THE CARMEL FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2019 AND 2018

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, 2019 and 2018, 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, 2019 and 2018, 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.

November 12, 2019

Hayashi Wayland, LLP

THE CARMEL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 592,038	$ 1,135,509
Pledges receivable	1,515	46,769
Bequests receivable	256,629	35,000
Beneficial interest in split-interest agreements	675,313	575,940
Prepaid expenses and other assets	27,184	20,157
Investments	12,632,962	12,390,865
Property and equipment, net	3,975,480	4,099,896
Donated land lease, net	829,552	872,164
TOTAL ASSETS	$ 18,990,673	$ 19,176,300
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 50,797	$ 45,417
Accrued liabilities and deposits	125,073	135,506
Total liabilities	175,870	180,923
Net Assets:		
Without Donor Restrictions	15,796,324	16,216,803
With Donor Restrictions:		
Time and or purpose restrictions	1,763,009	1,523,104
Donor endowments	1,255,470	1,255,470
Total With Donor Restrictions	3,018,479	2,778,574
Total net assets	18,814,803	18,995,377
TOTAL LIABILITIES AND NET ASSETS	$ 18,990,673	$ 19,176,300

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS AND OTHER SUPPORT:						
Investment return - net	$ 662,010	$ 87,293	$ 749,303	$ 578,601	$ 94,686	$ 673,287
Bequests and contributions	354,678	259,769	614,447	863,705	38,385	902,090
Program service fees	148,877	-	148,877	159,288	-	159,288
Membership contributions	248,046	-	248,046	252,973	-	252,973
Senior housing rental income	322,081	-	322,081	313,633	-	313,633
Change in value of split–interest agreements	-	99,373	99,373	-	(33,622)	(33,622)
In kind donation – land lease	-	77,388	77,388	-	77,388	77,388
Grant revenue	151,916	3,500	155,416	-	-	-
Special Event Income	124,780	-	124,780	139,355	83,500	222,855
Other income	18,978	-	18,978	119,835	-	119,835
Gain (Loss) on disposal of property and equipment	-	-	-	(35,087)	-	(35,087)
Net assets released from restrictions	287,418	(287,418)	-	393,938	(393,938)	-
Total revenue, gains and other support	2,318,784	239,905	2,558,689	2,786,241	(133,601)	2,652,640
EXPENSES:						
Program services:						
Senior housing rentals	700,432	-	700,432	671,287	-	671,287
Meal program expenses	359,594	-	359,594	342,306	-	342,306
Other program services	634,890	-	634,890	648,236	-	648,236
Total program services	1,694,916	-	1,694,916	1,661,829	-	1,661,829
					-	
Support services:					-	
General and administrative	760,037	-	760,037	789,888	-	789,888
Fundraising	284,310	-	284,310	283,121	-	283,121
Total support services	1,044,347	-	1,044,347	1,073,009	-	1,073,009
Total expenses	2,739,263	-	2,739,263	2,734,838	-	2,734,838
					-	
CHANGES IN NET ASSETS	(420,479)	239,905	(180,574)	51,403	(133,601)	(82,198)
					-	
NET ASSETS, BEGINNING OF YEAR	16,216,803	2,778,574	18,995,377	16,165,400	2,912,175	19,077,575
NET ASSETS, END OF YEAR	$ 15,796,324	$ 3,018,479	$ 18,814,803	$ 16,216,803	$ 2,778,574	$ 18,995,377

