

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

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

DECEMBER 31, 2020 AND 2019

**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, 2020 and 2019, and the related consolidated and combined statements of activities and changes in net assets, functional expenses, 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 consolidated and combined 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 audit. We conducted our audit 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 auditors' 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, 2020 and 2019, 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 26, 2021

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

CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL POSITION

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 780,764	\$ 457,462
Accounts receivable, net of unearned revenue (Note 2)	325,104	480,188
Inventory	44,907	28,104
Prepaid expenses	66,965	93,708
Property held for sale	-	168,895
Investments (Notes 3 and 4)	<u>94,004,274</u>	<u>86,934,732</u>
Total current assets	<u>95,222,014</u>	<u>88,163,089</u>
Property and equipment:		
Land	1,211,288	1,211,288
Buildings	12,472,163	12,459,813
Furniture and equipment	1,078,440	1,041,678
Transportation equipment	284,954	284,954
Construction in progress	<u>39,978</u>	<u>4,330</u>
	<u>15,086,823</u>	<u>15,002,063</u>
Accumulated depreciation	<u>(4,027,573)</u>	<u>(3,580,115)</u>
Total property and equipment, net	<u>11,059,250</u>	<u>11,421,948</u>
Total assets	<u>\$ 106,281,264</u>	<u>\$ 99,585,037</u>

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

CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL POSITION

	December 31, 2020	December 31, 2019
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 101,938	\$ 111,493
Accrued expenses	338,779	296,775
Grants payable	-	386,898
Current portion of term loan payable (Note 6)	<u>371,617</u>	<u>327,490</u>
Total current liabilities	<u>812,334</u>	<u>1,122,656</u>
Long-Term liabilities:		
Term loan payable (Note 6)	3,998,510	4,326,000
Paycheck protection program loan payable (Note 7)	827,610	-
Less: current portion	<u>(371,617)</u>	<u>(327,490)</u>
Total long-term liabilities:	<u>4,454,503</u>	<u>3,998,510</u>
Other liabilities:		
Estimated future liability for annuity payments (Note 8)	53,586	53,586
Deferred compensation (Note 5)	<u>628,952</u>	<u>488,751</u>
Total other liabilities	<u>682,538</u>	<u>542,337</u>
Total liabilities	<u>5,949,375</u>	<u>5,663,503</u>
Net Assets:		
Without donor restrictions (Note 2)	9,521,001	9,884,047
With donor restrictions (Notes 2 and 11)	<u>90,810,888</u>	<u>84,037,487</u>
Total net assets	<u>100,331,889</u>	<u>93,921,534</u>
Total liabilities and net assets	<u>\$ 106,281,264</u>	<u>\$ 99,585,037</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, 2019)

	For the year ended December 31, 2020			For the year ended December 31, 2019
	Without Donor Restriction	With Donor Restriction	Total	
Revenues:				
Grants and contributions	\$ 142,189	\$ 728,254	\$ 870,443	\$ 931,405
Service fees	218,583	-	218,583	408,204
Rent	725,891	-	725,891	757,169
Fundraising	72,298	-	72,298	251,024
Total revenues	1,158,961	728,254	1,887,215	2,347,802
Other gains and losses:				
Interest and dividends	-	1,276,485	1,276,485	1,717,060
Gain on disposal of asset	1,533,909	-	1,533,909	39,332
Net unrealized and realized gain on investments	417,330	8,506,448	8,923,778	13,445,468
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>3,326,232</u>	<u>(3,326,232)</u>	<u>-</u>	<u>-</u>
Total revenues and other gains	6,436,432	7,184,955	13,621,387	17,549,662
Expenses:				
Grants/Program services	4,362,950	-	4,362,950	4,473,297
Management and general	2,429,756	411,554	2,841,310	3,856,462
Fundraising	6,772	-	6,772	321,471
Total expenses	6,799,478	411,554	7,211,032	8,651,230
Change in net assets	(363,046)	6,773,401	6,410,355	8,898,432
Net assets at beginning of period:				
Riverside Community Health Foundation	9,619,159	84,034,053	93,653,212	84,791,981
Community Settlement Association	264,888	3,434	268,322	231,121
Net assets at end of period	\$ 9,521,001	\$90,810,888	\$ 100,331,889	\$ 93,921,534

