

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

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

DECEMBER 31, 2019 AND 2018

**RIVERSIDE COMMUNITY HEALTH FOUNDATION
AND COMMUNITY SETTLEMENT ASSOCIATION
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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, 2019 and 2018, 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, 2019 and 2018, and the changes in their net assets and their cash flows for the year 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

August 17, 2020

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

CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL POSITION

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 457,462	\$ 12,162
Accounts receivable, net of unearned revenue (Note 2)	434,439	252,625
Inventory	28,104	25,467
Prepaid expenses	139,457	33,400
Property held for sale (Note 12)	168,895	-
Investments (Notes 3 and 4)	<u>86,934,732</u>	<u>79,051,637</u>
Total current assets	<u>88,163,089</u>	<u>79,375,291</u>
Property and equipment:		
Land	862,568	862,568
Buildings	12,808,533	13,676,751
Furniture and equipment	1,041,678	1,053,686
Transportation equipment	284,954	290,910
Construction in progress	4,330	-
	<u>15,002,063</u>	<u>15,883,915</u>
Accumulated depreciation	<u>(3,580,115)</u>	<u>(4,188,779)</u>
Total property and equipment, net	<u>11,421,948</u>	<u>11,695,136</u>
Total assets	<u>\$ 99,585,037</u>	<u>\$ 91,070,427</u>

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

CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL POSITION

	December 31, 2019	December 31, 2018
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 111,493	\$ 133,919
Accrued expenses	296,775	319,751
Grants payable	386,898	656,500
Unearned grant revenue	-	17,329
Current portion of term loan payable (Note 7)	327,490	250,007
Line of credit (Note 6)	-	3,500,000
Total current liabilities	<u>1,122,656</u>	<u>4,877,506</u>
Long-Term liabilities:		
Term loan payable (Note 7)	4,326,000	758,848
Less: current portion	<u>(327,490)</u>	-
Total long-term liabilities:	<u>3,998,510</u>	<u>758,848</u>
Other liabilities:		
Estimated future liability for annuity payments (Note 8)	53,586	53,586
Deferred compensation (Note 5)	<u>488,751</u>	<u>357,385</u>
Total other liabilities	<u>542,337</u>	<u>410,971</u>
Total liabilities	<u>5,663,503</u>	<u>6,047,325</u>
Net Assets:		
Without donor restrictions (Note 2)	9,884,047	8,209,034
With donor restrictions (Notes 2 and 11)	<u>84,037,487</u>	<u>76,814,068</u>
Total net assets	<u>93,921,534</u>	<u>85,023,102</u>
Total liabilities and net assets	<u><u>\$ 99,585,037</u></u>	<u><u>\$ 91,070,427</u></u>

**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, 2018)

	For the year ended December 31, 2019			For the year ended December 31, 2018
	Without Donor Restriction	With Donor Restriction	Total	
Revenues:				
Grants and contributions	\$ 70,095	\$ 861,310	\$ 931,405	\$ 999,235
Service fees	408,204	-	408,204	353,035
Rent	757,169	-	757,169	482,189
Fundraising	251,024	-	251,024	690,506
Total revenues	<u>1,486,492</u>	<u>861,310</u>	<u>2,347,802</u>	<u>2,524,965</u>
Other gains and losses:				
Interest and dividends	-	955,650	955,650	1,220,444
Gain on disposal of asset	39,332	-	39,332	900
Net unrealized and realized gain (loss) on investments	857,492	12,587,976	13,445,468	(7,479,218)
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>7,181,517</u>	<u>(7,181,517)</u>	<u>-</u>	<u>-</u>
Total revenues and other gains and (losses)	<u>9,564,833</u>	<u>7,223,419</u>	<u>16,788,252</u>	<u>(3,732,909)</u>
Expenses:				
Grants/Program services	6,399,923	-	6,399,923	6,062,697
Management and general	1,244,289	-	1,244,289	1,581,238
Fundraising	245,608	-	245,608	162,261
Total expenses	<u>7,889,820</u>	<u>-</u>	<u>7,889,820</u>	<u>7,806,196</u>
Change in net assets	1,675,013	7,223,419	8,898,432	(11,539,105)
Net assets at beginning of period:				
Riverside Community Health Foundation	7,983,336	76,808,645	84,791,981	96,311,744
Community Settlement Association	225,698	5,423	231,121	250,463
Net assets at end of period	<u>\$ 9,884,047</u>	<u>\$84,037,487</u>	<u>\$ 93,921,534</u>	<u>\$ 85,023,102</u>

