

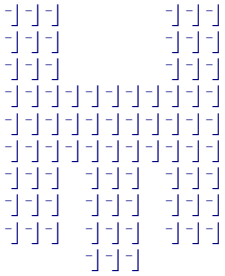
**PALM HEALTHCARE FOUNDATION, INC.
d/b/a
PALM HEALTH FOUNDATION**

**REPORT ON AUDIT OF
CONSOLIDATED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2019
(with comparable totals for 2018)**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Palm Healthcare Foundation, Inc.
West Palm Beach, Florida

We have audited the accompanying consolidated financial statements of Palm Healthcare Foundation, Inc. (a nonprofit organization d/b/a Palm Health Foundation) which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Palm Healthcare Foundation, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the June 30, 2018 consolidated financial statements, and our report dated December 6, 2018, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

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

Holyfield & Thomas, LLC

West Palm Beach, Florida
December 9, 2019

PALM HEALTHCARE FOUNDATION, INC
d/b/a PALM HEALTH FOUNDATION

CONSOLIDATED STATEMENT
OF FINANCIAL POSITION

As of June 30, 2019

(with comparable totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Totals	2018 Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,166,363	\$ 821,128	\$ 1,987,491	\$ 1,526,330
Contributions receivable	7,500	-	7,500	19,812
Prepaid expenses and other assets	9,637	-	9,637	29,804
Total current assets	1,183,500	821,128	2,004,628	1,575,946
Investments, endowment	57,717,909	19,778,835	77,496,744	76,261,799
Split-interest agreements	-	2,716,545	2,716,545	2,156,974
Property and equipment, net	6,051,284	-	6,051,284	6,244,149
Total assets	<u>\$ 64,952,693</u>	<u>\$ 23,316,508</u>	<u>\$ 88,269,201</u>	<u>\$ 86,238,868</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued expenses	\$ 240,272	\$ -	\$ 240,272	\$ 253,856
Grants payable	1,279,200	-	1,279,200	1,059,852
Current portion of obligation under capital lease	2,008	-	2,008	-
Total current liabilities	1,521,480	-	1,521,480	1,313,708
Rent deposits	24,661	-	24,661	-
Obligation under capital lease	8,086	-	8,086	-
Total liabilities	<u>1,554,227</u>	<u>-</u>	<u>1,554,227</u>	<u>1,313,708</u>
Net assets:				
Without donor restrictions:				
Designated for 5205 Bldg - Reserves	320,468	-	320,468	350,382
Designated for endowment	57,717,909	-	57,717,909	57,056,005
Undesignated	5,360,089	-	5,360,089	5,987,438
Total without donor restrictions	63,398,466	-	63,398,466	63,393,825
With donor restrictions	<u>-</u>	<u>23,316,508</u>	<u>23,316,508</u>	<u>21,531,335</u>
Total net assets	<u>63,398,466</u>	<u>23,316,508</u>	<u>86,714,974</u>	<u>84,925,160</u>
Total liabilities and net assets	<u>\$ 64,952,693</u>	<u>\$ 23,316,508</u>	<u>\$ 88,269,201</u>	<u>\$ 86,238,868</u>

See accompanying notes to consolidated financial statements.

PALM HEALTHCARE FOUNDATION, INC.
d/b/a PALM HEALTH FOUNDATION

**CONSOLIDATED STATEMENT
OF ACTIVITIES**

For the Year Ended June 30, 2019

(with comparable totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Totals	2018 Totals
Revenues, gains and support:				
Contributions, grants and pledges	\$ 438,666	\$ 1,422,923	\$ 1,861,589	\$ 429,054
Rental income	59,956	-	59,956	237,089
Trust income	31,668	222,068	253,736	333,949
Conference, event, and other income	175,882	1,573	177,455	211,989
Investment income, net of fees	779,975	268,666	1,048,641	1,063,801
Net realized and change in unrealized gain on investments	2,581,774	892,299	3,474,073	5,228,148
Change in value of split-interest agreements	-	(70,144)	(70,144)	201,158
Total revenues, gains and support	4,067,921	2,737,385	6,805,306	7,705,188
Net assets released from restrictions	952,212	(952,212)	-	-
	5,020,133	1,785,173	6,805,306	7,705,188
Expenses:				
Grants and program services	4,302,826	-	4,302,826	4,155,607
Support services:				
General and administrative	303,823	-	303,823	358,547
Fundraising	408,843	-	408,843	451,079
Total expenses	5,015,492	-	5,015,492	4,965,233
Change in net assets	4,641	1,785,173	1,789,814	2,739,955
Net assets, beginning of year	63,393,825	21,531,335	84,925,160	82,185,205
Net assets, ending of year	<u>\$ 63,398,466</u>	<u>\$ 23,316,508</u>	<u>\$ 86,714,974</u>	<u>\$ 84,925,160</u>

