



Certified Public Accountants
and Financial Advisors

SAINT FRANCIS FOUNDATION

Financial Statements

June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Saint Francis Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Saint Francis Foundation (a California non-profit organization, the "Foundation"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

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



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saint Francis Foundation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, beginning net assets have been restated as of July 1, 2018, to correct a misstatement. Our opinion is not modified with respect to this matter.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

SQUAR MILNER LLP

San Francisco, California
November 26, 2019

SAINT FRANCIS FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

Assets

Cash and cash equivalents	\$ 2,205,882
Unconditional promises to give - net	221,142
Investment in single investor fund	91,100,097
Investments in marketable securities	211,817
Prepaid expenses and other assets	53,536
Charitable remainder trusts - net	1,957,968
Furniture and equipment - net	6,841
	<hr/>
	\$ 95,757,283
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LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 141,340
Due to Saint Francis Memorial Hospital	127,526
Accrued liabilities	58,582
Annuity contracts payable	21,440
Grants payable to Saint Francis Memorial Hospital	4,032,220
	<hr/>
	4,381,108
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Net Assets

Without donor restrictions	45,135,140
With donor restrictions	46,241,035
	<hr/>
	91,376,175
	<hr/> <hr/>
	\$ 95,757,283
	<hr/> <hr/>

SAINT FRANCIS FOUNDATION
STATEMENT OF ACTIVITIES
June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT			
Contributions, bequests, and grants	\$ 473,430	\$ 734,363	\$ 1,207,793
In-kind contributions	141,479	-	141,479
Event income	141,040	-	141,040
Total support	<u>755,949</u>	<u>734,363</u>	<u>1,490,312</u>
Investment and other income			
Investment return - net	2,601,676	2,180,884	4,782,560
Change in value of split-interest agreements	48,029	(231,375)	(183,346)
Other income	3,606	-	3,606
Total investment and other income	<u>2,653,311</u>	<u>1,949,509</u>	<u>4,602,820</u>
Net assets released from restrictions	<u>4,225,551</u>	<u>(4,225,551)</u>	<u>-</u>
Total support and income	<u>7,634,811</u>	<u>(1,541,679)</u>	<u>6,093,132</u>
EXPENSES			
Program services	3,845,815	-	3,845,815
Supporting services			
General and administrative	805,924	-	805,924
Fundraising	975,674	-	975,674
Total expense	<u>5,627,413</u>	<u>-</u>	<u>5,627,413</u>
Change in net assets	2,007,398	(1,541,679)	465,719
NET ASSETS - beginning of year, as originally stated	43,127,742	42,175,359	85,303,101
RESTATEMENT (see Note 3)	-	5,607,355	5,607,355
NET ASSETS - beginning of year, as restated	<u>43,127,742</u>	<u>47,782,714</u>	<u>90,910,456</u>
NET ASSETS - end of year	<u>\$ 45,135,140</u>	<u>\$ 46,241,035</u>	<u>\$ 91,376,175</u>

SAINT FRANCIS FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	Program Services	Supporting Services		Total Expenses
		General and Administrative	Fundraising	
Program grants	\$ 3,380,590	\$ -	\$ -	\$ 3,380,590
Personnel expenses	395,445	520,895	587,317	1,503,657
Professional fees	14,408	184,130	81,019	279,557
Facilities rental	25,761	38,429	60,467	124,657
Food and beverage	-	-	57,419	57,419
Software and IT	1,349	20,245	23,548	45,142
Insurance	6,021	8,981	13,043	28,045
Printing and design collateral	10,287	1,936	14,383	26,606
Donor mailings	-	-	24,863	24,863
Advertising and marketing	50	-	22,635	22,685
Donor cultivation	-	-	20,919	20,919
Staff travel	1,910	732	9,925	12,567
Supplies	1,668	2,400	6,739	10,807
Depreciation	-	10,688	-	10,688
Equipment lease	-	-	7,851	7,851
Photography	-	-	6,831	6,831
Miscellaneous	8,326	17,488	38,715	64,529
	<u>\$ 3,845,815</u>	<u>\$ 805,924</u>	<u>\$ 975,674</u>	<u>\$ 5,627,413</u>

SAINT FRANCIS FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Contributions, bequests and grants	\$ 1,107,735
Investment and other income, net	792,630
Grant awards	(2,587,640)
Fundraising, general and administrative, and other program expenses	<u>(2,190,117)</u>

