

THE CARMEL FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015

AND INDEPENDENT AUDITORS' REPORT

THE CARMEL FOUNDATION

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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, 2016 and 2015, 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.

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, 2016 and 2015, 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.

_____ [date]

THE CARMEL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

| <u>ASSETS</u> | <u>2016</u> | <u>2015</u> |
|--|-----------------------------|-----------------------------|
| Cash and cash equivalents | \$ 1,764,268 | \$ 2,684,683 |
| Pledges receivable | 1,200 | 575 |
| Bequests receivable | 455,001 | 779,760 |
| Beneficial interest in split-interest agreements | 589,399 | - |
| Prepaid expenses and other assets | 36,082 | 35,071 |
| Investments | 8,048,611 | 7,002,733 |
| Property and equipment, net | 4,448,589 | 4,576,832 |
| Donated land lease, net | <u>957,388</u> | <u>1,000,000</u> |
| TOTAL ASSETS | <u>\$ 16,300,538</u> | <u>\$ 16,079,654</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 31,434 | \$ 61,835 |
| Accrued liabilities and deposits | <u>115,598</u> | <u>103,151</u> |
| Total liabilities | <u>147,032</u> | <u>164,986</u> |
| Net Assets: | | |
| Unrestricted | 13,351,249 | 13,573,854 |
| Temporarily restricted | 1,546,787 | 1,085,344 |
| Permanently restricted | <u>1,255,470</u> | <u>1,255,470</u> |
| Total net assets | <u>16,153,506</u> | <u>15,914,668</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 16,300,538</u> | <u>\$ 16,079,654</u> |

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

| | 2016 | | | | 2015 | | | |
|---|----------------------|------------------------|------------------------|----------------------|----------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUE, GAINS AND OTHER SUPPORT: | | | | | | | | |
| Bequests and contributions | \$ 1,362,649 | \$ 2,550 | \$ - | \$ 1,365,199 | \$ 2,966,874 | \$ 10,435 | \$ - | \$ 2,977,309 |
| Membership contributions | 248,774 | - | - | 248,774 | 280,436 | - | - | 280,436 |
| Senior housing rental income | 290,531 | - | - | 290,531 | 271,172 | - | - | 271,172 |
| Program service fees | 142,512 | - | - | 142,512 | 168,719 | - | - | 168,719 |
| Net unrealized and realized gains/(losses) | (267,511) | (61,605) | - | (329,116) | (250,269) | (62,428) | - | (312,697) |
| Investment income (loss) and dividends - net | 146,895 | 43,139 | - | 190,034 | 104,108 | 38,718 | - | 142,826 |
| In kind donation – land lease | - | 77,388 | - | 77,388 | - | 120,000 | - | 120,000 |
| Change in value of split – interest agreements | - | 589,399 | - | 589,399 | - | - | - | - |
| Grant revenue | 115,167 | 47,330 | - | 162,497 | 80,449 | 44,000 | - | 124,449 |
| Other income | 146,438 | - | - | 146,438 | 144,888 | - | - | 144,888 |
| Gain/(loss) on disposal of property and equipment | 3,285 | - | - | 3,285 | (2,829) | - | - | (2,829) |
| Net assets released from restrictions | 236,758 | (236,758) | - | - | 373,054 | (373,054) | - | - |
| Total revenue, gains and other support | 2,425,498 | 461,443 | - | 2,886,941 | 4,136,602 | (222,329) | - | 3,914,273 |
| EXPENSES: | | | | | | | | |
| Program services: | | | | | | | | |
| Senior housing rentals | 620,729 | - | - | 620,729 | 596,027 | - | - | 596,027 |
| Other program services | 1,042,946 | - | - | 1,042,946 | 957,270 | - | - | 957,270 |
| Total program services | 1,663,675 | - | - | 1,663,675 | 1,553,297 | - | - | 1,553,297 |
| Support services: | | | | | | | | |
| General and administrative | 702,609 | - | - | 702,609 | 630,826 | - | - | 630,826 |
| Fundraising | 281,819 | - | - | 281,819 | 273,673 | - | - | 273,673 |
| Total support services | 984,428 | - | - | 984,428 | 904,499 | - | - | 904,499 |
| Total expenses | 2,648,103 | - | - | 2,648,103 | 2,457,796 | - | - | 2,457,796 |
| CHANGE IN NET ASSETS | (222,605) | 461,443 | - | 238,838 | 1,678,806 | (222,329) | - | 1,456,477 |
| NET ASSETS, BEGINNING 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 |
| NET ASSETS, END OF YEAR | \$ 13,351,249 | \$ 1,546,787 | \$ 1,255,470 | \$ 16,153,506 | \$ 13,573,854 | \$ 1,085,344 | \$ 1,255,470 | \$ 15,914,668 |

