THE CARMEL FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2015 AND 2014

AND INDEPENDENT AUDITORS' REPORT

THE CARMEL FOUNDATION

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HAYASHI | WAYLAND

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Carmel Foundation
Carmel, California

Report on the Financial Statements

We have audited the accompanying financial statements of ***The Carmel Foundation,*** which comprise the statements of financial position as of June 30, 2015 and 2014, the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 of 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***The Carmel Foundation*** as of June 30, 2015 and 2014, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

March 23, 2016

Hayashi Wayland

THE CARMEL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 2,684,683	$ 440,027
Pledges receivable	575	1,382
Bequests receivable	779,760	996,884
Beneficial interest in split-interest agreements	–	119,969
Prepaid expenses and other assets	35,071	24,489
Investments	7,002,733	7,238,786
Property and equipment, net	4,576,832	4,777,572
Donated land lease, net	1,000,000	1,000,000
TOTAL ASSETS	$ 16,079,654	$ 14,599,109
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 61,835	$ 36,388
Accrued liabilities and deposits	103,151	104,530
Total liabilities	164,986	140,918
Net Assets:		
Unrestricted	13,573,854	11,895,048
Temporarily restricted	1,085,344	1,307,673
Permanently restricted	1,255,470	1,255,470
Total net assets	15,914,668	14,458,191
TOTAL LIABILITIES AND NET ASSETS	$ 16,079,654	$ 14,599,109

See Notes to Financial Statements.

THE CARMEL FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT:								
Bequests and contributions	$ 2,966,874	$ 10,435	$ -	$ 2,977,309	$ 1,227,886	$ 8,410	$ -	$ 1,236,296
Membership contributions	280,436	-	-	280,436	233,384	-	-	233,384
Senior housing rental income	271,172	-	-	271,172	270,011	-	-	270,011
Program service fees	168,719	-	-	168,719	156,130	-	-	156,130
Net unrealized and realized gains/(losses)	(250,269)	(62,428)	-	(312,697)	869,933	210,233	-	1,080,166
Investment income and dividends	140,449	38,718	-	179,167	122,299	29,161	-	151,460
In kind donation – land lease	-	120,000	-	120,000	-	120,000	-	120,000
Change in value of split – interest agreements	-	-	-	-	-	9,742	-	9,742
Grant revenue	80,449	44,000	-	124,449	87,639	42,000	-	129,639
Other income	144,888	-	-	144,888	111,067	-	-	111,067
Gain/(loss) on disposal of property and equipment	(2,829)	-	-	(2,829)	4,434	-	-	4,434
Net assets released from restrictions	373,054	(373,054)	-	-	327,831	(327,831)	-	-
Total revenue, gains and other support	4,172,943	(222,329)	-	3,950,614	1,523,203	83,305	-	1,606,508
EXPENSES:								
Program services:								
Senior housing rentals	596,027	-	-	596,027	561,598	-	-	561,598
Other program services	993,236	-	-	993,236	985,360	-	-	985,360
Total program services	1,589,263	-	-	1,589,263	1,546,958	-	-	1,546,958
Support services:								
General and administrative	631,201	-	-	631,201	665,821	-	-	665,821
Fundraising	273,673	-	-	273,673	333,256	-	-	333,256
Total support services	904,874	-	-	904,874	999,077	-	-	999,077
Total expenses	2,494,137	-	-	2,494,137	2,546,035	-	-	2,546,035
CHANGE IN NET ASSETS	1,678,806	(222,329)	-	1,456,477	864,579	91,715	-	956,294
NET ASSETS, BEGINNING OF YEAR	11,895,048	1,307,673	1,255,470	14,458,191	11,030,469	1,215,958	1,255,470	13,501,897
NET ASSETS, END OF YEAR	$ 13,573,854	$ 1,085,344	$ 1,255,470	$ 15,914,668	$ 11,895,048	$ 1,307,673	$ 1,255,470	$ 14,458,191