Net cash used in operating activities (2,877,392)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(477,093)
Distributions from single investor fund	<u>4,400,000</u>

Net cash provided by investing activities 3,922,907

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on annuity contracts payable	<u>(11,770)</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS 1,033,745

CASH AND CASH EQUIVALENTS - beginning of year 1,172,137

CASH AND CASH EQUIVALENTS - end of year \$ 2,205,882

(Continued)

SAINT FRANCIS FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 465,719
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	10,688
Net realized and unrealized gain on investments	(4,276,055)
Change in value of split-interest agreements	183,346
Changes in operating assets and liabilities:	
Unconditional promises to give - net	(100,058)
Prepaid expenses and other assets	(22,577)
Accounts payable	46,688
Due to Saint Francis Memorial Hospital	25,155
Accrued liabilities	(3,248)
Grants payable to Saint Francis Memorial Hospital	<u>792,950</u>
Net cash used in operating activities	<u><u>\$ (2,877,392)</u></u>

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

1. DESCRIPTION OF OPERATIONS

Saint Francis Foundation (the "Foundation") is a non-profit corporation organized under the laws of the State of California. The mission of the Foundation is to raise funds and make grants that support and enhance the ability of Saint Francis Memorial Hospital (the "Hospital") to deliver exceptional health care services and compassionate care to its patients and to the communities the Hospital serves.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Foundation conform to the accounting principles generally accepted in the United States as applicable to not-for-profit organizations. A summary of significant accounting policies applied in the preparation of the accompanying financial statements follows:

Financial Statement Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net assets without donor restrictions

Those net assets and activities which represent the portion of expendable funds that have no use or time restrictions.

Net assets with donor restrictions

Those net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when specified restrictions are met.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The financial statements of the Foundation have been prepared using the accrual basis of accounting, which involves the recognition of revenues and gains when earned and expenses and losses when incurred.

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents.

Fair Value Measurements

The Foundation considers the use of market-based information over entity specific information in valuing its financial assets measured at fair value. This includes a three-level hierarchy for fair value measurements based on the nature of inputs in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- *Level 1* – inputs to the valuation methodology – quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2* - inputs to the valuation methodology – quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the investment.
- *Level 3* - inputs to the valuation methodology - unobservable and significant to the fair value measurement.

An assets or liability's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

In accordance with the authoritative guidance on fair value measurements and disclosures, as a practical expedient, an entity holding investments in certain entities that calculate net asset value ("NAV") per share or its equivalent for which the fair value is not readily determinable is permitted to measure the fair value of such investments on the basis of that NAV or its equivalent without adjustment. Investments measured at fair value based on NAV are not required to be categorized within the fair value hierarchy.

Investment in Single Investor Fund

The Foundation is a limited partner in Saint Francis Foundation Fund, L.P. (the "Fund"), a Single Investor Fund (refer to Note 7). As a limited partner holding 99.9% interest in the Fund, the Foundation determined that it did not meet the requirements of control in order to consolidate the Fund in accordance with FASB ASC 810, *Consolidation*. The Foundation elected to record the investment in the Fund at fair value using the net asset value of the Fund.

Liquidation of the Single Investor Fund is subject to the terms of the partnership agreement.

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in Marketable Securities

Investments in marketable securities are reported at fair value. The fair values are based upon quoted market prices. Changes in fair values are reported in the statement of activities.

Furniture and Equipment

Furniture and equipment with cost in excess of \$2,000 purchased with estimated useful lives in excess of one year are capitalized as cost. Donated assets are capitalized at the fair market value on the date of receipt. Depreciation is computed on the straight-line method using an estimated useful life of five years. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Charitable remainder trusts

The Foundation's two charitable remainder trusts are valued at fair value (refer to Note 9).

Recognition of Revenue

Unconditional contributions are reflected in the accounts of the Foundation when their receipt is reasonably assured. All contributions are considered net assets without donor restrictions unless specifically restricted by the donor. Donor-restricted contributions are reported as increases in net assets with donor restrictions.

Donated residential properties are recorded at fair value at the date of the gift. Such properties are depreciated over their estimated useful lives of forty years on the straight-line method. Upon disposal or retirement, the cost of assets and accumulated depreciation are eliminated, and any resulting gain or loss is recorded.