**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, 2018

	Without Donor Restriction	With Donor Restriction	Total
Revenues:			
Grants and contributions	\$ 289,461	\$ 709,774	\$ 999,235
Service fees	353,035	-	353,035
Rent	482,189	-	482,189
Fundraising	690,506	-	690,506
Total revenues	1,815,191	709,774	2,524,965
Other gains and losses:			
Interest and dividends	-	1,220,444	1,220,444
Gain on disposal of asset	900	-	900
Net unrealized and realized gain on investments	(758,580)	(6,720,638)	(7,479,218)
Net assets released from restrictions:			
Satisfaction of program restrictions	4,820,085	(4,820,085)	-
Total revenues and other gains and (losses)	5,877,596	(9,610,505)	(3,732,909)
Expenses:			
Grants/Program services	6,062,697	-	6,062,697
Management and general	1,581,238	-	1,581,238
Fundraising	162,261	-	162,261
Total expenses	7,806,196	-	7,806,196
Change in net assets	(1,928,600)	(9,610,505)	(11,539,105)
Net assets at beginning of period:			
Riverside Community Health Foundation	9,892,752	86,418,992	96,311,744
Community Settlement Association	244,882	5,581	250,463
Net assets at end of period	\$ 8,209,034	\$ 76,814,068	\$ 85,023,102

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

CONSOLIDATED AND COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended December 31, 2019

	Program Services	Management and General	Fundraising	Total
Conferences and meetings	\$ 23,446	\$ 150	\$ -	\$ 23,596
Depreciation	-	398,894	-	398,894
Bad debt	96,512	-	-	96,512
Community services and grants	874,894	6,502	-	881,396
Dues and subscriptions	6,130	3,466	3,368	12,964
Events	392,689	-	-	392,689
Insurance	341,302	177,183	-	518,485
Interest	196,260	-	-	196,260
Mailing and printing	102,693	14,510	-	117,203
Miscellaneous	12,192	72,917	3,501	88,610
Professional services	219,098	121,148	5,256	345,502
Public relations	16,939	771	-	17,710
Rent	147,223	66,668	-	213,891
Repairs and maintenance	86,625	-	-	86,625
Salaries and related benefits	3,554,155	271,170	222,073	4,047,398
Supplies	137,685	76,901	11,410	225,996
Local transportation	25,744	-	-	25,744
Taxes and Licenses	14,885	24,779	-	39,664
Training and travel	90,804	3,112	-	93,916
Utilities	60,647	6,118	-	66,765
Total	\$ 6,399,923	\$ 1,244,289	\$ 245,608	\$ 7,889,820

**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 maintenance	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 CASH FLOWS

	For the year ended December 31, 2019	For the year ended December 31, 2018
Cash flows from operating activities:		
Changes in net assets	\$ 8,898,432	\$ (11,539,105)
Adjustments to reconcile changes in net assets to net cash (used in) by operations:		
Depreciation	398,894	373,264
Net realized and unrealized losses (gains) on securities	(14,401,118)	6,258,774
Gain on disposal of property and equipment	(39,332)	
Changes in operating assets and liabilities:		
Accounts receivable	(181,814)	(202,626)
Prepaid expenses	(106,057)	56,913
Inventory	(2,637)	(16,318)
Accounts payable	(22,426)	(375,735)
Accrued expenses	(22,976)	115,112
Grants payable	(269,602)	656,500
Unearned grant revenue	(17,329)	17,329
Deferred compensation	131,366	(6,614)
Net cash used in operating activities	<u>(5,634,599)</u>	<u>(4,662,506)</u>
Cash flows from investing activities		
Proceeds from sale of investments	16,840,175	16,999,486
Purchases of investments	(10,322,152)	(12,112,017)
Proceeds on sale of property and equipment	45,748	-
Purchases of property and equipment	(301,017)	(523,248)
Net cash provided by investing activities	<u>6,262,754</u>	<u>4,364,221</u>
Cash flows from financing activities		
Payment on line of credit	(3,500,000)	-
Payments on loan payable	(250,007)	(239,518)
Borrowing on term loan payable	3,567,152	-
Net cash used in financing activities	<u>(182,855)</u>	<u>(239,518)</u>

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

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

	For the year ended December 31, 2019	For the year ended December 31, 2018
Net increase (decrease) in cash and cash equivalents	445,300	(537,803)
Cash and cash equivalents at beginning of period	<u>12,162</u>	<u>549,965</u>
Cash and cash equivalents at end of period	<u><u>\$ 457,462</u></u>	<u><u>\$ 12,162</u></u>
Supplemental cash flow disclosures:		
Cash paid for interest	<u><u>\$ 196,260</u></u>	<u><u>\$ 186,202</u></u>
Cash paid for income taxes	<u><u>\$ 800</u></u>	<u><u>\$ 800</u></u>

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - NATURE OF BUSINESS

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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).