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015					2014				
	Program Services		Support Services			Program Services		Support Services		
	Senior Housing	Other Programs	General and Administrative	Fundraising	Total	Senior Housing	Other Programs	General and Administrative	Fundraising	Total
COMPENSATION AND RELATED EXPENSES:										
Salaries – general	$ 43,196	$ 226,212	$ 217,774	$ 61,102	$ 548,284	$ 23,070	$ 238,927	$ 194,699	$ 68,595	$ 525,291
Employee benefits - general	5,967	57,708	48,794	16,537	129,006	3,744	55,604	47,879	17,003	124,230
Payroll taxes and worker's comp - general	6,495	33,009	19,673	5,926	65,103	5,329	39,529	20,060	6,155	71,073
Salaries – supervision	95,286	248,020	-	88,431	431,737	61,418	283,846	9,375	90,230	444,869
Employee benefits – supervision	12,952	38,410	-	14,558	65,920	17,341	42,386	-	14,255	73,982
Payroll taxes and workers' comp – supervision	13,935	29,515	-	8,504	51,954	16,066	31,624	-	9,481	57,171
Total compensation and related expenses	177,831	632,874	286,241	195,058	1,292,004	126,968	691,916	272,013	205,719	1,296,616
Depreciation	156,350	3,914	83,517	-	243,781	156,632	3,172	86,009	-	245,813
Utilities and security	70,816	-	49,701	-	120,517	67,757	-	47,720	-	115,477
Donated rent	120,000	-	-	-	120,000	120,000	-	-	-	120,000
Food and meals	-	122,806	-	-	122,806	-	88,083	-	25,242	113,325
Repairs and maintenance	18,567	25,237	63,066	815	107,685	28,839	41,067	70,704	420	141,030
Professional fees	-	43,996	49,565	4,003	97,564	2,000	-	73,531	-	75,531
Insurance	34,334	3,414	17,153	-	54,901	41,549	3,860	17,256	-	62,665
Tour program	-	47,219	-	-	47,219	-	38,012	-	-	38,012
Postage and printing	-	5,152	3,040	35,209	43,401	-	-	5,155	39,564	44,719
Financial assistance	-	39,676	-	-	39,676	-	42,975	-	-	42,975
Miscellaneous	194	22,560	12,975	1,076	36,805	612	6,851	17,780	1,089	26,332
Other program	-	17,168	3,069	15,539	35,776	-	15,253	99	32,130	47,482
Service contracts	3,207	1,989	20,605	-	25,801	3,405	26,044	22,687	-	52,136
Supplemental property taxes	14,339	-	9,643	-	23,982	12,915	-	8,929	-	21,844
Member activities	-	12,601	4,637	282	17,520	-	16,940	5,330	804	23,074
Telecommunications	-	1,207	16,288	-	17,495	-	1,119	15,441	-	16,560
Office supplies	-	840	8,475	4,676	13,991	-	244	16,111	6,358	22,713
Automobile	389	9,325	1,193	-	10,907	735	5,597	3,170	-	9,502
Marketing materials	-	-	-	7,147	7,147	-	-	-	5,645	5,645
Donor recognition	-	-	-	5,835	5,835	-	-	-	4,444	4,444
Fundraising	-	-	1,617	3,001	4,618	-	-	3,496	8,306	11,802
Training and conferences	-	1,477	416	1,032	2,925	186	1,670	390	3,535	5,781
Library	-	1,781	-	-	1,781	-	2,557	-	-	2,557
Total expenses	$ 596,027	$ 993,236	$ 631,201	$ 273,673	$ 2,494,137	$ 561,598	$ 985,360	$ 665,821	$ 333,256	$ 2,546,035

