

**RIVERSIDE COMMUNITY HEALTH FOUNDATION
AND COMMUNITY SETTLEMENT ASSOCIATION**

**CONSOLIDATED AND COMBINED AUDITORS'
REPORT AND FINANCIAL STATEMENTS**

DECEMBER 31, 2017 AND 2016

**RIVERSIDE COMMUNITY HEALTH FOUNDATION
AND COMMUNITY SETTLEMENT ASSOCIATION
TABLE OF CONTENTS**

DECEMBER 31, 2017 AND 2016

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Consolidated and Combined Statements of Financial Position	3
Consolidated and Combined Statements of Activities and Changes in Net Assets for the year ended December 31, 2017	5
Consolidated and Combined Statements of Activities and Changes in Net Assets for the year ended December 31, 2016	6
Consolidated and Combined Statements of Functional Expenses for the year ended December 31, 2017	7
Consolidated and Combined Statements of Functional Expenses for the year ended December 31, 2016	8
Consolidated and Combined Statements of Cash Flows	9
Notes to Consolidated and Combined Financial Statements	11



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Riverside Community Health Foundation and Community Settlement Association
Riverside, California

We have audited the accompanying consolidated and combined financial statements of Riverside Community Health Foundation (a nonprofit organization) and affiliate, which comprise the consolidated and combined statements of financial position as of December 31, 2017 and 2016, and the related consolidated and combined statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated and combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and combined 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 consolidated and combined 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 consolidated and combined 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 consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of Riverside Community Health Foundation and affiliate as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Roorda, Piquet & Bessee, Inc.

Roorda, Piquet & Bessee, Inc.

Riverside, California

July 18, 2018

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL POSITION**

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 549,965	\$ 812,610
Accounts receivable, net of unearned revenue (Note 1)	49,999	112,151
Inventory	9,149	23,233
Prepaid expenses	90,313	62,975
Investments (Notes 2 and 3)	<u>90,197,880</u>	<u>85,507,857</u>
Total current assets	<u>90,897,306</u>	<u>86,518,826</u>
Property and equipment:		
Land	827,403	460,154
Buildings	13,392,591	9,619,807
Furniture and equipment	940,728	1,326,688
Transportation equipment	285,899	278,280
Construction in progress	-	653,894
	<u>15,446,621</u>	<u>12,338,823</u>
Accumulated depreciation	<u>(3,901,469)</u>	<u>(4,024,226)</u>
Total property and equipment, net	<u>11,545,152</u>	<u>8,314,597</u>
Total assets	<u>\$ 102,442,458</u>	<u>\$ 94,833,423</u>

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL POSITION**

	December 31, 2017	December 31, 2016
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 509,654	\$ 970,516
Accrued expenses	204,639	157,295
Current portion of term loans payable (Note 5)	240,220	235,704
Line of credit (Note 5)	<u>3,500,000</u>	-
Total current liabilities	<u>4,454,513</u>	<u>1,363,515</u>
Long-Term liabilities:		
Line of credit (Note 5)	-	2,250,000
Term loans payable (Note 5)	<u>1,008,153</u>	1,261,475
Total long-term liabilities:	<u>1,008,153</u>	<u>3,511,475</u>
Other liabilities:		
Estimated future liability for annuity payments (Note 6)	53,586	53,586
Deferred compensation (Note 4)	<u>363,999</u>	287,744
Total other liabilities	<u>417,585</u>	341,330
Total liabilities	<u>5,880,251</u>	<u>5,216,320</u>
Net Assets:		
Unrestricted	10,137,634	10,138,788
Temporarily restricted	86,392,842	79,446,615
Permanently restricted	<u>31,731</u>	31,700
Total net assets	<u>96,562,207</u>	<u>89,617,103</u>
Total liabilities and net assets	<u>\$ 102,442,458</u>	<u>\$ 94,833,423</u>