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019							2018						
	Program Services				Support Services			Program Services				Support Services		
	Senior Housing	Meal Programs	Other Programs	Total Program Services	General and Administrative	Fundraising	Total	Senior Housing	Meal Programs	Other Programs	Total Program Services	General and Administrative	Fundraising	Total
COMPENSATION AND RELATED EXPENSES:														
Salaries – general	$ 41,378	$ 141,335	$ 120,543	$ 303,256	$ 292,753	$ 71,133	$ 667,142	$ 41,233	$ 137,700	$ 122,847	$ 301,780	$ 249,239	$ 68,356	$ 619,375
Employee benefits - general	6,698	45,320	38,112	90,130	46,168	23,524	159,822	8,257	43,177	35,318	86,752	55,225	22,008	163,985
Payroll taxes and worker's comp - general	5,098	15,999	10,799	31,896	21,869	5,996	59,761	5,636	17,320	11,306	34,262	20,764	5,933	60,959
Salaries – supervision	82,435	32,951	214,835	330,221	-	89,147	419,368	99,200	34,515	232,831	366,546	-	88,421	454,967
Employee benefits – supervision	16,538	5,232	30,731	52,501	-	18,507	71,008	19,686	4,072	27,910	51,668	-	18,296	69,964
Payroll taxes and worker's comp – supervision	10,000	3,411	21,263	34,674	-	7,767	42,441	13,020	3,832	24,608	41,460	-	7,987	49,447
Total compensation and related expenses	162,147	244,248	436,283	842,678	360,790	216,074	1,419,542	187,032	240,616	454,820	882,468	325,228	211,001	1,418,697
Depreciation	151,210	2,008	3,458	156,676	67,155	-	223,831	150,405	2,008	3,662	156,075	65,679	-	221,754
Repairs and maintenance	81,515	10,668	513	92,696	61,252	22	153,970	48,454	6,669	864	55,987	79,897	44	135,928
Utilities and security	97,787	138	-	97,925	56,101	-	154,026	98,775	-	-	98,775	55,049	-	153,824
Donated rent	120,000	-	-	120,000	-	-	120,000	120,000	-	-	120,000	-	-	120,000
Food and meals	-	98,917	33,635	132,552	-	-	132,552	-	90,436	26,412	116,848	-	-	116,848
Service contracts	4,301	681	4,401	9,383	62,343	59	71,785	3,307	720	5,806	9,833	73,707	210	83,750
Insurance	53,362	-	-	53,362	19,539	-	72,901	39,813	-	-	39,813	21,520	-	61,333
Financial assistance	-	2,193	41,822	44,015	-	300	44,315	-	1,242	40,760	42,002	-	180	42,182
Professional fees	7,721	-	-	7,721	50,788	-	58,509	-	-	405	405	39,688	-	40,093
Miscellaneous	375	277	23,648	24,300	25,598	5,820	55,718	3,291	92	19,055	22,438	75,675	5,527	103,640
Postage and printing	-	-	7,464	7,464	2,665	32,670	42,799	-	-	2,444	2,444	3,261	35,144	40,849
Tour program	-	-	35,505	35,505	-	-	35,505	-	-	41,524	41,524	-	-	41,524
Supplemental property taxes	21,363	-	-	21,363	13,894	-	35,257	19,268	-	-	19,268	15,552	-	34,820
Other program	-	-	16,790	16,790	-	14,504	31,294	-	-	17,667	17,667	-	16,549	34,216
Office supplies	-	-	17,561	17,561	10,359	6,414	34,334	-	16	15,373	15,389	11,213	5,437	32,039
Telecommunications	651	449	5,185	6,285	17,845	886	25,016	942	477	5,549	6,968	15,612	509	23,089
Member activities	-	-	2,455	2,455	6,246	500	9,201	-	-	4,457	4,457	6,174	523	11,154
Marketing materials	-	-	549	549	-	1,697	2,246	-	-	624	624	-	2,757	3,381
Donor recognition	-	-	-	-	-	4,607	4,607	-	-	-	-	-	4,900	4,900
Training and conferences	-	15	1,809	1,824	1,838	350	4,012	-	30	2,151	2,181	442	115	2,738
Automobile	-	-	750	750	3,624	395	4,769	-	-	486	486	1,191	225	1,902
Library	-	-	1,850	1,850	-	-	1,850	-	-	3,009	3,009	-	-	3,009
Fundraising	-	-	1,212	1,212	-	12	1,224	-	-	3,168	3,168	-	-	3,168
Total expenses	$ 700,432	$ 359,594	$ 634,890	$ 1,694,916	$ 760,037	$ 284,310	$ 2,739,263	$ 671,287	$ 342,306	$ 648,236	$ 1,661,829	$ 789,888	$ 283,121	$ 2,734,838

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (180,574)	$ (82,198)
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)	(77,388)
Depreciation	223,831	221,754
Change in value of split-interest agreements	(99,373)	33,622
Net realized and unrealized (gain) loss on investments	(463,804)	(419,976)
(Gain)/loss on disposal of property and equipment	(76,871)	35,087
(Increase) decrease in:		
Pledges receivable	45,254	(36,769)
Bequests receivable	(221,629)	215,000
Prepaid expenses and other assets	(7,027)	7,371
Increase (decrease) in:		
Accounts payable	5,380	(19,295)
Accrued liabilities and deposits	(10,433)	18,716
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(742,634)	15,924
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	1,472,051	1,455,557
Purchases of investments	(1,250,344)	(2,453,864)
Proceeds from sale of property and equipment	76,869	1,260,000
Purchases of property and equipment	(99,413)	(90,103)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	199,163	171,590
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(543,471)	187,514
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,135,509	947,995
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 592,038	$ 1,135,509

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 Foundation that provides low-cost housing for eligible seniors, transportation, prepared meals and a variety of programs, classes, and activities from its facilities in Carmel.