**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, 2019

	Without Donor Restriction	With Donor Restriction	Total
Revenues:			
Grants and contributions	\$ 70,095	\$ 861,310	\$ 931,405
Service fees	408,204	-	408,204
Rent	757,169	-	757,169
Fundraising	251,024	-	251,024
Total revenues	1,486,492	861,310	2,347,802
Other gains and losses:			
Interest and dividends	-	1,717,060	1,717,060
Gain on disposal of asset	39,332	-	39,332
Net unrealized and realized gain on investments	857,492	12,587,976	13,445,468
Net assets released from restrictions:			
Satisfaction of program restrictions	7,181,517	(7,181,517)	-
Total revenues and other gains and (losses)	9,564,833	7,984,829	17,549,662
Expenses:			
Grants/Program services	4,473,297	-	4,473,297
Management and general	3,095,052	761,410	3,856,462
Fundraising	321,471	-	321,471
Total expenses	7,889,820	761,410	8,651,230
Change in net assets	1,675,013	7,223,419	8,898,432
Net assets at beginning of period:			
Riverside Community Health Foundation	7,983,336	76,808,645	84,791,981
Community Settlement Association	225,698	5,423	231,121
Net assets at end of period	\$ 9,884,047	\$ 84,037,487	\$ 93,921,534

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

CONSOLIDATED AND COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended December 31, 2020

	Program Services	Management and General	Fundraising	Total
Bank charges	\$ 7,506	\$ 3,839	\$ -	\$ 11,345
Bad debt	-	22	-	22
Community services and grants	340,546	12,950	-	353,496
Conferences and meetings	22,287	7,809	-	30,096
Depreciation	-	497,516	-	497,516
Dues and subscriptions	11,248	2,581	-	13,829
Events	41,152	-	856	42,008
Insurance	46,151	43,152	-	89,303
Interest	-	155,510	-	155,510
Investment management fees	-	441,799	-	441,799
Mailing and printing	58,548	20,779	2,592	81,919
Professional services	180,066	128,932	50	309,048
Public relations	2,735	700	50	3,485
Rent	122,449	1,010	-	123,459
Repairs and maintenance	5,812	61,189	-	67,001
Salaries and related benefits	3,397,894	1,319,184	-	4,717,078
Supplies and software	84,080	80,184	3,191	167,455
Local transportation	7,941	944	33	8,918
Taxes and Licenses	4,163	3,312	-	7,475
Utilities	30,372	59,898	-	90,270
Total	\$ 4,362,950	\$ 2,841,310	\$ 6,772	\$ 7,211,032

**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
Bank charges	\$ 6,944	\$ 72,327	\$ -	\$ 79,271
Bad debt	668	1,756	-	2,424
Community services and grants	909,854	59,541	-	969,395
Conferences and meetings	95,855	18,410	1,380	115,645
Depreciation	-	398,894	-	398,894
Dues and subscriptions	16,000	3,466	-	19,466
Events	228,924	-	68,600	297,524
Insurance	17,037	74,187	-	91,224
Interest	-	196,260	-	196,260
Investment management fees	-	761,410	-	761,410
Mailing and printing	100,396	13,941	13,262	127,599
Professional services	268,664	146,825	8,320	423,809
Public relations	10,941	-	6,889	17,830
Rent	141,783	39,507	32,600	213,890
Repairs and maintenance	33,652	81,715	138	115,505
Salaries and related benefits	2,505,734	1,772,441	180,848	4,459,023
Supplies and software	90,818	121,950	8,392	221,160
Local transportation	25,844	2,658	354	28,856
Taxes and Licenses	1,734	18,079	688	20,501
Utilities	18,449	73,095	-	91,544
Total	\$ 4,473,297	\$ 3,856,462	\$ 321,471	\$ 8,651,230