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,456,477	$ 956,294
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Donated land lease	120,000	120,000
Amortization of donated land lease	(120,000)	(120,000)
Depreciation	243,781	245,813
Net realized and unrealized (gain) loss on investments	312,697	(1,080,166)
(Gain)/loss on disposal of property and equipment	2,829	(4,434)
(Increase) decrease in:		
Pledges receivable	807	13,758
Bequests receivable	217,124	(860,331)
Beneficial interest in split-interest agreements	119,969	(9,742)
Prepaid expenses and other assets	(10,582)	(2,389)
Increase (decrease) in:		
Accounts payable	25,447	3,055
Accrued liabilities and deposits	(1,379)	20,911
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,367,170	(717,231)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	1,323,913	5,877,798
Purchases of investments	(1,400,557)	(5,327,620)
Proceeds from sale of property and equipment	–	5,000
Purchases of property and equipment	(45,870)	(66,693)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(122,514)	488,485
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,244,656	(228,746)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	440,027	668,773
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,684,683	$ 440,027

See Notes to Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – The Carmel Foundation (the Foundation) is a California non-profit public benefit corporation established in 1950. The Foundation is committed to increasing the comfort, happiness and sense of well-being of the senior residents of the Monterey Peninsula. The Foundation is a membership organization that provides low-cost housing for eligible seniors, transportation and prepared meals and a variety of programs, classes and activities from its facilities in Carmel.

Basis of Accounting and Presentation – The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when they are earned and expenses are recognized when the related liability is incurred. The Foundation reports information regarding its financial position and activities according to the following three classes of net assets:

- **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed stipulations. This includes certain amounts designated by the Board for endowment and other purposes.

- **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, 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** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Recognition of Donor Restrictions – Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, (that is, when a stipulated time restriction ends or the purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as “net assets released from restriction.”

Cash and Cash Equivalents – The Foundation considers all short-term investments with an original maturity at the date of purchase of three months or less to be cash equivalents for purposes of the statement of cash flows. Cash and cash equivalents include demand deposit accounts, money market accounts and cash on hand.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments – The Foundation's financial instruments, including cash equivalents, pledges receivable, accounts payable, and accrued liabilities are carried at cost, which approximates their fair value due to the short-term maturity of these instruments.

Pledges Receivable – Unconditional promises to give are recognized as revenue in the period received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promise becomes unconditional. No allowance has been recorded for uncollectible promises to give, as management believes all amounts to be collectible. All unconditional promises to give are expected to be received within one year and have not been discounted.

Bequests Receivable – Bequests are recognized as revenue once the Foundation has received notification that the will has been probated and a reasonably estimated valuation has been received from the executor of the estate.

Investments – The Foundation initially records investments purchased at cost. Investments with readily determinable fair values are measured at market value in the statement of financial position. The fair values are based on quoted market prices. The fair value of investments held in pooled funds are calculated as a net asset value per share (or equivalent) as investors hold fund shares rather than individual securities. Gains and losses on disposition of investments are accounted for using the specific identification method. Net realized and unrealized gains and losses are included in the statement of activities.

Property and Equipment – Property and equipment are recorded at cost, and donated property and equipment is recorded at estimated fair market value on the date contributed to the Foundation. The Foundation typically capitalizes items costing or valued at $1,000 or more with an estimated useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets:

Buildings	25 – 50 Years
Furniture and equipment	3 – 10 Years
Vehicles	5 – 7 Years

Expenditures for maintenance and repairs are charged to expense as incurred. Renewals or betterments of significant items are capitalized. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts, and any resulting gain or loss is recognized.

Assets donated with explicit restrictions regarding their use and contributions of cash that are restricted to property and equipment purchases are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets are to be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Functional Allocation of Expenses – The costs of providing program services and other activities have been presented on a functional basis in the Statement of Activities. Expenses relating to more than one function are allocated based on employee time, expense studies or other appropriate usage factors.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk – The Foundation maintains deposits and investments at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 and the Securities Investor Protection Corporation (SIPC) up to $500,000 for the years ended June 30, 2015 and 2014. Deposits and investments at these institutions exceeded federally insured limits at various times. The amount in excess of the FDIC and SIPC limits totaled $7,939,924 and $6,738,786 as of June 30, 2015 and 2014, respectively. The Foundation has not experienced any losses in such accounts and believes it was not exposed to any significant credit risk on deposits and investments at June 30, 2015 and 2014.