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

| | 2016 | | | | | 2015 | | | | |
|--|-------------------|---------------------|----------------------------|-------------------|---------------------|-------------------|-------------------|----------------------------|-------------------|---------------------|
| | 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 | \$ 43,456 | \$ 242,708 | \$ 215,814 | \$ 68,118 | \$ 570,096 | \$ 43,196 | \$ 226,212 | \$ 217,774 | \$ 61,102 | \$ 548,284 |
| Employee benefits - general | 6,833 | 68,778 | 46,823 | 18,647 | 141,081 | 5,967 | 57,708 | 48,794 | 16,537 | 129,006 |
| Payroll taxes and worker's comp - general | 7,174 | 35,737 | 21,022 | 6,647 | 70,580 | 6,495 | 33,009 | 19,673 | 5,926 | 65,103 |
| Salaries – supervision | 96,297 | 265,182 | - | 83,750 | 445,229 | 95,286 | 248,020 | - | 88,431 | 431,737 |
| Employee benefits – supervision | 14,599 | 37,559 | - | 15,449 | 67,607 | 12,952 | 38,410 | - | 14,558 | 65,920 |
| Payroll taxes and workers' comp – supervision | 15,003 | 33,482 | - | 8,446 | 56,931 | 13,935 | 29,515 | - | 8,504 | 51,954 |
| Total compensation and related expenses | 183,362 | 683,446 | 283,659 | 201,057 | 1,351,524 | 177,831 | 632,874 | 286,241 | 195,058 | 1,292,004 |
| Depreciation | 156,011 | 4,869 | 84,382 | - | 245,262 | 156,350 | 3,914 | 83,517 | - | 243,781 |
| Repairs and maintenance | 26,576 | 62,451 | 97,071 | - | 186,098 | 18,567 | 25,237 | 63,066 | 815 | 107,685 |
| Utilities and security | 74,734 | - | 48,400 | - | 123,134 | 70,816 | - | 49,701 | - | 120,517 |
| Donated rent | 120,000 | - | - | - | 120,000 | 120,000 | - | - | - | 120,000 |
| Food and meals | - | 116,386 | - | - | 116,386 | - | 122,806 | - | - | 122,806 |
| Service contracts | 4,916 | 819 | 59,590 | - | 65,325 | 3,207 | 1,989 | 20,605 | - | 25,801 |
| Professional fees | - | 15,093 | 40,164 | 5,490 | 60,747 | - | 8,030 | 49,190 | 4,003 | 61,223 |
| Insurance | 37,064 | 3,425 | 14,367 | - | 54,856 | 34,334 | 3,414 | 17,153 | - | 54,901 |
| Financial assistance | - | 50,295 | - | - | 50,295 | - | 39,676 | - | - | 39,676 |
| Miscellaneous | 932 | 26,123 | 20,559 | 460 | 48,074 | 194 | 22,560 | 12,975 | 1,076 | 36,805 |
| Postage and printing | - | 4,570 | 4,622 | 37,278 | 46,470 | - | 5,152 | 3,040 | 35,209 | 43,401 |
| Other program | - | 15,945 | 3,980 | 23,859 | 43,784 | - | 17,168 | 3,069 | 15,539 | 35,776 |
| Tour program | - | 33,109 | - | - | 33,109 | - | 47,219 | - | - | 47,219 |
| Supplemental property taxes | 16,214 | - | 11,072 | - | 27,286 | 14,339 | - | 9,643 | - | 23,982 |
| Telecommunications | 920 | 5,226 | 13,292 | 584 | 20,022 | - | 1,207 | 16,288 | - | 17,495 |
| Office supplies | - | 2,434 | 13,347 | 3,579 | 19,360 | - | 840 | 8,475 | 4,676 | 13,991 |
| Member activities | - | 12,525 | 5,458 | 486 | 18,469 | - | 12,601 | 4,637 | 282 | 17,520 |
| Marketing materials | - | - | - | 6,516 | 6,516 | - | - | - | 7,147 | 7,147 |
| Automobile | - | 2,211 | 2,601 | - | 4,812 | 389 | 9,325 | 1,193 | - | 10,907 |
| Donor recognition | - | - | - | 2,271 | 2,271 | - | - | - | 5,835 | 5,835 |
| Library | - | 2,253 | - | - | 2,253 | - | 1,781 | - | - | 1,781 |
| Training and conferences | - | 1,766 | 45 | 239 | 2,050 | - | 1,477 | 416 | 1,032 | 2,925 |
| Fundraising | - | - | - | - | - | - | - | 1,617 | 3,001 | 4,618 |
| Total expenses | \$ 620,729 | \$ 1,042,946 | \$ 702,609 | \$ 281,819 | \$ 2,648,103 | \$ 596,027 | \$ 957,270 | \$ 630,826 | \$ 273,673 | \$ 2,457,796 |

