



Certified Public Accountants  
and Financial Advisors

**Saint Francis Foundation**

Financial Statements  
June 30, 2018 and 2017

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
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, 2018, and the related statements of activities 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 Foundation'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 Foundation'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, 2018, 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.

## **Prior Period Financial Statements**

The financial statements as of and for the year ended June 30, 2017, were audited by DZH Phillips LLP, who merged with Squar Milner LLP as of January 1, 2018, and whose report, dated November 3, 2017, expressed an unmodified opinion on those statements.

## **Report on Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2018 Schedule of Grant Awards on page 23 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. The 2017 Schedule of Grant Awards on page 24 was subjected to the auditing procedures applied in the 2017 audit of the basic financial statements by DZH Phillips LLP, whose report on such information stated that it was fairly stated in all material respects in relation to the 2017 financial statements as a whole.

## **SQUAR MILNER LLP**

San Francisco, California  
November 1, 2018

**SAINT FRANCIS FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 1,172,137	\$ 1,420,639
Unconditional promises to give - net	121,084	221,392
Other receivables	4,158	598
Investment in single investor fund	90,761,301	83,684,484
Investments in marketable securities	197,466	228,223
Prepaid expenses and other assets	26,801	25,423
Split interest agreements - net	2,809,935	3,562,403
Furniture and equipment - net	17,529	26,064
	<u>\$ 95,110,411</u>	<u>\$ 89,169,226</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 94,652	\$ 33,005
Due to Saint Francis Memorial Hospital	102,371	244,625
Accrued liabilities	61,830	93,608
Annuity contracts payable	82,865	103,031
Grants payable to Saint Francis Memorial Hospital	3,239,270	2,551,595
Funds held for Saint Francis Memorial Hospital	6,226,322	6,289,903
	<u>9,807,310</u>	<u>9,315,767</u>
<b>Net Assets</b>		
Unrestricted	43,127,742	38,899,085
Temporarily restricted	28,129,028	26,895,496
Permanently restricted	14,046,331	14,058,878
	<u>85,303,101</u>	<u>79,853,459</u>
	<u>\$ 95,110,411</u>	<u>\$ 89,169,226</u>

**SAINT FRANCIS FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
For the Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT</b>								
Contributions, Bequests, and Grants	\$ 24,583	\$ 1,073,347	\$ -	\$ 1,097,930	\$ 216,454	\$ 534,664	\$ -	\$ 751,118
Event income	108,384	306,557	-	414,941	111,484	280,803	-	392,287
In-kind contributions	186,548	-	-	186,548	202,700	-	-	202,700
Total support	319,515	1,379,904	-	1,699,419	530,638	815,467	-	1,346,105
Less: Amounts designated by donors for specific organizations	-	(566,665)	-	(566,665)	-	(374,116)	-	(374,116)
Net support	319,515	813,239	-	1,132,754	530,638	441,351	-	971,989
Investment income	3,766,411	3,076,318	-	6,842,729	3,967,278	3,294,547	-	7,261,825
Less: investment income on agency funds held for others	-	(208,181)	-	(208,181)	-	(221,481)	-	(221,481)
Net investment income	3,766,411	2,868,137	-	6,634,548	3,967,278	3,073,066	-	7,040,344
Other income								
Other income	4,729	-	-	4,729	6,211	-	-	6,211
Change in value of split interest agreements	(226,083)	1,671,550	-	1,445,467	(5,041)	41,851	-	36,810
Less: change in value of split interest agreements on agency funds held for others	222,061	-	-	222,061	-	-	-	-
Total other income	707	1,671,550	-	1,672,257	1,170	41,851	-	43,021
Net assets released from restrictions	4,131,941	(4,119,394)	(12,547)	-	1,362,087	(1,362,087)	-	-
Total support and revenue	8,218,574	1,233,532	(12,547)	9,439,559	5,861,173	2,194,181	-	8,055,354
<b>EXPENSES</b>								
Program services								
Grant awards	1,955,000	-	-	1,955,000	1,126,123	-	-	1,126,123
Other	366,716	-	-	366,716	545,452	-	-	545,452
Supporting services								
Fundraising	1,313,918	-	-	1,313,918	1,561,774	-	-	1,561,774
General and administrative	970,649	-	-	970,649	1,404,203	-	-	1,404,203
Total expense	4,606,283	-	-	4,606,283	4,637,552	-	-	4,637,552
Less: agency funds released	(616,366)	-	-	(616,366)	(257,364)	-	-	(257,364)
Net expense	3,989,917	-	-	3,989,917	4,380,188	-	-	4,380,188
Change in net assets	4,228,657	1,233,532	(12,547)	5,449,642	1,480,985	2,194,181	-	3,675,166
<b>NET ASSETS</b> - beginning of year	38,899,085	26,895,496	14,058,878	79,853,459	37,418,100	24,701,315	14,058,878	76,178,293
<b>NET ASSETS</b> - end of year	<u>\$ 43,127,742</u>	<u>\$ 28,129,028</u>	<u>\$ 14,046,331</u>	<u>\$ 85,303,101</u>	<u>\$ 38,899,085</u>	<u>\$ 26,895,496</u>	<u>\$ 14,058,878</u>	<u>\$ 79,853,459</u>

