RIVERSIDE COMMUNITY HEALTH FOUNDATION AND COMMUNITY SETTLEMENT ASSOCIATION

CONSOLIDATED AND COMBINED AUDITORS' REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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AND COMMUNITY SETTLEMENT ASSOCIATION
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DECEMBER 31, 2018 AND 2017

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 affiliates, which comprise the consolidated and combined statements of financial position as of December 31, 2018 and 2017, 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. These 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 misstatements.

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 affiliates as of December 31, 2018 and 2017, 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 16, 2019

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

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 12,162	$ 549,965
Accounts receivable, net of unearned revenue (Note 1)	252,625	49,999
Inventory	25,467	9,149
Prepaid expenses	33,400	90,313
Investments (Notes 2 and 3)	79,051,637	90,197,880
Total current assets	79,375,291	90,897,306
Property and equipment:		
Land	827,403	827,403
Buildings	13,711,916	13,392,591
Furniture and equipment	1,053,686	940,728
Transportation equipment	290,910	285,899
	15,883,915	15,446,621
Accumulated depreciation	(4,188,779)	(3,901,469)
Total property and equipment, net	11,695,136	11,545,152
Total assets	$ 91,070,427	$ 102,442,458

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

	December 31, 2018	December 31, 2017
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 133,919	$ 509,654
Accrued expenses	319,751	204,639
Grants payable	656,500	-
Unearned grant revenue	17,329	-
Current portion of term loan payable (Note 6)	250,007	240,220
Line of credit (Note 5)	3,500,000	3,500,000
Total current liabilities	4,877,506	4,454,513
Long-Term liabilities:		
Term loan payable (Note 6)	758,848	1,008,153
Total long-term liabilities:	758,848	1,008,153
Other liabilities:		
Estimated future liability for annuity payments (Note 7)	53,586	53,586
Deferred compensation (Note 4)	357,385	363,999
Total other liabilities	410,971	417,585
Total liabilities	6,047,325	5,880,251
Net Assets:		
Without donor restrictions (Note 1)	8,209,034	10,137,634
With donor restrictions (Notes 1 and 10)	76,814,068	86,424,573
Total net assets	85,023,102	96,562,207
Total liabilities and net assets	$ 91,070,427	$ 102,442,458

RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
CONSOLIDATED AND COMBINED STATEMENTS OF
ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative totals for year ended December 31, 2017)

	For the year ended December 31, 2018			
	Without Donor Restriction	**With Donor Restriction**	**Total**	**For the Year Ended December 31, 2017**
Revenues:				
Grants and contributions	$ 289,461	$ 709,774	$ 999,235	$ 1,015,564
Service fees	353,035	-	353,035	354,092
Rent	482,189	-	482,189	516,037
Fundraising	690,506	-	690,506	331,065
Total revenues	1,815,191	709,774	2,524,965	2,216,758
Other gains and losses:				
Interest and dividends	-	1,220,444	1,220,444	1,362,639
Net unrealized and realized loss on investments	(758,580)	(6,720,638)	(7,479,218)	9,398,130
Net assets released from restrictions:				
Satisfaction of program restrictions	4,820,085	(4,820,085)	-	-
Total revenues and other gains and (losses)	5,876,696	(9,610,505)	(3,733,809)	12,977,527
Expenses:				
Grants/Program services	6,062,697	-	6,062,697	4,152,547
Management and general	1,580,338	-	1,580,338	1,745,553
Fundraising	162,261	-	162,261	134,323
Total expenses	7,805,296	-	7,805,296	6,032,423
Change in net assets	(1,928,600)	(9,610,505)	(11,539,105)	6,945,104
Net assets at beginning of period:				
Riverside Community Health Foundation	9,892,752	86,418,992	96,311,744	89,535,270
Community Settlement Association	244,882	5,581	250,463	81,833
Net assets at end of period	$ 8,209,034	$ 76,814,068	$ 85,023,102	$ 96,562,207

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

	For the year ended December 31, 2017		
	Without Donor Restriction	With Donor Restriction	Total
Revenue:			
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	1,473,270	743,488	2,216,758
Other gains and losses:			
Interest and dividends	199,895	1,162,744	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	4,190,990	(4,190,990)	-
Total revenues and other gains	6,031,269	6,946,258	12,977,527
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	6,032,423	-	6,032,423
Change in net assets	(1,154)	6,946,258	6,945,104
Net assets at beginning of period:			
Riverside	10,062,536	79,472,734	89,535,270
Community Settlement Association	76,252	5,581	81,833
Net assets at end of period	$ 10,137,634	$ 86,424,573	$ 96,562,207