See accompanying notes to consolidated financial statements.

PALM HEALTHCARE FOUNDATION, INC.
d/b/a PALM HEALTH FOUNDATION

CONSOLIDATED STATEMENT
OF CASH FLOWS

For the Year Ended June 30, 2019

(with comparable totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from contributions, grants and pledges	\$ 1,244,186	\$ 415,857
Cash received from rental and trust income	313,692	571,038
Cash received from conference, event and other income	177,455	211,989
Cash paid for grants and program services and supporting services	(4,450,756)	(3,926,043)
Investment income, net of fees	<u>1,048,641</u>	<u>1,063,801</u>
Net cash used in operating activities	<u>(1,666,782)</u>	<u>(1,663,358)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	31,239,997	39,585,441
Purchase of investments	(29,000,869)	(39,749,356)
Proceeds from split-interest agreements	-	1,947,126
Purchase of property and equipment	<u>(135,345)</u>	<u>-</u>
Net cash provided by investing activities	<u>2,103,783</u>	<u>1,783,211</u>
Cash flows from financing activities:		
Collection of tenant deposits	24,661	-
Principal payments on obligation under capital lease	<u>(501)</u>	<u>-</u>
Net cash provided by financing activities	<u>24,160</u>	<u>-</u>
Change in cash and cash equivalents	461,161	119,853
Cash and cash equivalents, beginning of year	<u>1,526,330</u>	<u>1,406,477</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,987,491</u></u>	<u><u>\$ 1,526,330</u></u>

See accompanying notes to consolidated financial statements.

PALM HEALTHCARE FOUNDATION, INC.
d/b/a PALM HEALTH FOUNDATION

**CONSOLIDATED STATEMENT
OF CASH FLOWS**

For the Year Ended June 30, 2019

(with comparable totals for 2018)

	<u>2019</u>	<u>2018</u>
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ 1,789,814	\$ 2,739,955
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization expense	338,805	330,201
Contributions of split-interest agreements	(629,715)	-
Change in value of split-interest agreements	70,144	(201,158)
Net realized and change in unrealized gain on investments	(3,474,073)	(5,228,148)
(Increase) decrease in operating assets:		
Contributions receivable	12,312	(13,197)
Prepaid expenses and other assets	20,167	(10,349)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(13,584)	159,092
Grants payable	219,348	560,246
Net cash used in operating activities	<u>\$ (1,666,782)</u>	<u>\$ (1,663,358)</u>

Supplemental information of noncash investing and financing activities:

During 2019, Palm Health Foundation incurred debt of \$10,595 in the form of a capital lease used to acquire a new copier.

See accompanying notes to consolidated financial statements.

PALM HEALTHCARE FOUNDATION, INC.
d/b/a PALM HEALTH FOUNDATION

**CONSOLIDATED STATEMENT
OF FUNCTIONAL EXPENSES**

For the Year Ended June 30, 2019

(with comparable totals for 2018)