**SAINT FRANCIS FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions, bequests and grants	\$ 611,407	\$ 2,956,551
Investment and other income (loss), net	32,775	(122,533)
Grant awards	(650,959)	(2,264,422)
Fundraising, general and administrative, and other program expenses	<u>(2,046,465)</u>	<u>(3,166,796)</u>
<b>Net cash used in operating activities</b>	<u>(2,053,242)</u>	<u>(2,597,200)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(1,640,854)	(64,007)
Proceeds from sale of investments	1,250,000	3,500,000
Proceeds on sale of assets held in split interest agreement	2,197,935	-
Purchase of equipment and improvements	<u>(2,341)</u>	<u>(48,092)</u>
<b>Net cash provided by investing activities</b>	<u>1,804,740</u>	<u>3,387,901</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(248,502)	790,301
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<u>1,420,639</u>	<u>630,338</u>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<u>\$ 1,172,137</u>	<u>\$ 1,420,639</u>

(Continued)

**SAINT FRANCIS FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Reconciliation of change in net assets to net cash from operating activities:		
Change in net assets	\$ 5,449,642	\$ 3,675,166
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	10,876	26,871
Net realized and unrealized gain on investments and accrued income	(6,655,206)	(6,972,760)
Change in value of split interest agreements	(1,445,467)	(13,173)
Changes in operating assets and liabilities		
Other receivables	(3,560)	8,528
Unconditional promises to give - net	100,308	127,375
Prepaid expenses and other assets	(1,378)	26,969
Due from Single Investor Fund	-	2,500,000
Accounts payable	61,647	(176,725)
Due to Saint Francis Memorial Hospital	(142,254)	99,680
Accrued liabilities	(31,778)	(8,170)
Annuity contracts payable	(20,166)	(47,826)
Funds held for Saint Francis Memorial Hospital	(63,581)	(447,472)
Grants payable to Saint Francis Memorial Hospital	687,675	(1,395,663)
	<b>\$ (2,053,242)</b>	<b>\$ (2,597,200)</b>

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**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

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**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 accounting principles generally accepted in the United States as applicable to non-profit corporations. A summary of significant accounting policies applied in the preparation of the accompanying financial statements follows:

***Financial Statement Presentation***

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

***Unrestricted Net Assets***

Unrestricted net assets consist of all resources received to help further the Foundation’s primary purpose to improve healthcare generally and in particular, but without limitation, to act for the benefit of the Hospital and the community it serves that have not been restricted as to time or a specific purpose by a donor.

***Temporarily Restricted Net Assets***

Temporarily restricted net assets include cash and other assets received with donor stipulations that limit the use of the donated assets. Donor stipulations are either purpose or time restricted. Upon expiration of a time restriction or completion of a purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

***Permanently Restricted Net Assets***

Permanently restricted net assets consist of assets where the use has been restricted for investment in perpetuity. The income from these assets is available for either general operations or specific purposes as specified by the donor.