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

	For the year ended December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Grants and contributions	\$ 272,076	\$ 743,488	\$ -	\$ 1,015,564
Service fees	354,092	-	-	354,092
Rent	516,037	-	-	516,037
Fundraising	331,065	-	-	331,065
Total revenues	<u>1,473,270</u>	<u>743,488</u>	<u>-</u>	<u>2,216,758</u>
Other gains and losses:				
Interest and dividends	199,895	1,162,713	31	1,362,639
Net unrealized and realized gain on investments	167,114	9,231,016	-	9,398,130
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>4,190,990</u>	<u>(4,190,990)</u>	<u>-</u>	<u>-</u>
Total revenues and other gains and (losses)	<u>6,031,269</u>	<u>6,946,227</u>	<u>31</u>	<u>12,977,527</u>
Expenses:				
Grants/Program services	4,152,547	-	-	4,152,547
Management and general	1,745,553	-	-	1,745,553
Fundraising	134,323	-	-	134,323
Total expenses	<u>6,032,423</u>	<u>-</u>	<u>-</u>	<u>6,032,423</u>
Change in net assets	(1,154)	6,946,227	31	6,945,104
Net Assets at beginning of period:				
Riverside Community Health Foundation	10,062,536	79,441,034	31,700	89,535,270
Community Settlement Association	76,252	5,581	-	81,833
Net Assets at end of period	<u>\$ 10,137,634</u>	<u>\$ 86,392,842</u>	<u>\$ 31,731</u>	<u>\$ 96,562,207</u>

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

	For the year ended December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:				
Grants and contributions	\$ 250,734	\$ 803,770	\$ -	\$ 1,054,504
Service fees	435,904	-	-	435,904
Rent	442,852	-	-	442,852
Fundraising	191,280	-	-	191,280
Total revenues	1,320,770	803,770	-	2,124,540
Other gains and losses:				
Interest and dividends	33,004	1,641,961	30	1,674,995
Net unrealized and realized gain on investments	45,868	3,331,328	-	3,377,196
Net assets released from restrictions:				
Satisfaction of program restrictions	5,794,222	(5,794,222)	-	-
Total revenues and other gains and (losses)	7,193,864	(17,163)	30	7,176,731
Expenses:				
Grants/Program services	5,046,782	-	-	5,046,782
Management and general	1,059,989	-	-	1,059,989
Fundraising	164,254	-	-	164,254
Total expenses	6,271,025	-	-	6,271,025
Change in net assets	922,839	(17,163)	30	905,706
Net assets at beginning of period:				
Riverside Community Health Foundation	8,988,926	79,454,778	31,670	88,475,374
Community Settlement Association	227,023	9,000	-	236,023
Net assets at end of period	\$ 10,138,788	\$ 79,446,615	\$ 31,700	\$ 89,617,103

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
CONSOLIDATED AND COMBINED STATEMENTS OF FUNCTIONAL EXPENSES**

For the year ended December 31, 2017

	Program Services	Management and General	Fundraising	Total
Conferences and meetings	\$ 108,605	\$ 31,503	\$ -	\$ 140,108
Depreciation	183,267	132,320	-	315,587
Community services and grants	360,878	-	-	360,878
Dues and subscriptions	-	8,861	-	8,861
Events	297	3,817	92,923	97,037
Insurance	316,762	-	-	316,762
Interest	-	171,541	-	171,541
Mailing and printing	5,932	21,416	-	27,348
Miscellaneous	12,409	149,874	-	162,283
Professional services	148,084	141,277	176	289,537
Public relations	56,635	45,260	-	101,895
Rent	53,960	-	-	53,960
Salaries and related benefits	2,797,203	457,533	32,842	3,287,578
Supplies	88,014	450,219	8,382	546,615
Local transportation	20,501	21,579	-	42,080
Taxes and Licenses	-	18,155	-	18,155
Utilities	-	92,198	-	92,198
Total	\$ 4,152,547	\$ 1,745,553	\$ 134,323	\$ 6,032,423

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
CONSOLIDATED AND COMBINED STATEMENT OF FUNCTIONAL EXPENSES**

	For the year ended December 31, 2016			
	Program Services	Management and General	Fundraising	Total
Conferences and meetings	\$ 68,630	\$ 17,732	\$ -	\$ 86,362
Depreciation	184,609	24,698	-	209,307
Bad debt expense	13,739	-	-	13,739
Community services and grants	2,101,928	-	-	2,101,928
Dues and subscriptions	-	5,590	-	5,590
Events	7,462	525	29,748	37,735
Insurance	199,949	66,999	699	267,647
Interest	286	68,830	-	69,116
Mailing and printing	6,286	3,054	7,769	17,109
Miscellaneous	17,652	13,414	3,528	34,594
Professional services	19,280	152,116	384	171,780
Public relations	33,419	25,260	1,365	60,044
Rent	47,808	-	20,751	68,559
Salaries and related benefits	2,139,368	494,830	90,718	2,724,916
Supplies	114,335	113,986	4,159	232,480
Local transportation	45,626	13,030	341	58,997
Taxes and Licenses	29,117	39,166	-	68,283
Utilities	17,288	20,759	4,792	42,839
Total	\$ 5,046,782	\$ 1,059,989	\$ 164,254	\$ 6,271,025