	Grants and Program Services			Supporting Services			2019 Totals	2018 Totals
	Grant Making	5205 Building, LLC	Total Grants and Program Services	General and Administrative	Fundraising	Total Supporting Services		
Salaries and wages	\$ 514,843	\$ -	\$ 514,843	\$ 197,900	\$ 264,479	\$ 462,379	\$ 977,222	\$ 1,058,713
Payroll taxes	33,802	-	33,802	14,576	18,883	33,459	67,261	71,859
Employee benefits	93,510	-	93,510	37,671	37,893	75,564	169,074	175,385
Total salary and related	642,155	-	642,155	250,147	321,255	571,402	1,213,557	1,305,957
Community outreach	278,099	-	278,099	514	20,085	20,599	298,698	246,067
Consulting and contract labor	290,251	95,038	385,289	70	-	70	385,359	344,720
Donor recognition	2,300	-	2,300	-	4,915	4,915	7,215	6,083
Dues and memberships	6,955	-	6,955	821	5,390	6,211	13,166	9,520
Grants to others	2,084,777	-	2,084,777	-	-	-	2,084,777	2,012,446
Insurance	-	33,286	33,286	29,283	1,021	30,304	63,590	61,094
Meeting and event expense	73,546	-	73,546	3,038	10,293	13,331	86,877	108,411
Miscellaneous	-	141	141	5,928	-	5,928	6,069	906
Office supplies	2,775	269	3,044	13,634	2,272	15,906	18,950	12,519
Printing and postage	13,148	-	13,148	4,689	5,400	10,089	23,237	41,405
Professional fees	41,289	-	41,289	13,500	-	13,500	54,789	62,153
Property taxes	-	9,655	9,655	-	-	-	9,655	9,893
Rent - building and equipment	-	-	-	115,826	-	115,826	115,826	113,021
Repairs and maintenance	24,091	95,321	119,412	62,491	3,095	65,586	184,998	201,406
Training and education	4,346	-	4,346	988	1,608	2,596	6,942	4,279
Travel and related	16,027	-	16,027	2,323	6,837	9,160	25,187	15,766
Utilities	3,175	62,691	65,866	10,378	500	10,878	76,744	78,401
Volunteer and employee recognition	-	-	-	1,051	-	1,051	1,051	985
Indirect administrative allocation	189,998	-	189,998	(216,170)	26,172	(189,998)	-	-
	3,672,932	296,401	3,969,333	298,511	408,843	707,354	4,676,687	4,635,032
Depreciation and amortization	-	333,493	333,493	5,312	-	5,312	338,805	330,201
Total expenses	<u>\$ 3,672,932</u>	<u>\$ 629,894</u>	<u>\$ 4,302,826</u>	<u>\$ 303,823</u>	<u>\$ 408,843</u>	<u>\$ 712,666</u>	<u>\$ 5,015,492</u>	<u>\$ 4,965,233</u>

See accompanying notes to consolidated financial statements.

For the Year Ended June 30, 2019

1. **Business and Summary of Significant Accounting Policies**

Presentation

The accompanying financial statements reflect the consolidated financial statements of Palm Healthcare Foundation, Inc. ("PHF") and 5205 Building, LLC. ("LLC") (collectively the "Foundation"). All intercompany balances and transactions were eliminated in this consolidation unless otherwise indicated.

Organization

Palm Healthcare Foundation, Inc. (d/b/a Palm Health Foundation) is a not-for-profit corporation that was incorporated under the laws of the State of Florida on June 26, 2001, as the result of a merger between St. Mary's Hospital Foundation, Inc. and Intracoastal Health Foundation, Inc. PHF is a non-profit 501(c)(3) organization dedicated to promoting and supporting the healthcare of the residents of Palm Beach County, Florida, and its surrounding areas through grants, gifts, donations or charitable contributions to organizations and programs performing these services.

5205 Building, LLC was created in August 2005, as a single member LLC with PHF as the only member. The LLC owns a building with leased land and rents various spaces within the building.

Basis of Accounting

The accompanying consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned, and expenses when the corresponding liability is incurred.

Consolidated Financial Statement Presentation

The Foundation's consolidated financial statements are presented in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205, *Presentation of Financial Statements*. This standard requires the classification of the Foundation's financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions: this classification includes those net assets whose use by the Foundation is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation. Changes in net assets arising from exchange transactions (except income and gains on assets that are restricted by donors or by law) are included in the net asset without donor restrictions class.

Net Assets with Donor Restrictions: this classification includes those net assets whose use by the Foundation has been limited by donors to either a later period of time, after a specified date, or for a specified purpose.

Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity as well as endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as net assets without donor restrictions, per endowment agreements.

For the Year Ended June 30, 2019

1. **Business and Summary of Significant Accounting Policies, continued**

Use of Estimates

The preparation of the consolidated 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.