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

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2020	For the year ended December 31, 2019
Cash flows from operating activities:		
Changes in net assets	\$ 6,410,355	\$ 8,898,432
Adjustments to reconcile changes in net assets to net cash (used in) by operations:		
Depreciation	497,516	398,894
Net realized and unrealized gains on securities including interest earned on securities	(10,200,263)	(14,401,118)
Gain on disposal of property and equipment	(1,533,909)	(39,332)
Changes in operating assets and liabilities:		
Accounts receivable	155,084	(181,814)
Prepaid expenses	26,743	(106,057)
Inventory	(16,803)	(2,637)
Accounts payable	(9,555)	(22,426)
Accrued expenses	42,004	(22,976)
Grants payable	(386,898)	(269,602)
Unearned grant revenue	-	(17,329)
Deferred compensation	140,201	131,366
Net cash used in operating activities	(4,875,525)	(5,634,599)
Cash flows from investing activities		
Proceeds from sale of investments	19,328,645	16,840,175
Purchases of investments	(16,197,924)	(10,322,152)
Proceeds on sale of property and equipment	1,700,000	45,748
Purchases of property and equipment	(132,014)	(301,017)
Net cash provided by investing activities	4,698,707	6,262,754
Cash flows from financing activities		
Payment on line of credit	-	(3,500,000)
Payments on loan payable	(327,490)	(250,007)
Borrowing on term loan payable	-	3,567,152
Borrowing on PPP loan payable	827,610	-
Net cash used in financing activities	500,120	(182,855)

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

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

	For the year ended December 31, 2020	For the year ended December 31, 2019
Net increase in cash and cash equivalents	323,302	445,300
Cash and cash equivalents at beginning of period	<u>457,462</u>	<u>12,162</u>
Cash and cash equivalents at end of period	<u><u>\$ 780,764</u></u>	<u><u>\$ 457,462</u></u>
Supplemental cash flow disclosures:		
Cash paid for interest	<u><u>\$ 155,510</u></u>	<u><u>\$ 196,260</u></u>
Cash paid for income taxes	<u><u>\$ 800</u></u>	<u><u>\$ 800</u></u>
Non-cash - reclassifying property held for sale into property and equipment	<u><u>\$ 168,895</u></u>	<u><u>\$ -</u></u>

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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, 2020 and 2019, amounted to \$165,313 and \$186,182, 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 2020 and 2019 were \$497,516 and \$398,894, respectively.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**
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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, 2020 and December 31, 2019.

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. The Organizations income tax returns are subject to examination by the appropriate jurisdictions.

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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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 4.

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, 2020 and 2019, 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, 2020 or 2019.

**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, 2020, the Foundation had the following endowment-related activities:

	2020 Board - Designated Endowment Fund
Investment income	\$ 848,214
Net appreciation	<u>8,666,177</u>
Total investment return	<u>9,514,391</u>
Amounts appropriated for expenditure	<u>(2,645,533)</u>
Total change in endowment funds	<u><u>\$ 6,868,858</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 and combined 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. Effective January 1, 2020 the Foundation adopted the new guidance retrospectively and has complied with the disclosure requirements.

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, 2020 and 2019 were as follows:

	December 31, 2020		December 31, 2019	
	Fair Market		Fair Market	
	Cost	Value	Cost	Value
Cash held for investment	\$ -	\$ 1,087,977	\$ -	\$ 1,248,521
Certificate of deposit	30,700	31,124	-	-
Corporate stocks	38,353,226	54,241,466	40,061,537	49,443,300
Corporate bonds	11,551,073	11,729,664	15,772,310	15,395,417
Tangible assets	12,823	43,789	-	-
Alternative investments	<u>22,471,438</u>	<u>26,870,254</u>	<u>18,250,534</u>	<u>20,847,494</u>
	<u><u>\$ 72,419,260</u></u>	<u><u>\$ 94,004,274</u></u>	<u><u>\$ 74,084,381</u></u>	<u><u>\$ 86,934,732</u></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.