Contributions and grants receivable are reviewed for collectability, and reserves for uncollectible amounts are established when needed.

Financially Interrelated

Many of the Foundation's fundraising efforts and contributions accepted by the Foundation help further its primary purpose to act for the benefit of the Hospital and the community it serves. Since the Hospital's participation in certain committees provide an ability to influence the decisions of the Foundation, the Foundation considers itself financially interrelated with the Hospital as defined by FASB Accounting Standards Codification 958-20, Financially Interrelated Entities.

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the statements of activities and functional expenses. Expenses are allocated to the program and supporting services based on the purpose of each expense, services provided for each program, and the respective usage of assets. Accordingly, certain costs have been allocated to program services, general and administrative, and fundraising costs based on employee time estimates, square footage, or other appropriate usage factors.

Tax Status

The Foundation is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code, Section 23701d. Accordingly, it has not provided for income taxes in these financial statements.

Each year, management considers whether any material tax position the Foundation has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Foundation has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

Recently Issued Accounting Standards

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958). These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by all entities, including business entities. The amendments should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional or unconditional. The new ASU does not apply to transfers of assets from governments to businesses. ASU 2018-08 will be effective for the Foundation's financial statements for the year ending June 30, 2020. The Foundation is currently assessing the potential impact of this guidance on its financial statements.

Although there are several other new accounting pronouncements issued or proposed by the FASB, which the Foundation will adopt, as applicable, the Foundation does not believe any of these accounting pronouncements will have a material impact on its financial position or operating results.

Subsequent Events

The Foundation has evaluated subsequent events through the date the financial statements are available to be issued, November 26, 2019.

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

3. RESTATEMENT OF BEGINNING BALANCES

During the year ended June 30, 2019, the Foundation reconsidered the Hospital's historical involvement in certain activities of the Foundation concluding that this involvement provides the Hospital with the ability to actively participate in the Foundation's grant making priorities, and is therefore financially interrelated with the Foundation in accordance with ASC 958-20. As a result of being financially interrelated entities, contributions previously recorded as a liability to the Hospital should have been recorded as contributions with donor restrictions on the Statement of Activities. Accordingly, the Foundation restated its beginning net assets as of July 1, 2018. The effect of the restatement on the Foundation was to increase net assets by \$6,226,322.

During the year ended June 30, 2019, the Foundation re-evaluated the agreements of their charitable remainder trusts (CRT) and determined that distributions during the life of the beneficiaries were not considered in the calculation of the fair value of the CRTs. Accordingly, the Foundation restated its net assets as of July 1, 2018, reducing net assets by \$618,967 for the cumulative effect of the restatement.

The effect of the restatement on the Foundation's beginning net assets have been restated as follows:

	July 1, 2018	
	<u>As Originally Stated</u>	<u>As Restated</u>
Charitable remainder trusts - net	\$ 2,809,935	\$ 2,190,968
Funds held for Saint Francis Memorial Hospital	\$ 6,226,322	\$ -
Net Assets with Donor Restrictions	\$ 42,175,359	\$ 47,782,714
Total Net Assets	\$ 85,303,101	\$ 90,910,456

4. NEW ACCOUNTING PRONOUNCEMENT

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). The Foundation has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. The new standard changed the following aspects of the Foundation's financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The financial statements include a statement of functional expense as part of its basic financial statements.
- The financial statements include a new disclosure about liquidity and availability of financial assets (Note 5).

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

5. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs and operations. In addition, the Foundation receives support without donor restrictions; such support, along with investment income without donor restrictions and appropriated earnings from gifts with donor restrictions, has historically represented approximately 50% of total annual expenditure.

The Foundation considers investment income without donor restrictions, appropriated earnings from contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments made. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long-term grant commitments and obligations under endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative, general, and fundraising expenses plus an amount that represents the expected payments grant commitments approved by the Committee.