***Cash and Cash Equivalents***

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

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**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Fair Value***

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 used 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 asset 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.

FASB issued an Accounting Standards Update 2015-07 ("ASU 2015-07"), *Fair Value Measurement* (Topic 820), *Disclosure for Investments in Certain Entities that Calculate Net Asset Value per Share* (or its equivalent), which removed the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient.

***Investments***

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.

***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 4). 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.

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**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Furniture and Equipment***

Furniture and equipment with a cost in excess of \$2,000 purchased with estimated useful lives in excess of one year are capitalized at 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.

***Split-Interest Agreements***

Split-interest agreements consist of donated property subject to life estate interest and charitable remainder trusts. 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. In one case, the Foundation made a partial purchase of the property by agreeing to pay an annuity to the donors. The Foundation's charitable remainder trusts are recorded at fair value (refer to Notes 5 and 6).

***Recognition of Revenue***

Unconditional contributions are reflected in the accounts of the Foundation when their receipt is reasonably assured. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions.

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

***Funds held for Saint Francis Memorial Hospital***

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. However, the Hospital does not influence or control decisions made on the Foundation's behalf. Accordingly, the Foundation considers itself to not be financially interrelated with the Hospital as defined by FASB Accounting Standard Codification 958-20, Financially Interrelated Entities. Accordingly, certain donations received by the Foundation for the Hospital, whereby the Foundation is not granted variance power, is recorded by the Foundation as a fiscal agent transaction (refer to Note 8).

***Functional Expenses***

The cost of providing the various programs and activities has been summarized on a functional basis in the statement of activities. 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, management and general, and fundraising costs based on employee time estimates, square footage, or other appropriate usage factors.

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**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Income Taxes***

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.

***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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

***Reclassifications***

Certain reclassifications have been made to prior year financial statement presentation to correspond to the current year's financial statement presentation. The reclassifications had no impact on the change in net assets.

***Recently Issued Accounting Standards***

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). ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. ASU 2016-14 requires amended presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Foundation is currently assessing the potential impact of this guidance on its financial statements, but does not believe the impact will be material.

**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Subsequent Events***

The Foundation has evaluated subsequent events through the date the financial statements are available to be issued, November 1, 2018.

**3. 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Due in one year or less	\$ 28,063	\$ 127,000
Due in one to five years	7,000	9,997
Due in more than five years	<u>100,000</u>	<u>100,000</u>
	135,063	236,997
Less: discount to present value	<u>(13,979)</u>	<u>(15,605)</u>
	<u>\$ 121,084</u>	<u>\$ 221,392</u>

Unconditional promises to give due after June 30, 2018 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.

**4. INVESTMENTS**

At June 30, 2018 and 2017, investments consisted of the following:

	<u>2018</u>	<u>2017</u>
	<u>Carrying Value</u>	<u>Carrying Value</u>
Fixed income securities	\$ 197,466	\$ 228,223
Investment in single investor fund	<u>90,761,301</u>	<u>83,684,484</u>
Total investments	<u>\$ 90,958,767</u>	<u>\$ 83,912,707</u>

The Foundation invested in the Saint Francis Foundation Fund, 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.

**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

**4. INVESTMENTS** (continued)

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 made commitments of \$39,025,000 to underlying private equity funds. As of June 30, 2018, \$11,235,257 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 1-11 years unless terminated earlier or extended longer as permitted in the Underlying Funds’ partnership agreements.

At June 30, 2018 and 2017, the percentage breakdown of the investments held in the Fund is as follows:

	<u>2018</u>	<u>2017</u>
Commingled Funds		
Real assets	0.00%	6.21%
Global ex U.S. Common Stock	11.90%	13.74%
U.S. Common Stock	6.22%	5.91%
Nominal Bonds	0.00%	4.85%
Diversifiers	1.91%	2.94%
Hedge Funds		
Diversifiers	12.64%	9.33%
Growth	5.70%	8.00%
U.S. Common Stock	3.32%	3.07%
Mutual Funds		
Global ex U.S. Common Stock	6.91%	7.58%
Nominal Bonds	13.77%	7.20%
Real assets	5.36%	1.36%
U.S. Common Stock	9.61%	9.96%
Private Equity Funds		
Private Equity Funds	3.83%	4.05%
Private Natural Resources	4.36%	4.06%
Private Real Estate	1.85%	1.80%
Venture Capital	10.51%	9.16%
Money Market Mutual Funds	2.11%	0.78%
	<u>100.00%</u>	<u>100.00%</u>