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 for the years ended December 31, 2020 and 2019 were \$7,262,887 and \$10,962,907, 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, 2020 and 2019 were \$49,947,822 and \$55,833,847, respectively.

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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 are reported in the statement of activities. Net unrealized and realized gains and losses for the years ended December 31, 2020 and 2019 were \$1,660,891 and \$2,482,561, respectively. Realized gains or losses for securities sold at fair market value are recognized when incurred. At December 31, 2020 and 2019, the cost basis of the investments were \$22,471,438 and \$18,250,534, respectively.

Risk and uncertainties

The Foundation's level 3 investments consists of alternative investments, as noted above, which is exposed to various risks, such as interest rate, market, and credit risk, as well as valuation assumptions based on earnings, cash flows, and other such techniques. Due to the level of risk associated with alternative investments and to uncertainties inherent in estimates and assumptions, it is at least reasonably possible that changes in the value of the alternative investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Fair value measurement

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Available for sale	\$ 66,046,043	\$ 66,046,043	\$ -	\$ -
Alternative investments	<u>26,870,254</u>	<u>-</u>	<u>-</u>	<u>26,870,254</u>
	<u>\$ 92,916,297</u>	<u>\$ 66,046,043</u>	<u>\$ -</u>	<u>\$ 26,870,254</u>

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Available for sale	\$ 64,838,717	\$ 64,838,717	\$ -	\$ -
Alternative investments	<u>20,847,494</u>	<u>-</u>	<u>-</u>	<u>20,847,494</u>
	<u>\$ 85,686,211</u>	<u>\$ 64,838,717</u>	<u>\$ -</u>	<u>\$ 20,847,494</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, 2020 and 2019.

	December 31, 2020	December 31, 2019
Balance at beginning of year	\$ 20,847,494	\$ 18,567,283
Purchases	4,740,188	1,657,157
Withdrawals	(488,066)	(1,963,812)
Interest	109,747	104,305
Net realized/unrealized gains included in income	<u>1,660,891</u>	<u>2,482,561</u>
Balance at end of year	<u><u>\$ 26,870,254</u></u>	<u><u>\$ 20,847,494</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, 2020 and 2019 were \$628,952 and \$488,751, respectively, which was funded in its entirety.

The Foundation's total contribution to all pension plans during the years ended December 31, 2020 and 2019 were \$192,368 and \$174,061, respectively.

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NOTE 6 - TERM LOAN PAYABLE

During December 2019, the Foundation entered into a loan payable agreement with a bank to refinance the prior outstanding debt. 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. On December 31, 2020 and 2019, the balance of the term was \$3,998,510 and \$4,326,000, respectively.

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

2021	\$ 371,617
2022	386,971
2023	402,960
2024	419,292
2025	436,934
Thereafter	1,980,736
Total	\$ 3,998,510

NOTE 7 - PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

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 Foundation believes it has used the proceeds from the PPP Loan in accordance with the requirements of the CARES Act, primarily for payroll costs and to retain workers.

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The term of the PPP Loan is two years from the funding date of the PPP Loan. The interest rate on the PPP Loan is 1.00%. Under the terms of the PPP Loan, interest accrues from the funding date of the PPP Loan but is deferred until the lender determines the amount of loan forgiveness, but the deferral period will end if the Foundation fails to apply for loan forgiveness within ten months after the loan forgiveness covered period. Principal and interest on the PPP Loan will be payable in monthly installments in accordance with the repayment letter when forgiveness has been determined. The promissory note evidencing the PPP Loan contains various events of default relating to, among other things, insolvency, bankruptcy or the like, payment defaults under the PPP Loan or other loans by the lender, certain defaults under other indebtedness, or breach of other provisions of the promissory note. Upon an event of default, all principal and accrued interest on the PPP Loan and any and all other loans made by the lender to the Foundation would at the lender's option become immediately due and payable.