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the year ended December 31, 2017	For the year ended December 31, 2016
Cash flows from operating activities:		
Changes in net assets	\$ 6,945,104	\$ 905,706
Adjustments to reconcile changes in net assets to net cash (used in) by operations:		
Depreciation	315,587	209,307
Net realized and unrealized gains on securities	(10,760,769)	(3,377,196)
Loss on disposal of property and equipment	10,682	-
Changes in operating assets and liabilities:		
Accounts receivable	62,152	34,715
Prepaid expenses	(27,338)	(19,961)
Inventory	14,084	365
Accounts payable	(460,862)	325,265
Accrued expenses	47,343	68,293
Estimated future liability for annuity payments	-	(6,152)
Deferred compensation	76,255	32,021
Net cash used in operating activities	<u>(3,777,762)</u>	<u>(1,827,637)</u>
Cash flows from investing activities		
Proceeds from sale of investments	66,592,322	22,323,968
Purchases of investments	(60,521,576)	(21,351,290)
Construction in progress expenditures	-	(626,746)
Proceeds on sale of property and equipment	1,000	-
Purchases of property and equipment	(3,557,823)	(2,344,830)
Net cash provided by (used in) investing activities	<u>2,513,923</u>	<u>(1,998,898)</u>
Cash flows from financing activities		
Proceeds from line of credit	1,250,000	2,250,000
Payments on loan payable	(248,806)	(231,665)
Net cash provided by financing activities	<u>1,001,194</u>	<u>2,018,335</u>
Net decrease in cash and cash equivalents	(262,645)	(1,808,200)
Cash and cash equivalents at beginning of period	<u>812,610</u>	<u>2,620,810</u>
Cash and cash equivalents at end of period	<u>\$ 549,965</u>	<u>\$ 812,610</u>

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the year ended December 31, 2017	For the year ended December 31, 2016
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 160,555	\$ 69,116
Cash paid for income taxes	\$ 10	\$ 20,309

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

**NOTE 1 - DESCRIPTION OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING
POLICIES**

The Riverside Community Health Foundation (formerly known as Riverside Community Hospital Foundation) ("The Foundation or RCHF") is a non-profit organization formed in May 1973 under the laws of the state of California. RCHF merged with Community Health Corporation, formerly a 25% owner with HCA in ownership of Riverside Community Hospital, in 2003 to consolidate their combined mission of providing grants for inpatient and outpatient services, community health education and providing a platform for delivery of medical and dental services to area low-income residents. RCHF is the successor organization.

Riverside Healthcare Plus, LLC ("RHP LLC") was organized in 2014 under the laws of the State of California. RHP LLC was formed as a temporary subsidiary of RCHF for the purpose of effecting the construction improvements of the new administrative and service facility.

The Community Settlement Association of Riverside ("CSA") was incorporated in 1911 under the California Nonprofit Public Benefit Corporation Law. CSA provides programs and activities to meet the needs of low income residents in Riverside, California. CSA offers programs in social services, family counseling, after school programs, and substance abuse counseling. CSA is funded principally by program service fees, United Way allocations, and donations. The majority of service fees are derived from their DUI program.

Consolidation and combination

During 2016, the board of directors of RCHF and CSA (combined as "the Organizations") jointly resolved to affiliate the two companies providing financial and organizational support to CSA from RCHF. The President of RCHF also became the Executive Director of CSA, and the boards of directors have common membership. As such the financial statements of the two organizations have been combined for reporting purposes. Each individual organization files its required tax reporting independently.

The consolidated and combined financial statements include the accounts of RCHF and RHP LLC (consolidation) and CSA (combined). All significant intercompany accounts and transactions have been eliminated in consolidation.

Pledges receivable and recognition of contributions revenue

Pledges receivable represent written promises of contributions to be collected in the future. Pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605, all pledges which represent unconditional promises to pay are recognized as income and assets in the year secured.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

The Organizations report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organizations report gifts of land, buildings, and equipment 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.