**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

**4. INVESTMENTS (continued)**

For the years ending June 30, 2018 and 2017, investment income (loss) consisted of the following:

	<u>2018</u>	<u>2017</u>
Dividends and interest	\$ 693,822	\$ 619,815
Net realized and unrealized gains	<u>6,655,207</u>	<u>7,192,115</u>
	7,349,029	7,811,930
Less: investment management fees	<u>(506,300)</u>	<u>(550,105)</u>
	6,842,729	7,261,825
Investment income on agency funds held for others	<u>(208,181)</u>	<u>(221,481)</u>
	<u>\$ 6,634,548</u>	<u>\$ 7,040,344</u>
Investment gain recognized as		
Unrestricted	\$ 3,766,411	\$ 3,967,278
Temporarily restricted (from endowment funds)	<u>3,076,318</u>	<u>3,294,547</u>
	6,842,729	7,261,825
Investment income on agency funds held for others	<u>(208,181)</u>	<u>(221,481)</u>
Total investment income	<u>\$ 6,634,548</u>	<u>\$ 7,040,344</u>

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

**5. SPLIT-INTEREST AGREEMENTS**

The Foundation acquired certain residential property, part purchase and part gift, for which the Foundation granted back to the donor a life estate interest that entitles the donor the right to live in the property for the remainder of their life. For the year ended June 30, 2017, the carrying value on such property was \$493,667.

During the year ended June 30, 2018, the Foundation entered into an agreement with the donor, which called for the sale of the property, and for the Foundation and donor to receive a 91% and 9% split of the proceeds, respectively. On July 11, 2017, the property was sold for \$2,525,000. Thus, for the year ended June 30, 2018, there was no remainder interest in real estate.

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 trusts' assets are based on the fair value of the Foundation's share of the trust assets, the donor's life expectancy, and a 3.4% discount rate (2.4% for 2017). The present values of future benefits expected to be received by the Foundation was estimated to be \$2,809,935 and \$3,068,736 at June 30, 2018 and 2017, respectively.

**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

**6. FAIR VALUE MEASUREMENTS**

Fair values of assets measured on a recurring basis at June 30, 2018 and 2017 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>
<u>June 30, 2018</u>				
Fixed income securities	\$ 197,466	\$ 197,466	\$ -	\$ -
Investment in single investor fund measured at net asset value (a)	90,761,301	-	-	-
Subtotal investments	90,958,767	197,466	-	-
Split interest agreements - charitable remainder trusts (note 5)	2,809,935	-	-	2,809,935
	<u>\$ 93,768,702</u>	<u>\$ 197,466</u>	<u>\$ -</u>	<u>\$ 2,809,935</u>
<u>June 30, 2017</u>				
Fixed income securities	\$ 228,223	\$ 228,223	\$ -	\$ -
Investment in single investor fund measured at net asset value (a)	83,684,484	-	-	-
Subtotal investments	83,912,707	228,223	-	-
Split interest agreement - charitable remainder trusts (note 5)	3,068,736	-	-	3,068,736
	<u>\$ 86,981,443</u>	<u>\$ 228,223</u>	<u>\$ -</u>	<u>\$ 3,068,736</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.

**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

**6. FAIR VALUE MEASUREMENTS** (continued)

The table below includes a roll-forward of the amounts for the years ended June 30, 2018 and 2017, (including the change in fair value) classified by the Foundation within level 3 of the fair value hierarchy.