Basis of Accounting and Presentation – The accompanying financial statements are presented using the accrual basis of accounting in accordance with generally accepted accounting principles. The net assets, revenues, gains and losses, and other support, expenses and other changes in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of the Foundation and changes therein are classified as follows:

- **Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. This includes any amounts designated by the Board for certain purposes.

- **Net Assets With Donor Restrictions** – 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.

Recognition of Donor Restrictions – Support that is restricted by the donor is reported as an increase in net assets with donor restrictions, 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), net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 fair 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 net assets with donor restrictions. 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.

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, 2019 and 2018.

The Foundation maintains cash in bank accounts at various financial institutions. The balance, at times, exceeds federally insured limits. The amount in excess of FDIC insurance at June 30, 2019 and June 30, 2018 were $ –0– and $118,510 respectively.

The Foundation's investments are exposed to various risks, such as fluctuations in the market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that the changes in the values of investment securities will occur in the near future and that such changes could materially affect the amounts reported in the statement of activities.

Income Taxes – As a tax-exempt not-for-profit Foundation, 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 Foundation 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 and are almost entirely from its members. The Foundation incurred fundraising expenses of $284,310 and $286,312 for the years ended June 30, 2019 and 2018, 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 November 12, 2019, which is the date the financial statements were available to be issued.

NOTE 1. <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</u>

Effects of New Accounting Pronouncements – On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958)*: Presentation of Financial Statements of Not-for-Profit Entities.* The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly.

Recent Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 provides a robust framework for addressing revenue recognition issues and, upon its effective date, will replace almost all pre-existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles (GAAP). Implementation for non-public entities must occur in years beginning after December 15, 2018. Early application of the amendments in this Update is permitted. The Foundation has no plan for early implementation of this Statement. At this time the Foundation is not certain of the effect the adoption of ASU 2014-09 will have on the accompanying financial statements.

On February 25, 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). Non-public entities are required to adopt the standard for reporting periods beginning after December 15, 2020. All entities may elect to early-adopt. The core principle of the new leases standard is that lessees should recognize assets and liabilities arising from all leases, except for leases with a lease term of 12 months or less. This will significantly gross-up many entities balance sheets. The Foundation has no plan for early implementation of this Statement. At this time the Foundation is not certain of the effect the adoption of ASU 2016-02 will have on the accompanying financial statements.

In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows* (Topic 230) *Restricted Cash*. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update do not provide a definition of restricted cash or restricted cash equivalents. The amendments are effective for fiscal years beginning after December 15, 2018, early adoption is permitted. The Foundation has no plan for early implementation of this Statement. At this time the Foundation is not certain of the effect the adoption of ASU 2016-18 will have on the accompanying financial statements.

In June 2018, the FASB issued ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. This standard is effective for nonpublic companies for years beginning after December 15, 2018. The Foundation has no plan for early implementation of this statement. At this time the Foundation is not certain of the effect the adoption of ASU 2018-08 will have on the accompanying financial statements.

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. 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:

	2019			
ASSETS	Level 1	Level 2	Level 3	Total
Beneficial interest in split-interest agreements	$ –	$ –	$ 675,313	$ 675,313
Investments	8,601,363	203,787	–	8,805,150
Investments held in pooled funds	–	3,827,812	–	3,827,812
	$ 8,601,363	$ 4,031,599	$ 675,313	$ 13,308,275

	2018			
ASSETS	Level 1	Level 2	Level 3	Total
Beneficial interest in split-interest agreements	$ –	$ –	$ 575,940	$ 575,940
Investments	8,437,105	201,601	–	8,638,706
Investments held in pooled funds	–	3,752,159	–	3,752,159
	$ 8,437,105	$ 3,953,760	$ 575,940	$ 12,966,805

NOTE 2. <u>FAIR VALUE MEASUREMENTS (Continued)</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.