Cash and Cash Equivalents

The Foundation considers cash and cash equivalents to include short-term, highly liquid investments, which are readily convertible to cash. However, cash and cash equivalents that are maintained by the Foundation's investment managers are part of the Foundation's long-term investment policy and are classified as investments.

In the ordinary course of operations, the Foundation maintains cash reserves in excess of federally insured limits. The Foundation minimizes its risk by depositing cash in financial institutions that management believes to be in sound financial condition. The Foundation has not experienced any losses of such funds and management believes the Foundation is not exposed to significant risk on cash and cash equivalents. As of June 30, 2019, bank balance deposits of cash exceeded federally insured limits by approximately \$1,763,500.

The Foundation has board designated funds set aside in cash as a contingency fund for 5205 Building, LLC. As of June 30, 2019, the balance of the contingency fund was \$320,500.

Contributions Receivable

In accordance with FASB ASC Topic 958-605, *Revenue Recognition*, the Foundation records unconditional promises to give when received. These unconditional promises to give are recorded at their net realized value when the unconditional promises to give are made and are expected to be collected within one year. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using the present value of their estimated future cash flows. The discounts on those amounts are computed using an interest rate applicable to the years in which the promises are received. The Foundation uses the allowance method of recognizing uncollectible promises to give by estimating the portion of uncollectible promises to give based upon past experience and management's analysis of specific promises made. As of June 30, 2019, the Foundation had no allowance for uncollectible promises to give.

For the Year Ended June 30, 2019

1. **Business and Summary of Significant Accounting Policies, continued**

Investments

Investments include equity securities, fixed income obligations, and money market accounts that are reported at fair value as determined by quoted market prices. The Foundation contracts with investment managers to perform ongoing investment functions and investment performance monitoring and invest according to the investment guidelines established by the Foundation's Finance and Investment Committee and approved by the Board of Trustees. All securities are held by a trust company for the benefit of the Foundation.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized gains or losses on the sale of marketable securities are calculated using the specific-identification method. Change in unrealized gains and losses represent the change in the fair value of the individual investments for the year, or since the acquisition date, if acquired during the year. Investment income is reported net of investment management fees.

The Foundation uses pooling principles to account for certain investments whereby the individual funds of the Foundation share investment earnings, as well as realized and change in unrealized appreciation (depreciation) on investments, based on each fund's pro rata share of the total dollar amount of all funds in the pool.

Property and Equipment

Property and equipment are recorded at cost if purchased, or fair value if donated, and depreciated on the straight-line method over useful lives of three to thirty years. Additions, improvements, and expenditures that exceed \$2,500 and significantly add to the productivity or extend the economic life of assets are capitalized. Amounts incurred as recurring expenditures for repairs and maintenance are expensed.

On July 14, 2006, 5205 Building, LLC purchased a building and a 50-year ground lease in West Palm Beach, Florida for \$2,514,294, of which \$655,000 was allocated to the ground lease. The ground lease is being amortized over the 50-year life of the lease with the associated amortization expense included with depreciation in the accompanying consolidated financial statements.

Grants Payable

The Foundation records grants payable when the Board of Trustees approves the grants and the grantee agrees to terms of the agreement.

For the Year Ended June 30, 2019

1. **Business and Summary of Significant Accounting Policies, continued**

Contributions, including Unconditional Promises to Give

The Foundation accounts for contributions in accordance with the provisions of FASB ASC 958-605, *Revenue Recognition*. In accordance with this standard, contributed goods and services, which meet certain criteria, are recorded as contributions at their estimated fair value at date of receipt.

The Foundation reports gifts as support without donor restrictions unless they are received with donor stipulations that limit the use of the gift. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities as net assets released from restrictions.

Donated Services

The Foundation follows FASB ASC 958-605, *Revenue Recognition*, for donated services from volunteers and professionals who donate their services. Donated services should be recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. The total amount of donated services received during the year ended June 30, 2019, was approximately \$90,000 of in-kind advertising. This amount is recognized as both revenues, under the caption of contributions, grants and pledges, and as an expense, under the caption of community outreach, in the Statement of Functional Expenses.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and according to natural classification in the Consolidated Statement of Functional Expenses. Accordingly, direct costs have been charged to the specific program or supporting service as incurred and non-direct costs have been allocated among the programs and supporting services benefited. Salaries and other related expenses are allocated based on studies of personnel time. Occupancy and related costs are allocated based on studies of relative space utilization and the benefit provided.