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

	For the year ended December 31, 2018			
	Program Services	**Management and General**	**Fundraising**	**Total**
Conferences and meetings	$ 141,898	$ 1,324	$ -	$ 143,222
Depreciation	-	373,264	-	373,264
Community services and grants	1,771,489	-	-	1,771,489
Dues and subscriptions	975	2,708	3,500	7,183
Events	84,977	-	100,112	185,089
Insurance	290,582	182,807	-	473,389
Interest	196,872	316	-	197,188
Mailing and printing	54,564	27,394	-	81,958
Miscellaneous	102,109	29,380	2,417	133,906
Professional services	103,812	73,876	378	178,066
Public relations	61,484	8,441	-	69,925
Rent	74,677	-	-	74,677
Repairs and maintanance	71,746	11,846	-	83,592
Salaries and related benefits	2,874,373	798,905	55,854	3,729,132
Supplies	61,733	18,778	-	80,511
Local transportation	29,530	17,497	-	47,027
Taxes and Licenses	13,104	1,492	-	14,596
Training and travel	58,178	19,306	-	77,484
Utilities	70,594	13,004	-	83,598
Total	$ 6,062,697	$ 1,580,338	$ 162,261	$ 7,805,296

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 STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2018	For the year ended December 31, 2017
Cash flows from operating activities:		
Changes in net assets	$ (11,539,105)	$ 6,945,104
Adjustments to reconcile changes in net assets to net cash (used in) by operations:		
Depreciation	373,264	315,587
Net realized and unrealized losses (gains) on securities	6,258,774	(10,760,769)
Loss on disposal of property and equipment	-	10,682
Changes in operating assets and liabilities:		
Accounts receivable	(202,626)	62,152
Prepaid expenses	56,913	(27,338)
Inventory	(16,318)	14,084
Accounts payable	(375,735)	(460,862)
Accrued expenses	115,112	47,343
Grants payable	656,500	-
Unearned grant revenue	17,329	-
Deferred compensation	(6,614)	76,255
Net cash used in operating activities	(4,662,506)	(3,777,762)
Cash flows from investing activities		
Proceeds from sale of investments	16,999,486	66,592,322
Purchases of investments	(12,112,017)	(60,521,576)
Proceeds on sale of property and equipment	-	1,000
Purchases of property and equipment	(523,248)	(3,557,823)
Net cash provided by investing activities	4,364,221	2,513,923
Cash flows from financing activities		
Proceeds from line of credit	-	1,250,000
Payments on loan payable	(239,518)	(248,806)
Net cash (used in) provided by financing activities	(239,518)	1,001,194
Net decrease in cash and cash equivalents	(537,803)	(262,645)
Cash and cash equivalents at beginning of period	549,965	812,610
Cash and cash equivalents at end of period	$ 12,162	$ 549,965

RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	For the year ended December 31, 2018	For the year ended December 31, 2017
Supplemental cash flow disclosures:		
Cash paid for interest	$ 186,202	$ 160,555
Cash paid for income taxes	$ 800	$ 10

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 nonprofit 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.

Basis of Accounting

The consolidated and combined financial statements of the Organizations have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

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.

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, restricted net assets are reclassified to net assets without donor restrictions 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, 2018 and 2017, amounted to $232,404 and $202,251, 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 2018 and 2017 were $373,264 and $315,587, respectively.

Income taxes

The Organizations are organized as California nonprofit corporations and have been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and have been determined not to be private foundations under IRC Sections 509(a)(1) and (3), respectively. Each entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Organizations' did not incur Federal and California income tax expense related to unrelated business income tax for the years ended December 31, 2018 and December 31, 2017.

RHP LLC pays $800 in tax and LLC fees to the State of California annually.

The Organizations file returns in the U.S. Federal jurisdiction and the State of California. With few exceptions, the Organizations are no longer subject to federal and California income tax examinations by tax authorities for the tax years before 2014. For tax years 2014 through 2018, the Organizations do not currently have an examination scheduled as of the date these financial statements were issued.

Cash and cash equivalents

Cash and cash equivalents include highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

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 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.

<u>Alternative investments</u>
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.

<u>Net asset classes</u>
Under ASC 958, an explanation of net assets categories included in the accompanying consolidated and combined financial statements as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. Items that affect this net assets category principally consist of certain grants, contributions, gifts, bequests and related income thereon which are available for general operating purposes. The Organizations' board may designate assets without restrictions for specific operational purposes from time to time.

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

<u>Board-designated endowment funds</u>
During the years ended December 31, 2018 and 2017, the Organizations have reviewed all endowment funds and has determined all endowed funds remain classified as with donor restrictions.

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, 2018 or 2017.

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.

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, 2018 and 2017, the Foundation had the following endowment-related activities:

	2018 Board - Designated Endowment Fund	2017 Board - Designated Endowment Fund
Investment income	$ 286,932	$ 304,121
Net (depreciation) appreciation	(871,118)	965,658
Total investment return	(584,186)	1,269,779
Amounts appropriated for expenditure	(573,500)	(658,935)
Total change in endowment funds	$ (1,157,686)	$ 610,844

<u>Functional Allocation of Expenses</u>

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

A portion of General and Administrative costs that benefit multiple functional areas (indirect costs) have been allocated across Programs and Fundraising Services based on the proportion of full-time employee equivalent of a program or fundraising services versus the organizational full-time employee equivalent.

