

HOSPICE GIVING FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017

AND INDEPENDENT AUDITORS' REPORT

HOSPICE GIVING FOUNDATION

Table of Contents

	Page
Independent Auditors' Report	2 – 3
Financial Statements:	
Statements of Financial Position	4
Statements of Activities	5 – 6
Statements of Cash Flows	7
Notes to Financial Statements	8 – 22



HAYASHI | WAYLAND

INDEPENDENT AUDITORS' REPORT

**To the Board of Directors
Hospice Giving Foundation
Monterey, California**

Report on the Financial Statements

We have audited the accompanying financial statements of *Hospice Giving Foundation (the Foundation)* (a California nonprofit corporation) which comprise the statements of financial position as of June 30, 2018 and 2017, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Hospice Giving Foundation** as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

November 13, 2018

Hayashi Wayland, LLP



HOSPICE GIVING FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 203,207	\$ 112,022
Contributions receivable	372,952	11,000
Short-term investments	57,025	7,953,659
Prepaid expenses	11,338	11,465
Total current assets	<u>644,522</u>	<u>8,088,146</u>
PROPERTY AND EQUIPMENT – Net	<u>29,175</u>	<u>16,087</u>
OTHER ASSETS:		
Deposits	3,250	3,250
Long-term investments	20,518,909	20,211,852
Trusts receivable	1,933,718	2,254,531
Total other assets	<u>22,455,877</u>	<u>22,469,633</u>
TOTAL ASSETS	<u>\$ 23,129,574</u>	<u>\$ 30,573,866</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 5,462	\$ 21,990
Accrued liabilities	58,387	22,119
Endowment assets to be transferred to CHOMP	–	7,351,761
Contractual payment to CHOMP	–	450,797
Current portion of trust and annuity liabilities	9,595	9,595
Total current liabilities	73,444	7,856,262
TRUST AND ANNUITY LIABILITIES	<u>30,088</u>	<u>31,377</u>
Total liabilities	<u>103,532</u>	<u>7,887,639</u>
NET ASSETS:		
Unrestricted:		
Undesignated	619,410	184,921
Board designated	16,385,408	9,894,736
Program endowment	–	6,271,510
Total unrestricted net assets	17,004,818	16,351,167
Temporarily restricted	2,464,688	2,791,304
Permanently restricted	3,556,536	3,543,756
Total net assets	<u>23,026,042</u>	<u>22,686,227</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 23,129,574</u>	<u>\$ 30,573,866</u>

See Notes to Financial Statements.

HOSPICE GIVING FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
OPERATING SUPPORT AND REVENUE:		
Contributions and pledges	\$ 307,568	\$ 148,033
Special events	314,177	315,995
Bequests	541,720	310,541
Other income	14,698	3,185
Net assets released from restrictions	<u>619,595</u>	<u>840,975</u>
Total operating support and revenue	<u>1,797,758</u>	<u>1,618,729</u>
OPERATING EXPENSES:		
General and administrative	499,689	442,675
Fund development	395,745	393,495
Community education / public relations	141,828	136,931
Special events	<u>112,072</u>	<u>109,356</u>
Total operating expenses before grants	1,149,334	1,082,457
Grant expenses	<u>800,000</u>	<u>785,462</u>
Total operating expenses	<u>1,949,334</u>	<u>1,867,919</u>
Changes in unrestricted net assets from operations	<u>(151,576)</u>	<u>(249,190)</u>
OTHER CHANGES:		
Investment income – net:		
Board designated	425,785	739,183
Program endowment	383,902	1,368,244
Trust and annuities	3,846	7,487
Change in value of split-interest agreements	(8,306)	(675)
Contractual payment to CHOMP	–	(450,797)
Final Payout to CHOMP	–	(7,351,761)
Gain on disposition of real estate	<u>–</u>	<u>122,780</u>
Total other changes	<u>805,227</u>	<u>(5,565,539)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 653,651</u>	<u>\$ (5,814,729)</u>

HOSPICE GIVING FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(Continued)