	<b>Charitable Remainder Trusts</b>
Fair value - June 30, 2016	\$ 3,055,563
Total gains	13,173
Fair value - June 30, 2017	3,068,736
Total losses	(258,801)
Fair value - June 30, 2018	\$ 2,809,935

The amount of total gains or losses for the year included in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date is as follows:

June 30, 2017	\$ 13,173
June 30, 2018	\$ (258,801)

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 5, and applicable mortality tables. Total gains and losses for the charitable remainder trusts (also level 3) 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:

	<b>Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if currently eligible)</b>	<b>Redemption Notice Period</b>
Single Investor Fund (b)	\$ 90,761,301	\$ -	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 Fund's 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 asset value of the Fund.

**SAINT FRANCIS FOUNDATION**  
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**7. ANNUITY CONTRACTS PAYABLE**

The Foundation holds two charitable gift annuities that provide for fixed payments to designated annuity beneficiaries over their respective lifetimes. 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.

**8. FUNDS HELD FOR SAINT FRANCIS MEMORIAL HOSPITAL**

The Foundation acts as a fiscal agent for Saint Francis Memorial Hospital. There were no administrative fees charged for these services during the years ended June 30, 2018 and 2017.

The activity related to these funds was as follows:

	<u>Endowed Funds</u>	<u>Other</u>	<u>Total</u>
Balance - July 1, 2016	\$ 2,627,317	\$ 5,068,694	\$ 7,696,011
Funds received	200	373,916	374,116
Investment return	221,481	-	221,481
Funds paid	(2,000)	(255,364)	(257,364)
Write-off of uncollectible pledge	-	(1,744,341)	(1,744,341)
	<hr/>	<hr/>	<hr/>
Balance - June 30, 2017	2,846,998	3,442,905	6,289,903
Funds received	-	566,665	566,665
Investment return	208,181	-	208,181
Change in value of split interest agreements	-	(222,061)	(222,061)
Funds paid	(160,747)	(455,619)	(616,366)
	<hr/>	<hr/>	<hr/>
Balance - June 30, 2018	<u>\$ 2,894,432</u>	<u>\$ 3,331,890</u>	<u>\$ 6,226,322</u>

**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**9. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Community Benefit	\$ 111,199	\$ 115,397
Pierotti Fund	20,945,087	20,475,103
ICU/CCU	227,588	-
Other	8,555	-
Time restricted	<u>2,276,989</u>	<u>2,312,103</u>
	<u>23,569,418</u>	<u>22,902,603</u>
<u>Endowment accumulated earnings</u>		
Other restricted funds	1,566	8,279
Unrestricted as to purpose	<u>4,558,044</u>	<u>3,984,614</u>
	<u>4,559,610</u>	<u>3,992,893</u>
	<u>\$ 28,129,028</u>	<u>\$ 26,895,496</u>

**10. ENDOWMENTS**

As of June 30, 2017, the Foundation's endowments consisted of five individual funds established for a variety of purposes and include only donor-restricted endowment funds. These funds are classified as permanently restricted net assets. During the year ended June 30, 2018, the Foundation filed with the Attorney General of California to modify the restriction associated with a certain donation resulting in four individual funds remaining at June 30, 2018 (refer to Note 11). At June 30, 2018 and 2017, the Foundation did not have any board designated endowment funds.

Endowments also consist of funds the Foundation received from donors as an agency transaction for the benefit of the Hospital to be held as endowments.

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 funds absent explicit donor stipulations to the contrary. As a result, the Foundation classifies as permanently restricted net assets a) the original value of gifts donated to the permanent endowment, b) the original value of subsequent gifts to the permanent endowment, and c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed under the law.

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**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

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**10. 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. At June 30, 2018 and 2017, the fair market value of endowment assets exceeded the required corpus of the funds.

The Foundation has adopted investment and spending policies for endowment assets 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 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 4.0% of the average market value calculated over the prior twelve quarters through the fiscal year-end preceding 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.