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
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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, 2019 and 2018, amounted to \$186,182 and \$232,404, 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 2019 and 2018 were \$398,894 and \$373,264, respectively.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
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DECEMBER 31, 2019 AND 2018

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, 2019 and December 31, 2018.

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 2015 through 2019, the Organizations do not currently have an examination scheduled as of the date these financial statements were issued.

Reclassifications

In order to facilitate comparison of financial information, certain prior year amounts have been reclassified in order to be comparable with current year presentation. There was no impact on change in net assets with these reclassifications.

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.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
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NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
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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.

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 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.

Board-designated endowment funds

During the years ended December 31, 2019 and 2018, 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, 2019 or 2018.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
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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 year ended December 31, 2019, the Foundation had the following endowment-related activities:

	2019 Board - Designated Endowment Fund
Investment income	\$ 1,111,351
Net appreciation	12,319,791
Total investment return	13,431,142
Amounts appropriated for expenditure	(6,270,796)
Total change in endowment funds	<u><u>\$ 7,160,346</u></u>

Functional Allocation of Expenses

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.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
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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.

Recent Accounting Pronouncements

During 2019, the Foundation adopted Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which includes criteria on how entities recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled to exchange for those goods and services. Management has determined that this ASU did not significantly impact the Foundation's consolidated and combined financial statements.

During 2019, the Foundation adopted FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounting for as contributions (nonreciprocal transactions) within the scope of ASC Topic 958, *Not for Profit Entities*, or as exchange (reciprocal transactions subject to other guidance and (2) determining whether a contribution is conditional. Management has determined that the ASU did not significantly impact the Foundation's consolidated financial statements.

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 Foundation is currently evaluating the impact of this new standard on its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires lessees to recognize assets and liabilities for most leases. ASU 2016-02 is effective for annual periods beginning after December 15, 2021. Early adoption is permitted. Full retrospective application is prohibited. ASU 2016-02's transition provision is applied using a modified retrospective approach at the beginning of the earliest comparative period presented in the financial statements. The Foundation is currently evaluating ASU 2016-02 and has not determined the impact it may have on the Foundation's results of operations, financial position, or cash flows.

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NOTE 3 - INVESTMENTS

Available-for-sale investments at December 31, 2019 and 2018 were as follows:

	December 31, 2019		December 31, 2018	
	Fair Market		Fair Market	
	Cost	Value	Cost	Value
Cash held for investment	\$ -	\$ 1,248,521	\$ -	\$ 1,545,451
Corporate stocks	40,061,537	49,443,300	41,830,905	42,817,931
Corporate bonds	15,772,310	15,395,417	17,073,272	16,120,972
Alternative investments	18,250,534	20,847,494	19,394,116	18,567,283
	<u>\$ 74,084,381</u>	<u>\$ 86,934,732</u>	<u>\$ 78,298,293</u>	<u>\$ 79,051,637</u>

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 4 - 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.

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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.

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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, 2019 and 2018 were \$10,962,907 and \$(6,753,651), respectively. Realized gains or losses for securities sold at fair market value are recognized when incurred. The cost basis of the investments at December 31, 2019 and 2018 were \$55,833,847 and \$58,904,177, respectively. Investment interest and dividend income is reported net of \$746,058 and \$502,936, respectively, of investment management fees for the years ended December 31, 2019 and 2018.

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 gains and losses for the years ended December 31, 2019 and 2018 were \$2,482,561 and \$(725,567), respectively. Realized gains or losses for securities sold at fair market value are recognized when incurred. At December 31, 2019 and 2018, the cost basis of the investments were \$18,250,534 and \$19,394,116, respectively.

Fair value measurement

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Available for sale	\$ 64,838,717	\$ 64,838,717	\$ -	\$ -
Alternative investments	20,847,494	-	-	20,847,494
	<u>\$ 85,686,211</u>	<u>\$ 64,838,717</u>	<u>\$ -</u>	<u>\$ 20,847,494</u>

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Available for sale	\$ 58,938,903	\$ 58,938,903	\$ -	\$ -
Alternative investments	18,567,283	-	-	18,567,283
	<u>\$ 77,506,186</u>	<u>\$ 58,938,903</u>	<u>\$ -</u>	<u>\$ 18,567,283</u>

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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, 2019 and 2018.