Accounts receivable and recognition of program service revenue

CSA records the current and future revenues as an accounts receivable with an offset to unearned revenue liability for the amount due throughout the program when a client has been directed by the courts to the organization and the client has enrolled in a DUI program by completing and signing a contract for a term assigned by the court. The courts determine the specific program mandated to the client, and the client becomes obligated for the funds due to the program in order to have their drivers licenses reinstated. As clients continue to pay for their programming and classwork, accounts receivable and unearned income are reduced and revenue recognized to the extent of the funds received. The accounts receivable and unearned revenue have been netted together within the accompanying consolidated and combined statements of financial position. The anticipated future revenues to be recognized for clients currently enrolled in the program(s) as of December 31, 2017 and 2016, amounted to \$202,251 and \$273,061, respectively, which will be recognized in the periods earned.

Inventory

Inventories are stated at the lower of cost or net realizable value.

Property and equipment

Property and equipment is stated on the basis of the Organizations' purchase cost or fair market value upon donation. Depreciation is computed by the straight-line method at rates calculated to amortize the costs of the assets over their estimated useful lives. The general range of useful lives is 5 to 45 years. Depreciation expense for 2017 and 2016 were \$315,587 and \$209,307, respectively.

During 2014, the Foundation acquired an existing property to become the future administrative office and to provide health services. Improvements to the property were completed in 2017 and RCHF operations were relocated to the completed offices.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Income taxes

RCHF and CSA are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and similar sections of the California Revenue and Taxation Code. Exempt organizations are subject to tax on income derived from activities that are not related to the organization's charitable purpose. The Foundation has some alternative investments that have caused Unrelated Business Income Tax. RHP LLC pays \$800 in tax and LLC fees to the State of California annually.

In accordance with accounting standards, which provides accounting and disclosure guidance about uncertain tax positions taken by an organization, management believes that all of the positions taken by the Organizations in their federal and state income tax returns are more likely than not to be sustained upon examination.

The Foundation files returns in the U.S. Federal jurisdiction and the State of California. With few exceptions, the Foundation is no longer subject to federal and California income tax examinations by tax authorities for the tax years before 2013. For tax years 2013 through 2017, the Foundation does not currently have an examination scheduled as of the date these financial statements were issued.

Cash and cash equivalents

Cash and cash equivalents includes highly liquid investments with an initial maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Irrevocable trust interest

The Foundation has been granted irrevocable interests in certain charitable trusts. Such interests are evaluated each year and recorded as investments in the Foundation records.

Use of estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles ("GAAP"). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Fair value of financial instruments

The Organizations record their assets and liabilities at fair value. Cash and cash equivalents, short term financial instruments, accounts receivable, and accounts payable are reported at their carrying value which approximates fair value because of the short maturity of these instruments and related effective market rates. Investments in debt and equity securities and derivatives are classified as available-for-sale and recorded at fair value using the methodologies described in Note 3.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Alternative investments

The Foundation uses alternative investment strategies to enhance overall portfolio returns and/or reduce portfolio volatility through the use of investment vehicles that have a low correlation to traditional equity and fixed income asset classes.

Net asset classes

Under ASC 958, an explanation of net assets categories included in the accompanying consolidated and combined financial statements follows:

Unrestricted Net Assets - These net assets consist of the accumulation of certain grants, contributions, gifts, bequests and related income thereon which are available for general operating purposes.

Temporarily Restricted Net Assets - These net assets consist of grants or contributions which are restricted by donors or governmental agencies for a particular program or time period and reported as temporarily restricted revenue when received. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are released from restrictions.

Permanently Restricted Net Assets - Consist of resources whose use is restricted by donor-imposed criteria; however, the income derived from the restricted assets is expendable to support operations.

Board-designated endowment funds

During the years ended December 31, 2017 and 2016, the Organizations have reviewed all endowment funds and has determined all endowed funds remain classified as temporarily restricted.

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 Organizations to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2017 or 2016.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets the Board of Directors designated funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets should be managed in a prudent manner to provide for preservation of capital.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Understanding that risk is present in all types of securities and investment styles, the Board of Directors and Investment Committee recognize that some risk is necessary to produce long-term investment results that are sufficient to meet the Foundation's objectives. However, the Investment Managers are instructed to make reasonable efforts to control risk which will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

In addition to the emphasis on capital preservation, it is important that the Fund be managed to provide a consistent and superior long-term total rate of return. The return on the Fund shall be composed of a flexible balance of income (interest and dividends) combined with net long-term growth of principal.