**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

**10. ENDOWMENTS (continued)**

Changes in endowment net assets for the fiscal years ended June 30, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - June 30, 2016	\$ -	\$ 3,512,091	\$ 14,058,878	\$ 17,570,969
Investment return:				
Interest and dividends	-	14,219	-	14,219
Net realized and unrealized gains	-	1,467,001	-	1,467,001
Total investment return	-	1,481,220	-	1,481,220
Appropriation for expenditure	-	(1,000,418)	-	(1,000,418)
Endowment net assets - June 30, 2017	-	3,992,893	14,058,878	18,051,771
Investment return:				
Interest and dividends	-	36,811	-	36,811
Net realized and unrealized gains	-	1,306,439	-	1,306,439
Total investment return	-	1,343,250	-	1,343,250
Reclassification (Note 11)	-	-	(12,547)	(12,547)
Appropriation for expenditure	-	(776,533)	-	(776,533)
Endowment net assets - June 30, 2018	<u>\$ -</u>	<u>\$ 4,559,610</u>	<u>\$ 14,046,331</u>	<u>\$ 18,605,941</u>

The following table reflects endowed funds held by the Foundation as an agent for the benefit of the Hospital:

	<u>Accumulated Earnings</u>	<u>Corpus</u>	<u>Total</u>
Balance - June 30, 2016	\$ 723,721	\$ 1,903,596	\$ 2,627,317
Investment return:			
Interest and dividends	2,126	-	2,126
Net realized and unrealized gains	219,355	-	219,355
Total investment return on agency funds held for the Hospital	221,481	-	221,481
Funds received	-	200	200
Funds paid	(2,000)	-	(2,000)
Balance - June 30, 2017	943,202	1,903,796	2,846,998
Investment return:			
Interest and dividends	5,705	-	5,705
Net realized and unrealized gains	202,476	-	202,476
Total investment return on agency funds held for the Hospital	208,181	-	208,181
Funds paid	(160,747)	-	(160,747)
Balance - June 30, 2018	<u>\$ 990,636</u>	<u>\$ 1,903,796</u>	<u>\$ 2,894,432</u>

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**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

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**11. PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets (endowments) are restricted to the following:

	<u>2018</u>	<u>2017</u>
Community Benefit	\$ -	\$ 12,547
Education	19,178	19,178
Earnings unrestricted as to purpose	<u>14,027,153</u>	<u>14,027,153</u>
	<u>\$ 14,046,331</u>	<u>\$ 14,058,878</u>

During the year ended June 30, 2018, the Foundation filed with the attorney general to modify the terms associated with the Community Benefit endowment. As a result, the Foundation released \$12,547 from permanently restricted net assets to temporarily restricted net assets during the year ended June 30, 2018.

**12. 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 service and the employee'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.

**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**12. RETIREMENT PLANS** (continued)

***Defined Benefit Pension Plan*** (continued)

The risks 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 the withdrawal. The Foundation has no plans to withdraw from its multiemployer pension plans.

The following presents information about the Foundation's multiemployer pension plans as of years ended June 30, 2018 and 2017:

Name of Pension Fund	EIN and Plan Number, if Available	Pension Protection Act Zone Status		FIP/RP Status	Contributions for the year ended June 30,		Surcharge Imposed	Expiration of Collective Bargaining Agreement
		2018	2017		2018	2017		
Dignity Health Pension Plan	94-1196203 Plan No. 001	N/A	N/A	N/A	*	*	No	Not applicable
Retirement Plan for Hospital Employees	94-2995676 Plan No. 001	Green 12/31/17	Green 12/31/16	N/A	*	*	No	Not applicable

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 Forms 5500 for the Plan (plan year end December 31, 2016), the Foundation did not contribute more than 5% of total contributions to the Plan.

\* Contributions of \$116,657 and \$72,572 were charged to pension expense for ongoing participation in these plans for the years ended June 30, 2018 and 2017, respectively.

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**SAINT FRANCIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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### **13. CONCENTRATIONS**

#### **Concentrations of Credit Risk**

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents. Risks 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 federally 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.

#### **Investments held by the Saint Francis Foundation Fund, L.P.**

Certain underlying funds held by the Saint Francis Foundation Fund, L.P. may concentrate their investments in a single industry, sector or country. Concentration of investments entails greater risk than 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.

### **14. IN-KIND CONTRIBUTIONS**

Saint Francis Memorial Hospital provides occupancy to the Foundation at no cost. During the years ended June 30, 2018 and 2017, the value of the occupancy totaled \$120,000 for each year.