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

5. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (continued)

The table below presents financial assets available for general expenditures within one year at June 30, 2019:

Financial assets at year-end:	
Cash and cash equivalents	\$ 2,205,882
Unconditional promises to give - net	221,142
Charitable remainder trusts - net	1,957,968
Investment in single investor fund	91,100,097
Investments in marketable securities	<u>211,817</u>
Total financial assets	<u>95,696,906</u>
Less amounts not available to be used within one year:	
Investments in non-liquid securities	(1,275,401)
Charitable remainder trusts - restricted net assets	(1,957,968)
Unconditional promises to give - due after one year	(102,000)
Held for endowments	(21,275,695)
Available based on spending policies	<u>851,027</u>
Total Financial assets not available to be used within one year	<u>(23,760,037)</u>
Total financial assets available to meet general expenditures within one year	<u><u>71,936,869</u></u>

6. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset class. The following is a summary of unconditional promises to give at June 30 2019:

Due in one year or less	\$ 131,496
Due in one to five years	2,000
Due in more than five years	<u>100,000</u>
	233,496
Less: discount to present value	<u>(12,354)</u>
	<u><u>\$ 221,142</u></u>

Unconditional promises to give due after June 30, 2019 are stated at their net present values. Management has discounted these promises to give using a risk free rate of return of 1.8% determined at the time of the promise to give.

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

7. INVESTMENTS

At June 30, 2019, investments consisted of the following:

Investment in single investor fund	\$ 91,100,097
Fixed income securities held for gift annuities	<u>211,817</u>
 Total investments	 <u><u>\$ 91,311,914</u></u>

The Foundation invested in the Saint Francis Foundation, L.P., a limited partnership (the “Fund”), and is the sole limited partner. The general partner, an unrelated third party, owns 0.1% of the Fund and manages the Fund’s daily operations.

The Fund is intended to serve as a single investor fund for the administrative convenience of the Foundation.

The Fund will generally seek to achieve long term equity-like returns through broadly diversifying by asset class, investment manager, geography, economic sector, and security, through an allocation of its assets among unaffiliated limited partnerships, unaffiliated limited liability companies, unaffiliated private equity and/or venture capital funds, including offshore funds, other investment entities and/or separate accounts managed pursuant to investment management agreements (collectively, the “Underlying Funds”), as well as publicly-traded stocks, mutual funds, and pooled funds.

The Fund has commitments of \$38,525,000 to underlying private equity funds as of June 30, 2019, of which \$10,097,623 remains unfunded. The unfunded amount captures prior contributions made by the Foundation prior to inception of the Fund. These underlying funds are expected to be liquidated in 0-12 years unless terminated earlier or extended longer as permitted in the underlying funds’ partnership agreements.

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

7. INVESTMENTS (continued)

At June 30, 2019, the percentage breakdown of the investments held in the Fund is as follows:

Commingled Funds	
Global ex U.S. Common Stock	10.70%
U.S. Common Stock	6.53%
Diversifiers	1.33%
Hedge Funds	
Diversifiers	12.71%
Growth	5.65%
U.S. Common Stock	3.65%
Mutual Funds	
Global ex U.S. Common Stock	6.84%
Nominal Bonds	18.61%
Real assets	3.40%
U.S. Common Stock	8.02%
Private Equity Funds	
Private Equity Funds	3.49%
Private Natural Resources	4.31%
Private Real Estate	1.55%
Venture Capital	11.50%
Money Market Mutual Funds	1.71%

For the year ended June 30, 2019, investment income consisted of the following:

Dividends and interest	\$ 967,472
Net realized and unrealized gains	4,276,055
	<u>5,243,527</u>
Less: investment management fees	<u>(460,967)</u>
Investment income - net	<u>\$ 4,782,560</u>
Net investment income recognized as:	
Without donor restrictions	\$ 2,601,676
With donor restrictions	<u>2,180,884</u>
Investment income - net	<u>\$ 4,782,560</u>

Due to market volatility, the investment portfolios of the Foundation may experience declines in value.

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

8. CHARITABLE REMAINDER TRUSTS

The Foundation is the beneficiary of two charitable remainder trusts. The terms of the agreement provide that at the time of the donor's death, the Foundation is to be distributed an agreed upon amount of the remaining trust assets based on the agreements. The fair value of the trust's assets are based on the fair value of the Foundation's share of the trust assets, expected distributions to the donors, the donor's life expectancy, and a 2.8% discount rate. At June 30, 2019, one of the charitable remainder trusts had a present value of future benefits of \$0 and was not recorded on the Statement of Financial Position. The present value of future benefits expected to be received by the Foundation for the other charitable remainder trust was estimated to be \$1,957,968 as of June 30, 2019.

9. FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis at June 30, 2019 are as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income securities held for gift annuities	\$ 211,817	\$ 211,817	\$ -	\$ -
Investment in single investor fund measured at net asset value (a)	<u>91,100,097</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal investments	91,311,914	211,817	-	-
Split interest agreements - charitable remainder trusts (note 8)	<u>1,957,968</u>	<u>-</u>	<u>-</u>	<u>1,957,968</u>
	<u>\$ 93,269,882</u>	<u>\$ 211,817</u>	<u>\$ -</u>	<u>\$ 1,957,968</u>

(a) Investment is measured at fair value using the net asset value per share (or its equivalent) and therefore have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The table below includes a roll-forward of the amounts for the year ended June 30, 2019 (including the change in fair value), classified by the Foundation within level 3 of the fair value hierarchy.

	<u>Charitable Remainder Trusts</u>
Fair value - July 1, 2018 - as restated	\$ 2,190,968
Total losses	<u>(233,000)</u>
Fair value - June 30, 2019	<u>\$ 1,957,968</u>

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

9. FAIR VALUE MEASUREMENTS (continued)

The fair value of the beneficial interest in the charitable remainder trusts (level 3) is determined by calculating the estimated future payments using a discount rate as disclosed in Note 8, and applicable mortality tables. Total gains and losses for the charitable remainder trusts are included in the change in value of split interest agreements in the statements of activities.

The following table summarizes the investment that has a calculated net asset value per unit along with its related unfunded commitments and redemption features:

	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
<u>Single Investor Fund (b)</u>	\$ 91,100,097	\$ -	Quarterly	60 days prior to end of fiscal quarter

(b) Includes a balanced portfolio of investments in U.S. equity securities, foreign equity securities, fixed income securities, U.S. alternative investments, foreign alternative investments, and money market funds. The Funds' investment strategy is intended to produce results that earn an average annual inflation-adjusted (real) total return of at least 5% over the long term, net of all investment management fees and operating expenses. The fair value of this investment has been estimated using the net assets value of the Fund.

10. ANNUITY CONTRACTS PAYABLE

The Foundation holds a charitable gift annuity that provides for fixed payments to a designated annuity beneficiary over their respective lifetime. Annuity contracts payable have been recognized at present value, using a discount rate of 4.5%, of the estimated future payments to be paid over the life expectancies of the annuitants using the 1983 Standard Annuity Reserve Tables. Assets received in conjunction with such charitable gift annuities were recorded at their fair value at the date of receipt.

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2019 consisted of:

Subject to expenditure for specified purpose	
Pierotti Fund	\$ 19,595,724
Emergency services	530,240
ICU/CCU	792,282
Oncology	483,742
Education	426,417
Sports medicine	296,738
Community benefit	215,543
Bothin Burn Center	169,884
General fund for Hospital	110,498
Plastic and reconstructive surgery program	800
Other funds	297,858
	<u>22,919,726</u>
Subject to passage of time	
Beneficial interest in charitable trust held by others	1,957,968
Time restricted	87,646
	<u>2,045,614</u>
Endowments accumulated earnings subject to appropriations	
Other restricted funds	831,729
Unrestricted as to purpose	4,742,163
	<u>5,573,892</u>
Perpetual in nature - subject to spending policy and appropriation	
Funds to be used for the benefit of the Hospital	1,674,649
Earnings unrestricted as to purpose	14,027,154
	<u>15,701,803</u>
Total net assets with donor restrictions	<u><u>\$ 46,241,035</u></u>

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

11. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions released for donor-designated program expenses or time restrictions incurred during the year are as follows:

Purpose/time restricted	
Pierotti Fund	\$ 2,438,249
Emergency services	166,313
Oncology	120,053
Education	50,430
Sports medicine	3,512
Community benefit	331,753
Bothin Burn Center	9,136
General fund for Hospital	81,500
Plastic and reconstructive surgery program	28,516
Other funds	33,656
	<u>3,263,118</u>
Endowment accumulated earnings	
Other restricted funds	180,378
Unrestricted as to purpose	782,055
	<u>962,433</u>
	<u>\$ 4,225,551</u>

12. ENDOWMENTS

As of June 30, 2019, the Foundation's endowments consisted of eight individual funds established for a variety of purposes and include only donor-restricted endowment funds. These funds are classified as net assets with donor restrictions. At June 30, 2019, the Foundation did not have any board-designated endowment funds.