Fundraising Costs – The Foundation incurs fundraising costs as contribution revenues are almost entirely from its members. The Foundation incurred fundraising expenses of $273,673 and $333,256 for the years ended June 30, 2015 and 2014, respectively.

Donated Services – Donated services are not recorded unless such services create or enhance non-financial assets or require specialized skills and are so essential that they would be purchased if not provided by donation.

Income Taxes – As a tax exempt not-for-profit organization, the Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state franchise tax under California Revenue and Taxation Code Section 23701(d), but is subject to taxes on unrelated business income when earned.

GAAP provides accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Foundation's returns are subject to examinations by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications – Certain prior year amounts have been reclassified to conform with the current year financial statement presentation.

Subsequent Events – Subsequent events have been evaluated through March 23, 2016, which is the date the financial statements were available to be issued.

NOTE 2. FAIR VALUE MEASUREMENTS

The Foundation measures its assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

NOTE 2. FAIR VALUE MEASUREMENTS (Continued)

The guidance establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The guidance expands disclosures about instruments measured at fair value. The guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, the guidance does not require any new fair value measurements.

As noted above, the guidance establishes a three level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30, by caption on the statement of financial position by the ASC 820 valuation hierarchy defined above:

	2015			2014		
ASSETS	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Beneficial interest in split-interest agreements	$ –	$ –	$ –	$ –	$ –	$ 119,969
Investments	4,496,343	165,074	–	4,981,137	246,287	–
Investments held in pooled funds	–	2,341,316	–	–	2,011,362	–
	$4,496,343	$2,506,390	$ –	$4,981,137	$2,257,649	$ 119,969

Following is a description of the Foundation's valuation methodologies for assets measured at fair value on a reoccurring basis:

Fair value for Level 1 is based upon quoted market price. Inputs are obtained from various sources including market participants, dealers, brokers and financial institutions.

Fair value for Level 2 investments are determined by reference to quoted market prices for similar investments, yield curves, and other relevant information, except for the investments held in pooled funds, which calculates a net asset value per share (or equivalent) as investors hold fund shares rather than individual securities.

NOTE 2. FAIR VALUE MEASUREMENTS (Continued)

Fair value for Level 3 utilizes the key input of a discount rate to convert the expected future cash flows from the trusts to a single present amount. The Foundation utilized its borrowing rate and developed a measurement criteria based on the best information possible. The net present value of the split-interest agreements in which the Foundation does not serve as trustee utilizes significant unobservable inputs in estimating fair value. The following is a summary of activity for the year ended June 30, for assets measured at fair value based on Level 3 inputs:

	2015	2014
	Beneficial interest in split-interest agreements	Beneficial interest in split-interest agreements
Balance, beginning of year	$ 119,969	$ 110,227
Change in value of split interest agreements	–	9,742
Payout of split interest agreements	(119,969)	–
Balance, end of year	$ –	$ 119,969

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

NOTE 3. BEQUESTS RECEIVABLE

The Foundation has been named a beneficiary in certain wills. The bequests receivable balance was $779,760 and $996,884 for the years ended June 30, 2015 and 2014, respectively. All bequests receivable are expected to be received within one year and have not been discounted. Bequests receivable at June 30, 2015 consisted of the following:

Claudia C. Theadwell Revocable Trust	$ 5,000
Patricia A. Wetmore Trust	25,000
The Vance Living Trust	450,000
Elizabeth Price Vaughn Revocable Trust	169,500
Estate of Pamel A Rickerson	130,260
Total	$ 779,760

NOTE 4. BENEFICIAL INTEREST IN SPLIT–INTEREST AGREEMENTS

The Foundation is the remainder beneficiary under the terms of a charitable remainder trust administered by a third party trustee. Contributions receivable from the charitable remainder trust is recorded in the statements of financial position based on the present value of the future benefits expected to be received from the trust. A corresponding amount is reflected in the statements of activities and changes in net asset as temporarily restricted contributions in the year the Foundation was notified of its irrevocable interest. The amounts due under split-interest agreements at June 30, 2015 and 2014 were $ –0– and $119,969, respectively.