A portion of the return derived from the portfolio will be used to advance and support the mission of the Foundation. As such, it is expected that 5 percent of the average portfolio market value of the preceding three years will be withdrawn each year. This is known as the spending rate and is documented in a spending policy approved by the Board of Directors.

For the years ended December 31, 2017 and 2016, the Foundation had the following endowment-related activities:

	2017	2016
	Board - Designated Endowment Fund	Board - Designated Endowment Fund
Investment income	\$ 304,121	\$ 224,609
Net appreciation	965,658	266,611
Total investment return	<hr/> 1,269,779	<hr/> 491,220
Amounts appropriated for expenditure	(658,935)	(456,130)
Total change in endowment funds	<hr/> \$ 610,844	<hr/> \$ 35,090

New Pronouncements

On August 18, 2016, the FASB issued ASU 2016-14, ("Presentation of Financial Statements of Not-for-Profit Entities") (Topic 958), which finalizes proposed ASU 2015-230 and simplifies and improves the manner in which a not-for-profit entity classifies its net assets, as well as the information that it presents in financial statements and notes concerning liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted prospectively as of the beginning of an interim or annual reporting period. The Foundation is currently evaluating the impact of the provisions of ASU 2016-14 on the presentation of its financial statements.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 - INVESTMENTS

Available-for-sale investments at December 31, 2017 and 2016 were as follows:

	2017		2016	
	Fair Market		Fair Market	
	Cost	Value	Cost	Value
Cash held for investment	\$ -	\$ 1,156,122	\$ -	\$ 8,185,972
Corporate stocks	58,169,123	70,143,767	45,677,117	53,480,663
Corporate bonds	16,309,183	15,978,781	12,170,400	11,481,341
U.S. government	-	-	460,164	456,661
Alternative investments	2,475,435	2,919,210	11,017,213	11,897,816
Real estate and specialty assets	-	-	4,500	5,404
	\$ 76,953,741	\$ 90,197,880	\$ 69,329,394	\$ 85,507,857

A significant amount of the above investments are held in three trust accounts at three investment firms. Two of the investment firms act as the investment agent for these assets, execute all investment transactions based upon investment policies of the Foundation, and are in physical control of all securities. The Foundation relies upon the investment firms custodians accounting system for the recording and processing of all investment related information.

NOTE 3 - FAIR VALUE OF INVESTMENTS

The Foundation adopted Financial Accounting Standards Board Accounting Standards Codification FASB ASC 820, which provides a framework for measuring fair value under GAAP. FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

FASB ASC 820 also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Level 2 - Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable inputs for the asset or liability.

It is the Foundation's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon management's own estimates, are often calculated based on the portfolio manager's current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future value.

The Foundation's investment in debt and equity securities are classified as available-for-sale and are recorded at fair value on a recurring basis. The value is developed from market data. As such, the investments are classified as Level 1. Unrealized and realized gains and losses are reported in the statement of activities. Net unrealized and realized gains and losses for the years ended December 31, 2017 and 2016 were \$9,234,647 and \$3,309,587, respectively. Realized gains or losses for securities sold at fair market value are recognized when incurred. The cost basis of the investments for the years ended December 31, 2017 and 2016 were \$74,478,306 and \$58,312,181, respectively. Investment interest and dividend income is reported net of \$508,722 and \$534,365, respectively, of investment management fees for the years ended December 31, 2017 and 2016.

Alternative investments

Management determines the fair value of the Foundation's alternative investments using third party administrators that independently calculate the funds' fair value/NAV on a weekly or sometimes daily basis. The administrators typically receive a direct feed from the fund's prime broker and price the fund's securities independently of the manager and classifies the fair value measurement of alternative investments as Level 1, 2, and 3. Net unrealized and realized gains and losses are reported in the statement of activities. Net unrealized and realized losses for the years ended December 31, 2017 and 2016 were \$163,483 and \$67,609, respectively. Realized gains or losses for securities sold at fair market value are recognized when incurred. For the years ended December 31, 2017 and 2016, the cost basis of the investments were \$2,475,435 and \$11,017,213, respectively.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Fair Value Measurement