	December 31, 2019	December 31, 2018
Balance at beginning of year	\$ 18,567,283	\$ 18,095,650
Purchases	1,657,157	2,546,034
Withdrawals	(1,963,812)	(1,466,823)
Interest	104,305	117,989
Net realized/unrealized gains (losses) included in income	<u>2,482,561</u>	<u>(725,567)</u>
Balance at end of year	<u><u>\$ 20,847,494</u></u>	<u><u>\$ 18,567,283</u></u>

NOTE 5 - 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, 2019 and 2018 were \$488,751 and \$357,385, respectively, which was funded in its entirety.

The Foundation's total contribution to all pension plans during the years ended December 31, 2019 and 2018 were \$174,237 and \$67,811, respectively.

NOTE 6 - 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, 2019 and 2018 was 4.75% and 5.5%, respectively. The agreement expired December 1, 2019 and was renewed and extended to December 1, 2020. On December 31, 2019 and 2018, the balance of the line of credit was \$0 and \$3,500,000, respectively.

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NOTE 7 - 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 was payable in monthly principal and interest installments of \$23,810 until the loan was fully paid off in December 2019.

During December 2019, the Foundation entered into a loan payable agreement with a bank to refinance the prior outstanding line of credit mentioned in Note 6 and term loan noted above. The Foundation borrowed \$4,326,000, bearing interest at 4%, and maturing January 1, 2030. The loan is payable in monthly principal and interest installments of \$43,909. This note is secured by all real property held by the Foundation.

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

2020	\$ 327,490
2021	371,617
2022	386,971
2023	402,960
2024	419,292
Thereafter	2,417,670
Total	\$ 4,326,000

NOTE 8 - 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 2019 or 2018. The Foundation's total beneficiary distributions during the years ended December 31, 2019 and 2018 were \$8,430 and \$8,430, respectively.

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NOTE 9 - CONCENTRATIONS AND CREDIT RISK

The Foundation maintains its cash balances at three financial institutions. Accounts at each institution are guaranteed by the Federal Deposit Insurance Corporation, (FDIC) up to \$250,000. At various times during the years ended December 31, 2019 and 2018, the Foundation's cash balances exceeded the FDIC insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash.

NOTE 10 - LIQUIDITY AND AVAILABILITY OF RESOURCES

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

	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 457,462	\$ 12,162
Accounts receivable, net of unearned revenue	434,439	252,625
Investments	<u>86,934,732</u>	<u>79,051,637</u>
Total financial assets available within one year	<u>87,826,633</u>	<u>79,316,424</u>
Less: Amounts unavailable for general expenditures within one year due to:		
Board-designated endowment	82,042,485	74,882,139
Restricted by donors with purpose restrictions	1,964,121	1,900,169
Restricted by donors in perpetuity	<u>30,881</u>	<u>31,760</u>
Total amounts unavailable for general expenditures within one year	<u>84,037,487</u>	<u>76,814,068</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 3,789,146</u>	<u>\$ 2,502,356</u>

The Organizations board-designated endowment of \$82,042,485 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.

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NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS

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

	December 31, 2019	December 31, 2018
Subject to expenditure for specified purposes:		
Pediatrics	\$ 966,378	\$ 837,755
Arlanza Capital Campaign	655,098	914,136
Other grants and programs	373,526	180,038
Total subject to expenditure for specified purposes	<u>1,995,002</u>	<u>1,931,929</u>
Endowments:		
Board-designated endowment	82,042,485	74,882,139
Total endowments	<u>82,042,485</u>	<u>74,882,139</u>
Total Net assets with donor restrictions	<u><u>\$ 84,037,487</u></u>	<u><u>\$ 76,814,068</u></u>

NOTE 12 - SUBSEQUENT EVENTS

The COVID-19 pandemic and resulting global disruptions have caused significant volatility in financial markets. Due to the rapidly evolving global situation, it is not possible to predict whether unanticipated consequences of the pandemic are reasonably likely to materially affect liquidity and capital resources in the future. Should the current economic conditions persist or continue to deteriorate, the Organization expect that this macroeconomic environment may have an adverse effect on their financial position.

On April 15, 2020, the Foundation received loan proceeds in the amount of approximately \$827,610 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable during the loan period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the loan period.

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Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Foundation intends to use the proceeds for purposes consistent with the PPP.

During February 2020, the Foundation sold real estate located in Riverside, CA that was used for their prior headquarters. The property was sold for \$1,700,000 and the related net assets were reclassified from "Property and equipment" to "Property held for sale" on the "Consolidated and Combined Statements of Financial Position" at December 31, 2019.

Management has evaluated subsequent events through July 27, 2020, the date the financial statements were available to be issued, and concluded that there were no other events that require recording or disclosure in the consolidated and combined financial statements as of December 31, 2019.