	<u>2018</u>	<u>2017</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	\$ 18,993	\$ 126,853
Investment income – net –		
Donor restricted endowment	252,056	399,830
Change in value of split-interest agreements	21,930	273,946
Net assets released from restrictions	<u>(619,595)</u>	<u>(840,975)</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(326,616)</u>	<u>(40,346)</u>
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS –		
Contributions	<u>12,780</u>	<u>20,029</u>
CHANGE IN NET ASSETS	(339,815)	(5,835,046)
NET ASSETS, BEGINNING OF YEAR	<u>22,686,227</u>	<u>28,521,273</u>
NET ASSETS, END OF YEAR	<u>\$ 23,026,042</u>	<u>\$ 22,686,227</u>

See Notes to Financial Statements.

HOSPICE GIVING FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 339,815	\$ (5,835,046)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	4,344	3,144
Gain (loss) on disposition of real estate	-	(122,780)
Change in value of split-interest agreements	(13,624)	(273,271)
Distribution from split-interest agreements	342,743	-
Net realized/unrealized (gain)/loss on investments	(610,590)	(1,914,815)
(Increase) decrease in:		
Contributions receivable	(361,952)	356,300
Prepaid expenses	127	(5,600)
Deposits	-	(250)
Increase (decrease) in:		
Accounts payable	(16,528)	(257)
Accrued liabilities	36,268	(18,082)
Endowment assets to be transferred to CHOMP	(7,351,761)	7,351,761
Contractual payment to CHOMP	(450,797)	(4,666)
Contributions restricted for endowment	<u>(12,780)</u>	<u>(20,029)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(8,094,735)</u>	<u>(483,591)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(17,432)	(1,870)
Purchases of investments	(789,815)	(1,697,679)
Proceeds from the sale of real estate	-	644,713
Proceeds from the sale of investments	<u>8,989,982</u>	<u>1,412,099</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>8,182,735</u>	<u>357,263</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds of contributions restricted for endowment	12,780	20,029
Payments on annuity contracts	<u>(9,595)</u>	<u>(11,020)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>3,185</u>	<u>9,009</u>
NET INCREASE (DECREASE) IN CASH	91,185	(117,319)
CASH AT BEGINNING OF YEAR	<u>112,022</u>	<u>229,341</u>
CASH AT END OF YEAR	<u>\$ 203,207</u>	<u>\$ 112,022</u>

See Notes to Financial Statements.

HOSPICE GIVING FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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, 2018 and 2017.

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.

Advertising Costs – It is the policy of the Foundation to expense advertising costs as they are incurred. Advertising expenses for the years ended June 30, 2018 and 2017 totaled \$6,541 and \$350, respectively.

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this update clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. This standard is effective for nonpublic companies for years beginning after December 15, 2018. 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 2018-08 will have on the accompanying financial statements.

Subsequent Events – Subsequent events have been evaluated through November 13, 2018, 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, 2018 and June 30, 2017, 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.
- 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.

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

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:

	2018			2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Investments (Note 5)	\$ 20,575,934	\$ -	\$ -	\$ 28,165,511	\$ -	\$ -
Trusts receivable (Note 6)	\$ -	\$ -	\$ 1,933,718	\$ -	\$ -	\$ 2,254,531

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, 2018 and 2017 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, 2018 and 2017 for assets and liabilities measured at fair value based on Level 3 inputs:

	2018	
	Trusts Receivable	Beneficial Interest in Real Estate
Balance, beginning of year	\$ 2,254,531	\$ -
Williams trust pay out	(342,742)	-
Change in value of split-interest agreements	21,929	-
Balance, end of year	<u>\$ 1,933,718</u>	<u>\$ -</u>
	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)

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>2018</u>	<u>2017</u>
Freeder Family Trust	\$ 372,952	\$ –
Other	–	1,000
Bethany Ann Beckman Trust	–	10,000
Total	<u>\$ 372,952</u>	<u>\$ 11,000</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.

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, 2018 and 2017, \$36,479 and \$37,815, 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.