<u>Recent Accounting Pronouncements</u>

In August 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The plan is currently evaluating the impact of this new standard on its financial statements.

Accounting Pronouncements Adopted

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *"Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958)* . The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organizations have adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Reclassifications

Certain accounts in the consolidated and combined financial statements have been reclassified to conform with the current year financial statement presentation.

NOTE 2 - INVESTMENTS

Available-for-sale investments at December 31, 2018 and 2017 were as follows:

	2018		2017	
	Cost	Fair Market Value	Cost	Fair Market Value
Cash held for investment	$ -	$ 1,545,452	$ -	$ 1,156,122
Corporate stocks	59,309,326	59,751,616	58,169,123	70,143,767
Corporate bonds	17,108,966	16,156,362	16,309,183	15,978,781
Alternative investments	1,880,000	1,598,207	2,475,435	2,919,210
	$ 78,298,292	$ 79,051,637	$ 76,953,741	$ 90,197,880

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.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

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, 2018 and 2017 were $6,753,651 and $9,234,647, 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, 2018 and 2017 were $76,418,292 and $74,478,306, respectively. Investment interest and dividend income is reported net of $502,722 and $508,722, respectively, of investment management fees for the years ended December 31, 2018 and 2017.

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 funds' prime broker and price the funds 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, 2018 and 2017 were $725,567 and $163,483, respectively. Realized gains or losses for securities sold at fair market value are recognized when incurred. For the years ended December 31, 2018 and 2017, the cost basis of the investments were $1,880,000 and $2,475,435, respectively.

Fair value measurement

12/31/2018	Total	Level 1	Level 2	Level 3
Available for sale	$ 75,907,978	$ 75,907,978	$ -	$ -
Alternative investments	1,598,207	-	1,534,279	63,928
	$ 77,506,185	$ 75,907,978	$ 1,534,279	$ 63,928

12/31/2017	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
	$ 89,041,758	$ 86,164,622	$ 2,465,103	$ 412,033

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, 2018 and 2017.

	2018	2017
Balance at beginning of year	$ 412,033	$ 3,222,798
Purchases	-	43,450
Withdrawals	(346,391)	(2,943,381)
Interest	4,002	4,777
Net realized/unrealized gains included in income	(5,716)	84,389
Balance at end of year	$ 63,928	$ 412,033

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, 2018 and 2017 were $357,385 and $363,999, respectively, which was funded in its entirety.

The Foundation's total contribution to all pension plans during the years ended December 31, 2018 and 2017 were $67,811 and $89,058, respectively.

NOTE 5 - LINE OF CREDIT

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, 2018 and 2017 was 5.5% and 4.5%, respectively. At December 31, 2018 and 2017, the outstanding balance was $3,500,000 and $3,500,000, respectively. The agreement expires August 1, 2019.

NOTE 6 - TERM LOAN PAYABLE

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, 2018 and 2017, the outstanding balance was $1,008,855 and $1,248,373.

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

2019	$ 250,007
2020	260,192
2021	498,656
Total	$ 1,008,855

NOTE 7 - 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 2018 or 2017. The Foundation's total beneficiary distributions during the years ended December 31, 2018 and 2017 were $8,430 and $8,430, respectively.

NOTE 8 - CONCENTRATIONS AND CREDIT RISK

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

NOTE 9 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organizations' financial assets available within one year of the consolidated and combined statements of financial position date for general expenditure are as follows:

	2018	2017
Cash and cash equivalents	$ 12,162	$ 549,965
Accounts receivable, net of unearned revenue	252,625	49,999
Investments	79,051,637	90,197,880
Total financial assets available within one year	79,316,424	90,797,844
Less: Amounts unavailable for general expenditures within one year due to:		
Board-designated endowment	71,568,567	80,155,265
Restricted by donors with purpose restrictions	5,213,741	6,237,577
Restricted by donors in perpetuity	31,760	31,731
Total amounts unavailable for general expenditures within one year	76,814,068	86,424,573
Total financial assets available to management for general expenditure within one year	$ 2,502,356	$ 4,373,271

The Organizations board-designated endowment of $71,568,567 is subject to an annual spending rate of 5 percent as described in Note 1. Although the Organizations do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

	2018	2017
Subject to expenditure for specified purposes:		
Pediatrics	$ 837,755	$ 951,982
Arlanza Capital Campaign	914,136	951,319
Other grants and programs	180,038	184,682
Total subject to expenditure for specified purposes	1,931,929	2,087,983
Endowments:		
Board-designated endowment	74,882,139	84,336,590
Total endowments	74,882,139	84,336,590
Total Net assets with donor restrictions	$ 76,814,068	$ 86,424,573

NOTE 11 - SUBSEQUENT EVENTS

The Organizations have evaluated subsequent events through July 16, 2018, which is the date the consolidated and combined financial statements were available to be issued. There were no events that require adjustments to or disclosure in the Organizations' consolidated and combined financial statements for the year ended December 31, 2018.