Advertising

Advertising costs are primarily used to educate and promote healthy behaviors and activities to help residents achieve their full health potential. Advertising costs are expensed when incurred and are included in the category of community outreach in the Consolidated Statement of Functional Expenses. The total advertising expense for the year ended June 30, 2019 was approximately \$298,700, including approximately \$90,000 of in-kind advertising.

For the Year Ended June 30, 2019

1. **Business and Summary of Significant Accounting Policies, continued**

Income Taxes

Palm Healthcare Foundation, Inc. is exempt from income taxes under Section 501(a)(3) of the Internal Revenue Code. 5205 Building, LLC is a single member LLC and is treated as a disregarded entity for income tax purposes. Therefore, no provision for income taxes has been made in these consolidated financial statements. In addition, PHF qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1). However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income during the year ended June 30, 2019.

The Foundation follows FASB ASC Topic 740-10, "Accounting for Uncertainty in Income Taxes." This pronouncement seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. It prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. An entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold. The Foundation assesses its income tax positions based on management's evaluation of the facts, circumstances, and information available at the reporting date. The Foundation uses the prescribed "more likely than not" threshold when making its assessment. The Foundation has not accrued any interest expense or penalties related to tax positions for the year ended June 30, 2019, and there are currently no open Federal or State tax years under audit.

Prior Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenues from Contracts with Customers* (Topic 606) and has modified the standard thereafter. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU No. 2014-09 is effective for annual reporting periods in fiscal years that begin after December 15, 2018. Management is currently evaluating the standard and does not anticipate it will have a material impact on the Foundation's consolidated financial statements.

For the Year Ended June 30, 2019

1. Business and Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). ASU 2016-02 replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASU 2016-02 will require lessees to recognize most leases on their statement of financial position as liabilities, with corresponding “right-of-use” assets. The standard is effective for annual reporting periods in fiscal years that begin after December 15, 2020. Management is currently evaluating the potential impacts on the Foundation's consolidated financial statements.

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements for Not-for-Profit Entities*, which changes the current guidance for net asset classification, Board designations, investment return, underwater endowment funds, expenses, liquidity and presentation of operating cash flows. The Foundation has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively. The new standards change the following aspects of the Foundation's consolidated financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The amount of assets without donor restrictions was reduced by approximately \$2.7 Million to reflect the current adjusted balance of the Wilmot Building that is placed in service.
- The format of the statement of cash flows is the direct method of reporting cash flows from operations, and a reconciliation using the indirect method is included.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 4).
- A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 changed the beginning net assets for the year ended June 30, 2019, follows:

As originally stated:

Unrestricted	\$ 66,070,372
Temporarily restricted	9,682,606
Permanently restricted	<u>9,172,182</u>
Total beginning net assets, July 1, 2018	<u>\$ 84,925,160</u>

As restated:

Without donor restrictions	\$ 63,393,825
With donor restrictions	<u>21,531,335</u>
Total beginning net assets, July 1, 2018	<u>\$ 84,925,160</u>

For the Year Ended June 30, 2019

2. Investments

A summary of the Foundation's investments as of June 30, 2019, is as follows:

	<u>%</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain</u>
Cash and cash equivalents	4%	\$ 2,973,747	\$ 2,973,747	\$ -
Fixed income securities	33%	25,761,515	25,563,547	197,968
Domestic equities	39%	30,477,815	22,581,576	7,896,239
International equities	23%	18,075,417	15,447,407	2,628,010
Accrued income	- %	208,250	208,250	-
	100%	<u>\$77,496,744</u>	<u>\$66,774,527</u>	<u>\$10,722,217</u>

Investment income consists of dividends and interest, and is shown net of fees in the accompanying Consolidated Statement of Activities. Investment management fees for the year ended June 30, 2019, were approximately \$524,000.

3. Fair Value Measurements

FASB ASC 820-10 *Fair Value Measurements and Disclosures* establishes a framework for measuring fair value and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

For the Year Ended June 30, 2019

3. Fair Value Measurements, continued

Fair Value of Financial instruments: The following methods and assumptions were used by the Foundation in estimating fair value of financial instruments that are not disclosed under ASC 820.