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 238,838 | \$ 1,456,477 |
| 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 | (77,388) | (120,000) |
| Depreciation | 245,262 | 243,781 |
| Net realized and unrealized (gain) loss on investments | 329,116 | 312,697 |
| (Gain)/loss on disposal of property and equipment | (3,285) | 2,829 |
| (Increase) decrease in: | | |
| Pledges receivable | (625) | 807 |
| Bequests receivable | 324,759 | 217,124 |
| Beneficial interest in split-interest agreements | (589,399) | 119,969 |
| Prepaid expenses and other assets | (1,011) | (10,582) |
| Increase (decrease) in: | | |
| Accounts payable | (30,401) | 25,447 |
| Accrued liabilities and deposits | 12,447 | (1,379) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>568,313</u> | <u>2,367,170</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales of investments | 1,637,800 | 1,323,913 |
| Purchases of investments | (3,012,794) | (1,400,557) |
| Proceeds from sale of property and equipment | 3,500 | - |
| Purchases of property and equipment | (117,234) | (45,870) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>(1,488,728)</u> | <u>(122,514)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (920,415) | 2,244,656 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>2,684,683</u> | <u>440,027</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 1,764,268</u> | <u>\$ 2,684,683</u> |

See Notes to Financial Statements.

THE CARMEL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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, bequest receivables, 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 is 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.

Unconditional Promises to Give – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected over periods in excess of one year are recorded at the present value of the estimated cash flows beyond one year. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

are to be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service.

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, 2016 and 2015. Deposits and investments at these institutions exceeded federally insured limits at various times. The amount in excess of the FDIC and SIPC limits totaled \$7,986,921 and \$7,939,924 as of June 30, 2016 and 2015, 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, 2016 and 2015.

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.

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.

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.

Fundraising Costs – The Foundation incurs fundraising costs as contribution revenues are almost entirely from its members. The Foundation incurred fundraising expenses of \$281,819 and \$273,673 for the years ended June 30, 2016 and 2015, respectively.

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.

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 _____ [date], 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.

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 valuation hierarchy defined above:

| <u>ASSETS</u> | <u>2016</u> | | | <u>2015</u> | | |
|--|--------------------|--------------------|-------------------|--------------------|--------------------|----------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Beneficial interest in split-interest agreements | \$ – | \$ – | \$ 589,399 | \$ – | \$ – | \$ – |
| Investments | 5,160,885 | 147,852 | – | 4,496,343 | 165,074 | – |
| Investments held in pooled funds | – | 2,739,874 | – | – | 2,341,316 | – |
| | <u>\$5,160,885</u> | <u>\$2,887,726</u> | <u>\$ 589,399</u> | <u>\$4,496,343</u> | <u>\$2,506,390</u> | <u>\$ –</u> |

Following is a description of the Foundation's valuation methodologies for assets measured at fair value on a recurring 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.

NOTE 2. FAIR VALUE MEASUREMENTS (Continued)

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.

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 value amount. The Foundation utilizes an estimated discount rate at June 30, 2016 and develops 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 activities for the year ended June 30, for assets and liabilities measured at fair value based on Level 3 inputs:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------------|--|--|
| | Beneficial interest in split-interest agreement | Beneficial interest in split-interest agreement |
| Balance, beginning of year | \$ — | \$ 119,969 |
| Contributions | 589,399 | — |
| Payout of split interest agreements | <u>—</u> | <u>(119,969)</u> |
| Balance, end of year | <u>\$ 589,399</u> | <u>\$ —</u> |

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 \$455,001 and \$779,760 for the years ended June 30, 2016 and 2015, respectively. All bequests receivable are expected to be received within one year and have not been discounted. Bequests receivable consisted of the following at June 30:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Claudia C. Theadwell Revocable Trust | \$ 5,001 | \$ 5,000 |
| Patricia A. Wetmore Trust | — | 25,000 |
| Elizabeth Price Vaughn Revocable Trust | — | 169,500 |
| Estate of Pamel A. Rickerson | — | 130,260 |
| The Vance Living Trust | <u>450,000</u> | <u>450,000</u> |
| Total | <u>\$ 455,001</u> | <u>\$ 779,760</u> |