<u>December 31, 2017</u>	Total	Level 1	Level 2	Level 3
Available for sale	\$ 86,122,548	\$86,122,548	\$ -	\$ -
Alternative investments	2,919,210	42,074	2,465,103	412,033
	<u>\$ 89,041,758</u>	<u>\$86,164,622</u>	<u>\$ 2,465,103</u>	<u>\$ 412,033</u>
<u>December 31, 2016</u>	Total	Level 1	Level 2	Level 3
Available for sale	\$ 65,424,069	\$65,424,069	\$ -	\$ -
Alternative investments	11,897,816	1,433,660	7,241,358	3,222,798
	<u>\$ 77,321,885</u>	<u>\$66,857,729</u>	<u>\$ 7,241,358</u>	<u>\$ 3,222,798</u>

Changes in Level 3 instruments

The table below summarizes the activity for investments in debt and equity securities classified as alternative investments measured at fair value on recurring basis using significant Level 3 inputs for the years ended December 31, 2017 and 2016.

	2017	2016
Balance at beginning of year	\$ 3,222,798	\$ 2,904,206
Purchases	43,450	-
Withdrawals	(2,943,381)	(30,527)
Interest	4,777	1,938
Net realized/unrealized gains included in income	<u>84,389</u>	<u>347,181</u>
Balance at end of year	<u>\$ 412,033</u>	<u>\$ 3,222,798</u>

NOTE 4 - PENSION PLANS

The Foundation employees are participants in a voluntary salary reduction plan pursuant to Sec. 403(B) of the Internal Revenue Code. Employer contributions are on a discretionary basis.

During 2003, the Foundation established a deferred compensation plan for certain key employees pursuant to Section 457 of the Internal Revenue Code. Under the plan, an employee may elect to defer up to \$18,000 of compensation per year. The Foundation shall fund the deferred compensation plan equal to 12% of the salary on behalf of the employees. The total liability of the deferred compensation plan as of December 31, 2017 and 2016 were \$363,999 and \$287,744, respectively, which was funded in its entirety.

The Foundation's total contribution to all pension plans during the years ended December 31, 2017 and 2016 were \$131,345 and \$59,476, respectively.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 5 - LONG-TERM LIABILITIES

On May 2, 2014, the Foundation entered into a revolving credit agreement with a bank for a maximum amount of \$3,500,000. The agreement provides for interest equal to the bank prime rate. The interest rate at December 31, 2017 and 2016 was 3.75% and 3.00%, respectively. At December 31, 2017 and 2016, the outstanding balance was \$3,500,000 and \$2,250,000, respectively. The agreement expires August 1, 2018.

On July 7, 2014, the Foundation entered into a loan payable agreement with a bank for \$2,000,000, bearing interest at 4%, and maturing July 1, 2021. The loan is payable in monthly principal and interest installments of \$23,810. At December 31, 2017 and 2016, the outstanding balance was \$1,248,373 and \$1,478,387, respectively.

On October 4, 2010 CSA entered into a loan payable agreement with Pacific Premier Bank for \$50,358, bearing interest at 6.25% and maturing October 2020. The loan is payable in monthly principal and interest installments of \$458. At December 31, 2016, the outstanding balance was \$18,416 with the loan being paid in full during the year ended December 31, 2017.

The following are maturities of the loans payable for the years ended December 31:

2018	\$ 3,740,220
2019	250,007
2020	260,192
2021	497,954
Total	<u><u>\$ 4,748,373</u></u>

NOTE 6 - GIFT ANNUITY FUND

During the fiscal year ended May 31, 1995, the Foundation established a gift annuity program as an additional means to increase contributions. Under this program, the Foundation received cash and investments from donors and provided the donors with an Annuity Contract that promised fixed payments to named beneficiaries at a future date. At the time a donation is received, the Foundation calculates the estimated future liability for annuity payments and records this amount. The State of California regulates such programs and requires a reserve amount to be separately invested for all annuity contracts; funds in this reserve account can only be used to reimburse the Foundation each year for the annuity payments made. Contribution revenue is recorded for that part of the donation that is in excess of the estimated future liability. There were no new annuitants added in 2017 or 2016. The Foundation's total beneficiary distributions during the years ended December 31, 2017 and 2016 were \$8,430 and \$8,430, respectively.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 7 - CONCENTRATIONS AND CREDIT RISK

As of the balance sheet date, cash was on deposit at multiple financial institutions in excess of \$250,000.

NOTE 8 - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through July 18, 2018, the date which the financial statements were available to be issued.