Pursuant to the terms of the CARES Act, the Foundation applied for and may be granted forgiveness for all or a portion of the PPP Loan, if and to the extent that the Foundation satisfies all of the requirements applicable to forgiveness of the PPP Loan. Such forgiveness will be determined in part based on the use of PPP Loan proceeds in accordance with the terms of the CARES Act during the 24 week period after loan origination and the maintenance or achievement of certain employee and compensation levels. The Foundation was granted forgiveness on the loan on March 26, 2021.

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 2020 or 2019. The Foundation's total beneficiary distributions during the years ended December 31, 2020 and 2019 were \$8,430 and \$8,430, respectively.

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NOTE 9 - CONCENTRATIONS AND CREDIT RISK

Cash and cash equivalents

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, 2020 and 2019, 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.

Customers

Approximately 82% and 70% of the Foundation's accounts receivable at December 31, 2020 and 2019, respectively, were due from significant customers.

Vendors

Approximately 56% and 60% of the Foundation's accounts payable at December 31, 2020 and 2019 were due to significant vendors, respectively.

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, 2020	December 31, 2019
Cash and cash equivalents	\$ 780,764	\$ 457,462
Accounts receivable, net of unearned revenue	325,104	480,188
Investments	94,004,274	86,934,732
Total financial assets available within one year	<u>95,110,142</u>	<u>87,872,382</u>
Less: Amounts unavailable for general expenditures within one year due to:		
Board-designated endowment	88,727,778	82,042,485
Restricted by donors with purpose restrictions	2,051,986	1,964,121
Restricted by donors in perpetuity	<u>31,124</u>	<u>30,881</u>
Total amounts unavailable for general expenditures within one year	<u>90,810,888</u>	<u>84,037,487</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 4,299,254</u>	<u>\$ 3,834,895</u>

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The Organization's board-designated endowment of \$88,727,778 is subject to an annual spending rate of 5 percent as described in Note 1. Although the Organization 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 11 - NET ASSETS WITH DONOR RESTRICTIONS

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

	December 31, 2020	December 31, 2019
Subject to expenditure for specified purposes:		
Stebler Fund	\$ 1,025,674	\$ 966,378
Arlanza Capital Campaign	655,098	655,098
Other grants and programs	<u>402,338</u>	<u>373,526</u>
Total subject to expenditure for specified purposes	<u>2,083,110</u>	<u>1,995,002</u>
Endowments:		
Board-designated endowment	88,727,778	82,042,485
Total endowments	<u>88,727,778</u>	<u>82,042,485</u>
Total net assets with donor restrictions	<u><u>\$ 90,810,888</u></u>	<u><u>\$ 84,037,487</u></u>

NOTE 12 - CONTINGENCIES

Due to the spread of Coronavirus Disease 2019 (COVID-19), economic uncertainties have arisen due to labor considerations and supply chain disruptions that are affecting both production and revenues across a range of industries. The extent of the impact of COVID-19 on the Foundation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, government intervention, effect on the Foundation's customers, employees, suppliers, and vendors, all of which are uncertain at this time. At this point, the extent to which COVID-19 may influence the Foundation's results of operations, financial position, or cash flows is unknown.

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NOTE 13 - SUBSEQUENT EVENTS

On February 3, 2021, the Foundation obtained notice from the Small Business Administration that their loan application for a second draw PPP loan was approved. With repayment and forgiveness terms similar to the first PPP loan (Note 7), the Foundation received a second PPP loan in the amount of \$781,600.

Management has evaluated subsequent events through July 26, 2021, 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, 2020.