NOTE 4. BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENTS

The Foundation is a remainderman beneficiary under the terms of the Entis 2015 Charitable Remainder Unitrust. The assets of the trust are in no way subject to the control of the Foundation at this time during the year ended June 30, 2016. The charitable remainder unitrust agreement stipulates that certain amounts are to be paid to the trust's beneficiaries from the trust's net fair market value until such time that the trust is terminated. The market value of the trust assets was approximately \$2,150,785 at June 30, 2016.

The value of the assets to be received from this trust is recorded at the estimated net present value of the assets to be received. The amount was \$589,399 at June 30, 2016, and is calculated based on estimates of future earnings and payouts during the estimated remaining life expectancy of the beneficiaries and discounting back the calculated future amount to be received.

The primary assumptions used in these calculations are as follows:

- The rate of appreciation on the trust assets is based on current market conditions, quarterly returns of 1%.
- The life expectancies of the beneficiaries are assumed to be those in IRS publication 590 dated December 2015.
- The discount factor used is the average of the U.S. Treasury Rate and the unsecured lending rate for the period of time at the date of valuation which was 4.45% at June 30, 2016.

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:

| | 2016 | | | |
|------------------------------------|---------------------|-------------------------------|-------------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Program Endowment Fund</u> | <u>Total</u> |
| Marketable equity securities | \$ 5,075,944 | \$ - | \$ 84,941 | \$ 5,160,885 |
| Marketable debt securities – bonds | 147,852 | - | - | 147,852 |
| Pooled funds | <u>1,569,345</u> | <u>-</u> | <u>1,170,529</u> | <u>2,739,874</u> |
| Total | <u>\$ 6,793,141</u> | <u>\$ -</u> | <u>\$ 1,255,470</u> | <u>\$ 8,048,611</u> |

NOTE 5. INVESTMENTS (Continued)

| | 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 |
| Pooled funds | <u>1,170,787</u> | <u>–</u> | <u>1,170,529</u> | <u>2,341,316</u> |
| Total | <u>\$ 5,693,106</u> | <u>\$ 54,157</u> | <u>\$ 1,255,470</u> | <u>\$ 7,002,733</u> |

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

| | 2016 | | | |
|--|---------------------|---------------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Dividends and interest income | \$ 184,205 | \$ 51,261 | \$ – | \$ 235,466 |
| Realized/unrealized investment gains/(losses) | (267,511) | (61,605) | – | (329,116) |
| Investment fees | <u>(37,310)</u> | <u>(8,122)</u> | <u>–</u> | <u>(45,432)</u> |
| Total investment income (loss) | <u>\$ (120,616)</u> | <u>\$ (18,466)</u> | <u>\$ –</u> | <u>\$ (139,082)</u> |

| | 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) |
| Investment fees | <u>(36,341)</u> | <u>–</u> | <u>–</u> | <u>(36,341)</u> |
| Total investment income (loss) | <u>\$ (146,161)</u> | <u>\$ (23,710)</u> | <u>\$ –</u> | <u>\$ (169,871)</u> |

NOTE 6. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|---------------------|---------------------|
| Buildings | \$ 7,622,407 | \$ 7,520,857 |
| Furniture and equipment | 588,502 | 589,267 |
| Land | 463,053 | 463,053 |
| Vehicles | 3,500 | 28,715 |
| Construction in progress | <u>1,500</u> | <u>22,828</u> |
| Total | 8,678,962 | 8,624,720 |
| Less accumulated depreciation | <u>4,230,373</u> | <u>4,047,888</u> |
| Property and equipment, net | <u>\$ 4,448,589</u> | <u>\$ 4,576,832</u> |

Depreciation and amortization expense was \$245,262 and \$243,781 for the years ended June 30, 2016 and 2015, 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 donated rent received from the city of Carmel-by-the-Sea. The annual amount of donated rent recorded was \$120,000 for the years ended June 30, 2016 and 2015 and was determined by spreading the estimated fair market value of the land (\$6,000,000) over the term of the agreement. The future estimated value of the rents over the remaining life of the agreement is recorded as an unconditional promise to give which has been discounted to its present value. The amount of amortization recorded as support was \$77,388 and \$120,000 for the years ended June 30, 2016 and 2015, respectively.