NOTE 5. INVESTMENTS

Investments are managed by outside managers under the direction and oversight of Management and the Finance Committee of the Board of Directors. The Finance Committee determines the asset allocation formula and places limitations on the types of investments the managers may purchase.

Investments restricted by the donor for endowment purposes are recorded as permanently restricted net assets based on the original amount of the gift. Dividends and interest on such endowment assets are reflected as an increase in unrestricted net assets based on the intentions stipulated by the donor.

Investments consist of the following at June 30:

	2015			
	Unrestricted	Temporarily Restricted	Program Endowment Fund	Total
Marketable equity securities	$ 4,357,245	$ 54,157	$ 84,941	$ 4,496,343
Marketable debt securities – bonds	165,074	–	–	165,074
Money market funds	–	–	–	–
Pooled funds	1,170,787	–	1,170,529	2,341,316
Total	$ 5,693,106	$ 54,157	$ 1,255,470	$ 7,002,733

	2014			
	Unrestricted	Temporarily Restricted	Program Endowment Fund	Total
Marketable equity securities	$ 3,974,418	$ 187,704	$ 727,459	$ 4,889,581
Marketable debt securities – bonds	197,019	–	49,267	246,286
Money market funds	–	–	91,557	91,557
Pooled funds	1,624,175	–	387,187	2,011,362
Total	$ 5,795,612	$ 187,704	$ 1,255,470	$ 7,238,786

NOTE 5. INVESTMENTS (Continued)

The following schedule summarizes the composition of investment income (loss) for the years ended June 30:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest income	$ 140,449	$ 38,718	$ –	$ 179,167
Realized/unrealized investment gains/(losses)	(250,269)	(62,428)	–	(312,697)
Total investment income (loss)	$ (109,820)	$ (23,710)	$ –	$ (133,530)

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest income	$ 122,299	$ 29,161	$ –	$ 151,460
Realized/unrealized investment gains/(losses)	869,933	210,233	–	1,080,166
Total investment income (loss)	$ 992,232	$ 239,394	$ –	$ 1,231,626

NOTE 6. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	2015	2014
Buildings	$ 7,520,857	$ 7,527,081
Furniture and equipment	589,267	579,510
Land	463,053	463,053
Vehicles	28,715	28,715
Construction in progress	22,828	–
Total	8,624,720	8,598,359
Less accumulated depreciation	4,047,888	3,820,787
Property and equipment, net	$ 4,576,832	$ 4,777,572

Depreciation and amortization expense was $243,781 and $245,813 for the years ended June 30, 2015 and 2014, respectively.

NOTE 7. **DONATED LAND LEASE, NET**

The Foundation is the beneficiary of a land lease from the City of Carmel-by-the-Sea for a term of 50 years that will expire in 2038 for an annual payment of $1, which was paid in advance. Under the terms of the land lease, the Foundation provides low-cost housing to eligible seniors. An unconditional promise to give has been recorded to reflect the value of the use of the land based upon a monthly rent of 1% of the value of the property, estimated to be $1,000,000. The future value of the donated rent has been discounted to its present value using an interest rate of 5%. In addition, the value of the lease has been reduced by an allowance of $631,697 as not to exceed the estimated value of the underlying asset.

NOTE 8. **UNRESTRICTED NET ASSETS**

During the years ended June 30, 2015 and 2014, the Board of Directors of the Foundation designated unrestricted amounts to be held for special purposes. Board designated net assets were as follows at June 30:

	2015	2014
Undesignated	$ 13,503,851	$ 11,865,641
Thompson program	31,978	29,407
Total	$ 13,535,829	$ 11,895,048

NOTE 9. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets represent pledges, other contributions receivable and funds raised with purpose restrictions, which have not yet been met. Unconditional promises to give with payments due in future periods are reported as temporarily restricted support. When receivables are collected, the restrictions will have been met and temporarily restricted net assets are released from restrictions and reclassified to unrestricted net assets. For purpose restrictions, once the restriction has been met the net assets are released from restrictions and reclassified to unrestricted net assets.