The Foundation received in-kind gifts for auction of \$66,548 and \$82,700 during the years ended June 30, 2018 and 2017, respectively.

**SUPPLEMENTAL INFORMATION**

**SAINT FRANCIS FOUNDATION  
SCHEDULE OF GRANT AWARDS  
For the Year Ended June 30, 2018**

Grant Name	Grants Payable	Awards	Distributed	Grants Completed Under Budget or	Grants Payable
	June 30, 2017	Granted		Closed Funds Returned	June 30, 2018
Perioperative surgery equipment and instruments	\$ 154,655	\$ -	\$ (141,032)	\$ -	\$ 13,623
Radiology diagnostic equipment for 1st floor and sports med	700,000	-	-	-	700,000
Palliative Care Assistant	89,324	-	(8,241)	(61,379)	19,704
Hospital building evaluation and proposal to upgrade staff office spaces	165,000	-	(165,000)	-	-
Telemetry monitoring system	78,576	-	(78,576)	-	-
Diagnostic Imaging Project (MRI)	1,084,641	-	-	-	1,084,641
Burn Unit	125,000	-	(125,000)	-	-
Gastro-Intestinal lab suites	-	300,000	-	-	300,000
Emergency room update	-	184,200	-	-	184,200
Administration room update	-	67,000	-	-	67,000
Psych Therapy for burn patients	-	40,000	-	-	40,000
Nurses week	-	31,715	(14,062)	-	17,653
Shuttle van to transport wheelchair discharged patients	-	56,900	-	-	56,900
Trauma Center feasibility study	-	45,000	(16,018)	-	28,982
Felton Institute Homeless Outreach Pilot	-	60,000	(60,000)	-	-
Precision surgical microscope for operating room	-	125,111	-	-	125,111
Endoscopic ultrasound (EUS)	-	492,711	-	-	492,711
Grants under \$35,000 approved by the President	104,400	148,600	(106,045)	(38,210)	108,745
Tenderloin Health Improvement Partnership	49,999	200,000	(249,999)	-	-
Other grant disbursements	-	303,352	(303,352)	-	-
	<u>\$ 2,551,595</u>	<u>\$ 2,054,589</u>	<u>\$ (1,267,325)</u>	<u>\$ (99,589)</u>	<u>\$ 3,239,270</u>

**SAINT FRANCIS FOUNDATION  
SCHEDULE OF GRANT AWARDS  
For the Year Ended June 30, 2017**

<u>Grant Name</u>	<u>Grants Payable June 30, 2016</u>	<u>Awards Granted</u>	<u>Distributed</u>	<u>Grants Completed Under Budget or Closed Funds Returned</u>	<u>Grants Payable June 30, 2017</u>
Perioperative surgery equipment and instruments	\$ 471,987	\$ 173,337	\$ (490,669)	\$ -	\$ 154,655
Radiology diagnostic equipment for 1st floor and sports med	700,000	-	-	-	700,000
Media/advertising grant for Hospital & Foundation	7,417	-	(7,417)	-	-
Palliative Care Assistant	91,443	73,067	(75,186)	-	89,324
Hospital building evaluation and proposal to upgrade staff office spaces	-	165,000	-	-	165,000
Telemetry Monitoring System	78,576	-	-	-	78,576
Nurse Call System for Radiology imaging department	70,000	-	-	(70,000)	-
Diagnostic Imaging Project (MRI)	1,084,641	-	-	-	1,084,641
Burn Unit	1,252,048	-	(1,127,048)	-	125,000
Grants under \$35,000 approved by the President	170,367	56,797	(48,663)	(74,101)	104,400
Tenderloin Health Improvement Program	12,500	416,148	(374,691)	(3,958)	49,999
Salary for Emergency Response Coordinator	8,279	-	(8,279)	-	-
Other grant disbursements	-	389,833	(389,833)	-	-
	<u>\$ 3,947,258</u>	<u>\$ 1,274,182</u>	<u>\$ (2,521,786)</u>	<u>\$ (148,059)</u>	<u>\$ 2,551,595</u>