The Foundation is subject to the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) governing endowments. The Foundation has interpreted this law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result, the Foundation classifies as net assets with donor restriction, perpetual in nature a) the original value of gifts donated to the endowment, b) the original value of subsequent gifts to the endowment, and c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed under the law.

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

12. ENDOWMENTS (continued)

From time to time, the fair market value of assets associated with the endowment funds may fall below the level required to be retained as funds of perpetual duration. The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required by law. At June 30, 2019, the fair market value of endowment assets exceeded the required corpus of the funds.

The Foundation has adopted investment and spending policies for endowment asset that attempt to preserve and enhance the inflation-adjusted (real) value of the corpus in perpetuity, provide a relatively stable stream of earnings consistent with the Foundation's grant making activities, and to balance the needs of current and future beneficiaries of the Foundation.

Under this policy, the endowment assets are invested in a manner that is intended to produce results that earn an average annual inflation-adjusted (real) total return of at least 5%, net of all investment management fees and operating expenses over the long term. The actual return in any given year may vary from this amount. To satisfy its long-term and rate-of-return objective, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation's annual spending rate from the endowment is 4% of the average market value calculated over the prior twelve quarters through the fiscal year-end proceeding the fiscal year in which the distribution is planned. The Foundation has flexibility to appropriate more than the 4% spending rate in any one year based on additional considerations of program needs, general economic conditions and if the evaluation of the selected spending rate indicates exercise of prudence based on the judgment of management and the Board of Directors. Certain endowment gifts are designated for specific purposes, the income from which (included in the spending rate) is spent in accordance with those designations.

At June 30, 2019, the Foundation's endowment net assets with donor restrictions consisted of the following:

Donor - restricted endowment funds	
Original donor - restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 15,701,803
Accumulated investment gains	<u>5,573,892</u>
	<u>\$ 21,275,695</u>

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

12. ENDOWMENTS (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2019 are as follows:

Endowment net assets - July 2018, as restated (refer to Note 3)	\$ 21,351,269
Investment return - net	1,096,960
Appropriation for expenditure	<u>(1,172,534)</u>
Endowment net assets - June 30, 2019	<u>\$ 21,275,695</u>

13. RETIREMENT PLANS

Cash Balance Plan

Eligible staff of the Foundation participate in a multi-employer retirement plan sponsored by the Hospital's parent company, Dignity Health. The plan has a church plan exemption and provides for both a defined benefit pension plan and a combination of a 403(b) and 401(a) plan (the savings plan). The savings portion of the plan includes an employer matching component of 50 cents on the dollar up to 6% of eligible compensation. The plan also includes certain vesting provisions. Benefits are generally based on years of services and the employer's compensation. Contributions to the pension portion of the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to the plan participants.

Defined Benefit Pension Plan

The Foundation participates in a separate trustee-managed multiemployer defined benefit pension plan. The plan is applicable to non-union employees of the Hospital. The plan generally provides retirement benefits to employees based on years of service to the Foundation.

The multiemployer pension plans are each managed by a board of trustees. Although the Foundation is not represented on any of the boards of trustees, other contributing employers are members of the boards.

The risk of participating in these multiemployer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (c) if the Foundation chooses to stop participating in one of its multiemployer plans, it may be required to pay a withdrawal liability to the plan. Depending on the number of employees withdrawn in any future period and the financial condition of the multiemployer plan at the time of withdrawal, the associated withdrawal liabilities could be material to the Foundation's change in net assets in the period of withdrawal. The Foundation has no plans to withdraw from its multiemployer pension plans.

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

13. RETIREMENT PLANS (continued)

The following presents information about the Foundation’s multiemployer pension plans as of year ended June 30, 2019:

Name of Pension Fund	EIN and Plan Number, if Available	Pension Protection Act	FIP/RP Status	Contributions	Surcharge Imposed	Expiration of Collective Bargaining Agreement
		Zone Status		for the year		
		2019		2019		
Dignity Health Pension Plan	94-1196203 Plan No. 001	N/A	N/A	*	No	Not applicable
Retirement Plan for Hospital Employees	94-2995676 Plan No. 001	Green 12/31/18	N/A	*	No	Not applicable

* Contributions of \$91,805 were charged to pension expense for ongoing participation in these plans for the year ended June 30, 2019.