Temporarily restricted net assets consisted of the following at June 30:

	2015	2014
Land lease	$ 1,000,000	$ 1,000,000
Split-interest agreements	–	119,969
Endowment earnings	85,344	187,704
Total	$ 1,085,344	$ 1,307,673

NOTE 10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support the Foundation's operations.

	2015	2014
Greene endowment	$ 1,170,529	$ 1,170,529
Herud endowment	50,000	50,000
Seideneck fund	33,941	33,941
Aurner fund	1,000	1,000
Total	$ 1,255,470	$ 1,255,470

NOTE 11. ENDOWMENTS

The Foundation's endowment consists of approximately four individual funds established for general operations. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Foundation's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 of this interpretation, 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 by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Foundation and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Foundation
(7) The investment policies of the Foundation

Spending Policy – The Foundation has a policy of appropriating for distribution all investment earnings from the endowments as designated by its donors.

Investment Policy – In order to maximize the earnings of the endowment funds, all of the endowments have been invested in various equity and debt securities and money market funds in line with the investment policy of the Foundation.

NOTE 11. ENDOWMENTS (Continued)

Endowment Net Asset Composition

Endowment net asset composition as of June 30:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	$ –	$ 85,344	$ 1,255,470	$ 1,340,814
Total funds	$ –	$ 85,344	$ 1,255,470	$ 1,340,814

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	$ –	$ 187,704	$ 1,255,470	$ 1,443,174
Total funds	$ –	$ 187,704	$ 1,255,470	$ 1,443,174

Changes in Endowment Net Assets

Changes in endowment net assets for the year ended June 30:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at Beginning of Year	$ –	$ 187,704	$ 1,255,470	$ 1,443,174
Investment return:				
Investment income	–	38,718	–	38,718
Realized gain	–	24,853	–	24,853
Unrealized gain/(loss)	–	(87,282)	–	(87,282)
Total investment return	–	(23,711)	–	(23,711)
Appropriation of endowment assets for expenditure	–	(78,649)	–	(78,649)
Balance at End of Year	$ –	$ 85,344	$ 1,255,470	$ 1,340,814

NOTE 11. ENDOWMENTS (Continued)

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at Beginning of Year	$ –	$ 37,650	$ 1,255,470	$ 1,293,120
Investment return:				
Investment income	–	29,161	–	29,161
Realized gain	–	136,799	–	136,799
Unrealized gain/(loss)	–	73,434	–	73,434
Total investment return	–	239,394	–	239,394
Appropriation of endowment assets for expenditure	–	(89,340)	–	(89,340)
Balance at End of Year	$ –	$ 187,704	$ 1,255,470	$ 1,443,174

NOTE 12. RETIREMENT PLANS

The Foundation maintains a 403(b) plan, which is available to full-time employees that have attained the age of twenty-one and have no less than one year of service with the Foundation. The Foundation matches the employees' contributions at 4% of compensation. Retirement plan contributions charged to expense were $26,135 and $23,107 for the years ended June 30, 2015 and 2014, respectively.

NOTE 13. COMMITMENTS

The Foundation leases a copier under a noncancelable operating lease. Future minimum rental payments required under operating leases are as follows:

2016	$ 2,784
2017	2,784
2018	928
Total	$ 6,496

Total rent payments were $2,784 for the year ended June 30, 2015.

NOTE 14. CONTINGENCIES

During the year, the Foundation was informed that it is the beneficiary of a bequest. At the date of this report, the estate has not been settled, and there is no estimate of the actual distribution amount that will be made to the Foundation. Accordingly, the Foundation has not recorded any support income or receivable due from this bequest.

NOTE 15. SUBSEQUENT EVENTS

Subsequent to year end the Foundation was notified that they were a beneficiary of a charitable remainder trust. The Foundation does not serve as Trustee of the Trust and no amounts have been recorded in these financial statements.