Unconditional promise to give at June 30 was as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|---------------------|
| Receivable in less than one year | \$ 120,000 | \$ 120,000 |
| Receivable in one to five years | 604,338 | 604,338 |
| Receivable in more than five years | <u>1,935,619</u> | <u>2,055,619</u> |
| Total unconditional promise to give use of land | 2,659,957 | 2,779,957 |
| Less discount to net present value | <u>1,702,569</u> | <u>1,779,957</u> |
| Donated land lease, net | <u>\$ 957,388</u> | <u>\$ 1,000,000</u> |

The discount rate used was 5%.

NOTE 8. UNRESTRICTED NET ASSETS

During the years ended June 30, 2016 and 2015, 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:

| | <u>2016</u> | <u>2015</u> |
|------------------|----------------------|----------------------|
| Undesignated | \$ 13,314,251 | \$ 13,541,876 |
| Thompson program | <u>36,998</u> | <u>31,978</u> |
| Total | <u>\$ 13,351,249</u> | <u>\$ 13,573,854</u> |

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:

| | <u>2016</u> | <u>2015</u> |
|---------------------------|---------------------|---------------------|
| Land lease | \$ 957,388 | \$ 1,000,000 |
| Split-interest agreements | 589,399 | - |
| Endowment earnings | <u>-</u> | <u>85,344</u> |
| Total | <u>\$ 1,546,787</u> | <u>\$ 1,085,344</u> |

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.

| | <u>2016</u> | <u>2015</u> |
|------------------|---------------------|---------------------|
| Greene endowment | \$ 1,170,529 | \$ 1,170,529 |
| Herud endowment | 50,000 | 50,000 |
| Seideneck fund | 33,941 | 33,941 |
| Aurner fund | <u>1,000</u> | <u>1,000</u> |
| Total | <u>\$ 1,255,470</u> | <u>\$ 1,255,470</u> |

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.

NOTE 11. ENDOWMENTS (Continued)

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.

Endowment Net Asset Composition

Endowment net asset composition as of June 30:

| | 2016 | | | Total |
|-----------------------------|--------------|------------------------|------------------------|--------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Donor-restricted endowments | \$ – | \$ – | \$ 1,255,470 | \$ 1,255,470 |
| Total funds | \$ – | \$ – | \$ 1,255,470 | \$ 1,255,470 |
| | 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 |

NOTE 11. ENDOWMENTS (Continued)**Changes in Endowment Net Assets**

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

| | 2016 | | | |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Balance at Beginning of Year | \$ - | \$ 85,344 | \$ 1,255,470 | \$ 1,340,814 |
| Investment return: | | | | |
| Investment income | - | 51,261 | - | 51,261 |
| Realized gain | - | 21,278 | - | 21,278 |
| Unrealized gain/(loss) | - | (82,883) | - | (82,883) |
| Investment fees | - | (8,122) | - | (8,122) |
| Total investment return | <u>-</u> | <u>(18,466)</u> | <u>-</u> | <u>(18,466)</u> |
| Appropriation of endowment assets for expenditure | <u>-</u> | <u>(66,878)</u> | <u>-</u> | <u>(66,878)</u> |
| Balance at End of Year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,255,470</u> | <u>\$ 1,255,470</u> |
| | | | | |
| | 2015 | | | |
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| 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 | <u>-</u> | <u>(23,711)</u> | <u>-</u> | <u>(23,711)</u> |
| Appropriation of endowment assets for expenditure | <u>-</u> | <u>(78,649)</u> | <u>-</u> | <u>(78,649)</u> |
| Balance at End of Year | <u>\$ -</u> | <u>\$ 85,344</u> | <u>\$ 1,255,470</u> | <u>\$ 1,340,814</u> |

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 \$22,573 and \$26,135 for the years ended June 30, 2016 and 2015, respectively.

NOTE 13. COMMITMENTS

The Foundation leases various copiers under noncancelable operating leases. The Foundation also has an agreement for information technology support from a third party contractor. Future minimum payments required are as follows:

| | |
|-------|------------------|
| 2017 | \$ 33,804 |
| 2018 | 31,948 |
| 2019 | 6,760 |
| 2020 | 1,908 |
| 2021 | <u>1,590</u> |
| Total | <u>\$ 76,010</u> |

Total rent payments were \$27,362 and \$2,784 for the years ended June 30, 2016 and 2015, respectively.

NOTE 14. CONTINGENCIES

During the year ended June 30, 2015, 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.