NOTE 5. INVESTMENTS (Continued)

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

	2018				
	Board Designated Fund	Donor Restricted Endowment Fund	Program Endowment Fund	Charitable Gift Annuities Fund	Total
Money Market	\$ 46,482	\$ 8,625	\$ –	\$ 1,918	\$ 57,025
U. S. Government notes, bonds and T-bills	–	–	–	72,491	72,491
Domestic corporate bonds and bond funds	7,069,140	1,312,786	–	13,024	8,394,950
Domestic stocks and stock funds	4,804,357	1,434,317	–	34,599	6,273,273
International fixed income	–	–	–	18,282	18,282
International stocks and stock funds	3,578,999	1,076,969	–	–	4,655,968
Other	886,430	217,515	–	–	1,103,945
Total	\$ 16,385,408	\$ 4,050,212	\$ –	\$ 140,314	\$ 20,575,934

	2017				
	Board Designated Fund	Donor Restricted Endowment Fund	Program Endowment Fund	Charitable Gift Annuities Fund	Total
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)

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

	2018				
	Board Designated Fund	Donor Restricted Endowment Fund	Program Endowment Fund	Trust and Annuities	Total
Interest/dividend income	\$ 338,483	\$ 105,393	\$ 71,106	\$ 3,346	\$ 518,328
Realized/unrealized gains (losses) on investments	132,216	158,499	319,375	500	610,590
Investment fees	(44,914)	(11,836)	(6,579)	–	(63,329)
Total investment Income (loss) – net	<u>\$ 425,785</u>	<u>\$ 252,056</u>	<u>\$ 383,902</u>	<u>\$ 3,846</u>	<u>\$ 1,065,589</u>
	2017				
	Board Designated Fund	Donor Restricted Endowment Fund	Program Endowment Fund	Trust and Annuities	Total
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	<u>\$ 739,183</u>	<u>\$ 399,830</u>	<u>\$ 1,368,244</u>	<u>\$ 7,487</u>	<u>\$ 2,514,744</u>

NOTE 6. SPLIT-INTEREST AGREEMENTS

Trusts Receivable –The Foundation is a remainderman beneficiary of three 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 2017 and discounted to its net present value at an estimated discount rate for the period of time at the date of the gift. The discount rates used ranged from 3.35% to 6.00% depending on when the contribution was received. 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.

NOTE 6. SPLIT-INTEREST AGREEMENTS (Continued)

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

	<u>2018</u>	<u>2017</u>
Charitable remainder trusts in which the Foundation does not serve as Trustee – net present value:		
Remainder interest in Sidney Williams trust	\$ –	\$ 312,824
Remainder interest in Costello Family trust	283,957	345,439
Remainder interest in Armstrong trust	45,718	44,219
Remainder interest in Christensen Charitable Trust	<u>1,604,043</u>	<u>1,552,049</u>
Total	<u>\$ 1,933,718</u>	<u>\$ 2,254,531</u>

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

	<u>2018</u>	<u>2017</u>
Payable for charitable gift annuities	<u>\$ 39,683</u>	<u>\$ 40,972</u>
Total trust and annuity liabilities	<u>\$ 39,683</u>	<u>\$ 40,972</u>

NOTE 7. PROPERTY AND EQUIPMENT – NET

Property and equipment at June 30 consists of the following:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures	\$ 74,175	\$ 72,318
Less accumulated depreciation	<u>45,000</u>	<u>56,231</u>
Property and equipment – net	<u>\$ 29,175</u>	<u>\$ 16,087</u>

Depreciation expense was \$4,344 and \$3,144 for the years ended June 30, 2018 and 2017, 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 \$-0- and \$450,797 for the years ended June 30, 2018 and 2017, respectively. The liability due to CHOMP at June 30, 2018 and 2017 is \$-0- and \$450,797, 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.

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 transferred to Montage Health Foundation were \$7,351,761 and that obligation was reflected in the Statement of Financial Position as a liability in the prior year. Payment was made to Montage Health Foundation in July 2017. The Foundation continued to record and track the remaining funds as a Program Endowment Fund until the board chose to designate the funds as part of the Board Designated fund in December 2017.