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, 2019 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 years ended June 30, for assets and liabilities measured at fair value based on Level 3 inputs:

	2019	2018
Beneficial interest in split-interest agreement:		
Balance, beginning of year	$ 575,940	$ 609,562
Change in value	99,373	(33,622)
Balance, end of year	$ 675,313	$ 575,940

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. <u>BEQUESTS RECEIVABLE</u>

The Foundation has been named a beneficiary in certain wills. All bequests receivable are expected to be received within one year and have not been discounted. Bequests receivable consist of the following at June 30:

	2019	2018
Shipley Trust	$ 99,629	$ –
Gregory Benedict Trust	57,000	–
Rosecrans Trust	100,000	–
Joele Allison Trust	–	35,000
Total	$ 256,629	$ 35,000

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 years ended June 30, 2019 and 2018. 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 $2,623,477 and $2,446,711 at June 30, 2019 and 2018, respectively.

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 $675,313 and $575,940 at June 30, 2019 and 2018, respectively, 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, annual returns of 2.63% and 2.59% for June 30, 2019 and 2018, respectively.

- 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 5.70% and 5.77% at June 30, 2019 and 2018, 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:

	2019	2018
Marketable equity securities	$ 8,601,363	$ 8,437,105
Marketable debt securities - bond	203,787	201,601
Pooled funds	3,827,812	3,752,159
Total	$ 12,632,962	$ 12,390,865

NOTE 6. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	2019	2018
Buildings	$ 7,640,717	$ 7,632,544
Furniture and equipment	597,088	621,646
Land	461,029	461,029
Vehicles	26,964	3,500
Construction in progress	17,465	2,000
Total	8,743,263	8,720,719
Less accumulated depreciation	4,767,783	4,620,823
Property and equipment, net	$ 3,975,480	$ 4,099,896

Depreciation and amortization expense was $223,831 and $221,754 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018 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 for the years ended June 30, 2019 and 2018.

Unconditional promise to give at June 30 was as follows:

	2019	2018
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	1,575,619	1,695,619
Total unconditional promise to give donated land lease	2,299,957	2,419,957
Less discount to net present value	1,470,405	1,547,793
Donated land lease, net	$ 829,552	$ 872,164

The discount rate used was 5%.

NOTE 8. NET ASSETS WITHOUT DONOR RESTRICTIONS

During the years ended June 30, 2019 and 2018, 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:

	2019	2018
Undesignated	$ 15,087,158	$ 16,181,502
Board Designated	709,166	35,301
Total	$ 15,796,324	$ 16,216,803

NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30:

	2019	2018
Land lease	$ 829,552	$ 872,164
Split-interest agreements	675,313	575,940
Pledge receivable	1,515*	40,000*
Bequest receivable	256,629*	35,000*
Total	$ 1,763,009	$ 1,523,104

* These balances in net assets with donor restrictions represent time restrictions that have not yet been met.

NOTE 10. 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.

	2019	2018
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 10. 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 net assets with donor restrictions 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:

NOTE 10. ENDOWMENTS (Continued)

As of June 30, 2019 and 2018, we had the following endowment net asset composition by type of fund:

June 30, 2019	Without Donor Restriction	With Donor Restrictions	Total
Donor-restricted endowment funds	$ –	$ 1,255,470	$ 1,255,470
	$ –	$ 1,255,470	$ 1,255,470

June 30, 2018	Without Donor Restriction	With Donor Restrictions	Total
Donor-restricted endowment funds	$ –	$ 1,255,470	$ 1,255,470
	$ –	$ 1,255,470	$ 1,255,470

Changes in Endowment Net Assets

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

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Balance at Beginning of Year	$ –	$ 1,255,470	$ 1,255,470
Investment return - net	–	87,293	87,293
Appropriation of endowment assets for expenditure	–	(87,293)	(87,293)
Balance at End of Year	$ –	$ 1,255,470	$ 1,255,470

	2018		
	Without Donor Restriction	With Donor Restriction	Total
Balance at Beginning of Year	$ –	$ 1,387,837	$ 1,387,837
Investment return - net	–	86,227	86,227
Appropriation of endowment assets for expenditure	–	(218,594)	(218,594)
Balance at End of Year	$ –	$ 1,255,470	$ 1,255,470

NOTE 11. LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position.

Cash and cash equivalents	$ 592,038
Pledges receivable	1,515
Bequests receivable	265,629
Prepaid expenses and other assets	27,184
Investments	10,668,326
Total assets available for operations	$ 11,554,692

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 $25,416 and $23,976 for the years ended June 30, 2019 and 2018, 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 at June 30, 2019 are as follows:

2020	$ 7,779
2021	1,590
Total	$ 9,369

Total rent payments were $7,558 and $38,193 for the years ended June 30, 2019 and 2018, respectively.