.

Risk Tolerance: The Board recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the possibility of loss in purchasing power (due to inflation) are present to some degree in all types of investment vehicles. While high levels of risk are to be avoided, as measured and evidenced by high volatility and/or low quality rated securities, the assumption of risk is warranted and encouraged in order to allow the investment consultant the opportunity to achieve satisfactory long-term results consistent with the objectives and fiduciary character of the Foundation.

Endowment Net Asset Composition –
Endowment net asset composition as of June 30:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowments	\$ –	\$ 399,920	\$ 3,543,756	\$ 3,943,676
Board-designated endowments (program endowment)	<u>6,271,510</u>	<u>–</u>	<u>–</u>	<u>6,271,510</u>
	<u>\$ 6,271,510</u>	<u>\$ 399,920</u>	<u>\$ 3,543,756</u>	<u>\$ 10,215,186</u>

NOTE 10. PERMANENTLY RESTRICTED NET ASSETS (Continued)

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowments	\$ -	\$ 183,852	\$ 3,523,727	\$ 3,707,579
Board-designated endowments (program endowment)	<u>12,809,853</u>	<u>-</u>	<u>-</u>	<u>12,809,853</u>
	<u>\$ 12,809,853</u>	<u>\$ 183,852</u>	<u>\$ 3,523,727</u>	<u>\$ 16,517,432</u>

Changes in Endowment Net Assets –
Changes in endowment net assets for the years ended June 30:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Balance at Beginning of Year	\$ 12,809,853	\$ 183,852	\$ 3,523,727	\$ 16,517,432
Investment return:				
Investment income	341,436	97,988	-	439,424
Realized/Unrealized gain (loss)	1,059,761	308,570	-	1,368,331
Investment fees	<u>(32,953)</u>	<u>(6,728)</u>	<u>-</u>	<u>(39,681)</u>
Total investment return	<u>1,368,244</u>	<u>399,830</u>	<u>-</u>	<u>1,768,074</u>
Contributions	-	-	20,029	20,029
Appropriation of endowment assets for expenditure	<u>(7,906,587)</u>	<u>(183,762)</u>	<u>-</u>	<u>(8,090,349)</u>
Balance at End of Year	<u>\$ 6,271,510</u>	<u>\$ 399,920</u>	<u>\$ 3,543,756</u>	<u>\$ 10,215,186</u>

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Balance at Beginning of Year	\$ 13,497,427	\$ 449,946	\$ 3,521,727	\$ 17,469,100
Investment return:				
Investment income	442,877	128,130	-	571,007
Realized/Unrealized gain (loss)	(535,447)	(170,373)	-	(705,820)
Investment fees	<u>(34,434)</u>	<u>(6,874)</u>	<u>-</u>	<u>(41,308)</u>
Total investment return	<u>(127,004)</u>	<u>(49,117)</u>	<u>-</u>	<u>(176,121)</u>
Contributions	-	-	2,000	2,000
Appropriation of endowment assets for expenditure	<u>(560,570)</u>	<u>(216,977)</u>	<u>-</u>	<u>(777,547)</u>
Balance at End of Year	<u>\$ 12,809,853</u>	<u>\$ 183,852</u>	<u>\$ 3,523,727</u>	<u>\$ 16,517,432</u>

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NOTE 10. PERMANENTLY RESTRICTED NET ASSETS (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 that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$ –0– as of June 30, 2017 and 2016.

NOTE 11. LEASE COMMITMENTS

The Foundation conducts a portion of its operations from office space in Monterey, California leased under a noncancelable lease agreement terminating October 31, 2024.

The minimum future lease payments for the year ended June 30 are as follows:

2018		\$	45,095
2019			47,546
2020			50,000
2021			53,000
2022			56,000
2023 and thereafter			<u>142,000</u>
Total		\$	<u>393,641</u>

Total rent expense for the years ended June 30, 2017 and 2016, amounted to \$42,012 and \$41,545, respectively.

NOTE 12. RETIREMENT PLAN

The Foundation has a 403(b) retirement plan that covers all eligible employees. Retirement costs include current service costs which are accrued and funded by an employer contribution of five percent of wages, on a current basis. An individual employee has the option to designate placement of the contribution made on his or her behalf in mutual funds and/or annuity contracts. The employee can also make a contribution in an amount equal to the maximum allowed by law or 25% of their wages for the year. Retirement costs charged to operations for the years ended June 30, 2017 and 2016 were \$21,812 and \$18,434, respectively. There are no unfunded prior service costs.

NOTE 13. CONTINGENCIES

The Foundation has been informed of several bequests. As the estates have not been settled, no estimates of actual distributions payable to the Foundation are available. Accordingly, the Foundation has not recorded any support income or receivables due from these bequests.