Plan information for the Dignity Health Pension Plan is not publicly available. This plan provides for benefits based on years of service and the employee’s compensation. The Foundation is unable to provide additional qualitative information about total plan assets, accumulated benefit obligations, and the amount by which this plan is funded without undue cost and effort. The Foundation did not contribute more than 5% of the total contribution to the Plan.

The Foundation is not obligated for any minimum contributions for the Retirement Plan for Hospital Employees (the “Plan”). Based on the most recently available Form 5500 for the Plan (plan year ended December 31, 2017), the Foundation did not contribute more than 5% of total contributions to the Plan.

14. CONCENTRATIONS

Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, unconditional promises to give, and investments. Risk associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of deferral insured amounts (currently \$250,000 per depositor). The Foundation also holds uninsured money market accounts. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Concentrations of credit risk with respect to unconditional promises to give are limited due to the financial stability of the donors.

SAINT FRANCIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

14. CONCENTRATIONS (continued)

Investments held by the Saint Francis Foundation Fund L.P

Certain underlying funds held by the Saint Francis Fund, L.P may concentrate their investments in a single industry, sector or country. Concentration of investments entails greater risk that an investment in a fund that invests its assets in numerous industries, sectors or countries. A fund may be vulnerable to financial, economic, political or other developments in the industry or country in which it invests. As a result, an underlying fund's net assets may fluctuate more widely in value than those of a fund investing in a number of different industries, sectors or countries.

15. IN-KIND CONTRIBUTIONS

Saint Francis Memorial Hospital provides occupancy to the Foundation at no cost. During the year ended June 30, 2019, the value of the occupancy totaled \$120,000.

The Foundation received in-kind gifts of \$21,479 during the year ended June 30, 2019.

SUPPLEMENTAL INFORMATION

SAINT FRANCIS FOUNDATION
SCHEDULE OF GRANT AWARDS
For the Year Ended June 30, 2019

Grant Name	Grants Payable July 1, 2018	Awards	Distributed	Grants Completed Under Budget or Closed Funds	Grants Payable June 30, 2019
Diagnostic Imaging Project (MRI)	\$ 1,084,642	\$ -	\$ (133,054)	\$ -	\$ 951,588
Innowave ultrasonic cleaner for surgical instruments	-	852,513	-	-	852,513
Mobile computer stations for patient care floors	-	421,250	-	-	421,250
Radiology diagnostic equipment for 1st floor and sports med	700,000	-	(493,518)	-	206,482
Cardiovascular ultrasound system	-	203,701	-	-	203,701
Behavioral health unit renovation	-	167,000	-	-	167,000
Gastro-Intestinal lab suites	300,000	-	(134,722)	-	165,278
Precision surgical microscope for operating room	125,111	-	-	-	125,111
Hematology lab analyzer	-	121,330	-	-	121,330
Chemistry lab analyzer	-	120,916	-	-	120,916
Transgender surgeries conference	-	210,000	(98,404)	(6,596)	105,000
Grants under \$35,000 approved by the President	108,744	-	(33,880)	-	74,864
Trauma Center feasibility study	28,982	45,000	-	-	73,982
Physical therapy for burn patients	40,000	-	(31,200)	-	8,800
Endoscopic ultrasound (EUS)	492,711	-	(492,711)	-	-
Emergency room update	184,200	-	(169,324)	(14,876)	-
Administration room update	67,000	-	(66,600)	(400)	-
Nurses week	17,653	-	(141)	(17,512)	-
Shuttle van to transport wheelchair discharged patients	56,900	-	(56,900)	-	-
Palliative care assistant	19,704	-	-	(19,704)	-
Perioperative surgery equipment and instruments	13,623	-	(13,623)	-	-
Manoscan equipment for Esophageal Manometry GI lab	-	131,892	(119,689)	(12,203)	-
Gender vocal cord surgery equipment	-	107,109	(107,109)	-	-
Enhance and deepen initiatives in and around Boeddeker park	-	125,000	(125,000)	-	-
Mitigate community wide trauma caused by drug dealing in Tenderloin	-	109,000	(109,000)	-	-
Microscan lab microbiology	-	85,900	-	-	85,900
Hospital café renovation feasibility study	-	75,000	-	-	75,000
Other grant disbursements	-	681,905	(402,765)	(5,635)	273,505
	<u>\$ 3,239,270</u>	<u>\$ 3,457,516</u>	<u>\$ (2,587,640)</u>	<u>\$ (76,926)</u>	<u>\$ 4,032,220</u>