In order to facilitate a transition by Montage Health to supporting fully its own fundraising programs for its hospice and end of life services, in its revised June 2017 contract, the Foundation agreed to provide a temporary subsidy for up to five (5) years commencing on June 30, 2018 and ending on June 30, 2023. The subsidy, if payable, will be paid annually, commencing on June 30, 2018, and on June 30 of each succeeding year, through June 30, 2023. Per the 2017 agreement, the aggregate maximum amount of the subsidy will be \$134,296. The annual payout, if any, will be up to \$26,859. Any reduction to the subsidy is cumulative.

As a result of Montage Health fundraising, as of June 30, 2018, the Foundation's liability has been reduced to \$87,698; with a four-year maximum annual liability of \$21,924. Each year, Montage Health reports its fundraising income to determine this calculation. As of June 30, 2018, no payments are required under this agreement.

NOTE 9. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Split-interest agreements	\$ 1,933,718	\$ 2,254,531
Dalton statue fund	10,000	10,000
Other	850	165
Palliative care	8,943	24,213
Hospice care	–	50
Children end-of-life	8,575	41,885
Community education	625	60,540
Endowment earnings:		
Community outreach and education	4,726	2,902
Hospice care at Westland House	8,825	4,227
Hospice care – Westland Fund	129,012	88,452
Alzheimer’s	939	2,454
General	<u>358,475</u>	<u>301,885</u>
Total	<u>\$ 2,464,688</u>	<u>\$ 2,791,304</u>

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>2018</u>	<u>2017</u>
Split-interest agreements	\$ 342,742	\$ 521,933
Other	165	455
Gardner beautification fund for Westland House	–	7,762
Palliative care	24,213	24,213
Hospice care	50	425
Children end-of-life	41,885	41,885
Community education	60,540	60,540
Endowment earnings:		
Community outreach and education	–	1,113
Hospice care at Westland House	–	7,500
Hospice care – Westland Fund	15,000	53,255
Alzheimer’s	3,000	4,000
General	<u>132,000</u>	<u>117,894</u>
Total	<u>\$ 619,595</u>	<u>\$ 840,975</u>

NOTE 10. PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2018 and 2017, 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, 2018 and 2017 was \$3,556,536 and \$3,543,756, 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.

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 \$150,000 and \$183,762 for the years ending June 30, 2018 and 2017, respectively. Distributions from the donor-restricted endowment funds for the year ending June 30, 2018 was approximately 4% 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 10% to 35%, target 26%; International Stocks 5% to 25%, target 18%; Fixed Income Assets 10% to 40%, target 38%; and Alternative Investments 5% to 15%, target 18%.

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:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ –	\$ 501,976	\$ 3,556,536	\$ 4,058,512
	<u>\$ –</u>	<u>\$ 501,976</u>	<u>\$ 3,556,536</u>	<u>\$ 4,058,512</u>

NOTE 10. PERMANENTLY RESTRICTED NET ASSETS (Continued)

	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>

Changes in Endowment Net Assets –

Changes in endowment net assets for the years ended June 30:

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Balance at Beginning of Year	\$ 6,271,510	\$ 399,920	\$ 3,543,756	\$ 10,215,186
Investment return:				
Investment income	71,106	105,393	-	176,499
Realized/Unrealized gain (loss)	319,375	158,499	-	477,874
Investment fees	<u>(6,579)</u>	<u>(11,836)</u>	<u>-</u>	<u>(18,415)</u>
Total investment return	<u>383,902</u>	<u>252,056</u>	<u>-</u>	<u>635,958</u>
Contributions	-	-	12,780	12,780
Transferred to board designated	(6,655,412)	-	-	(6,655,412)
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(150,000)</u>	<u>-</u>	<u>(150,000)</u>
Balance at End of Year	<u>\$ -</u>	<u>\$ 501,976</u>	<u>\$ 3,556,536</u>	<u>\$ 4,058,512</u>

	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>

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:

2019	\$ 47,546
2020	50,000
2021	53,000
2022	56,000
2023	59,000
2024 and thereafter	<u>83,000</u>
Total	<u>\$ 348,546</u>

Total rent expense for the years ended June 30, 2018 and 2017 amounted to \$45,435 and \$42,012, 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, 2018 and 2017 were \$27,621 and \$21,812, 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.