Cash and Cash Equivalents – The carrying amount reported approximates fair value.

Contributions Receivables – The carrying amount reported approximates fair value due to the short-term duration of the instrument.

Accounts Payable and Accrued Expenses and Grants Payable – The carrying amount reported approximates fair value due to the short-term duration of the instrument.

Capital Lease – The carrying amount reported approximates fair value as the stated interest rates approximate market rates.

Items Measured at Fair Value on a Recurring Basis: The following methods and assumptions were used by the Foundation in estimating fair value of financial instruments that are measured at fair value on a recurring basis under ASC 820.

Investments:

- *Cash equivalents contained in investments and accrued income* – Valued according to the market quotation provided by the custodian as of the close of business as of June 30, 2019.
- *Fixed income securities* – Valued at quoted market price of securities by the custodian as of the close of business as of June 30, 2019.
- *Equity securities* – Valued at quoted market price of securities by the custodian as of the close of business as of June 30, 2019.

Split-interest agreements:

- *Charitable remainder trusts* – Valued at the fair value of the investments of the trust as quoted on a national exchange, less the present value of future cash distributions to be paid over the life expectancy of designated beneficiaries, discounted at rates that approximate current market rates.
- *Perpetual income trusts* – Valued at the undiscounted fair value of trust assets.

FASB ASC 825-10 "*Financial Instruments*" provides a fair value option election that allows entities to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. Changes in fair value for assets and liabilities for which the election is made will be recognized in earnings as they occur. The Foundation's split-interest agreements have been selected for this fair value election. There have been no changes in the methodologies used as of June 30, 2019.

For the Year Ended June 30, 2019

3. Fair Value Measurements, continued

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets as of June 30, 2019:

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash and cash equivalents	\$ 2,973,747	\$ -	\$ -	\$ 2,973,747
Fixed income securities:				
Government, agency, and municipal bonds:				
Domestic	8,108,405	-	-	8,108,405
International	126,756	-	-	126,756
Corporate bonds:				
Domestic	12,116,574	-	-	12,116,574
International	1,818,918	-	-	1,818,918
Mortgage backed securities	-	7,355	-	7,355
Real Asset Fund	-	3,583,507	-	3,583,507
Total fixed income securities	22,170,653	3,590,862	-	25,761,515
Equity securities:				
Common stock:				
Domestic	30,477,815	-	-	30,477,815
International	18,075,417	-	-	18,075,417
Total equity securities	48,553,232	-	-	48,553,232
Accrued income	208,250	-	-	208,250
Total investments	73,905,882	3,590,862	-	77,496,744
Split-interest agreements:				
Charitable remainder trusts	-	-	153,438	153,438
Perpetual income trusts	-	-	2,563,107	2,563,107
Total split-interest agreements	-	-	2,716,545	2,716,545
Total assets, at fair value	\$ 73,905,882	\$ 3,590,862	\$ 2,716,545	\$ 80,213,289

For the Year Ended June 30, 2019

3. Fair Value Measurements, continued

Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of the Foundation's level 3 assets for the year ended June 30, 2019.

	<u>Charitable Remainder Trusts</u>	<u>Perpetual Income Trusts</u>	<u>Total</u>
Balance, beginning of year	\$ 196,070	\$ 1,960,904	\$ 2,156,974
Contributions	-	629,715	629,715
Settlements	-	-	-
Change in present value	<u>(42,632)</u>	<u>(27,512)</u>	<u>(70,144)</u>
Balance, end of year	<u>\$ 153,438</u>	<u>\$ 2,563,107</u>	<u>\$ 2,716,545</u>

FASB ASC 820-10 requires disclosure of quantitative information about the unobservable inputs used to measure Level 3 assets and liabilities. The following table provides information about Level 3 assets:

	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>
Charitable remainder trusts	\$ 153,438	Discounted cash flows, 3 rd party valuation pricing	Life expectancy, discount rate and estimated growth
Perpetual income trusts	<u>2,563,107</u>	Percentage of fair value of assets held in trust	Discount rate
Total assets, at fair value	<u>\$ 2,716,545</u>		

4. Liquidity and Availability of Resources

The Foundation's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Consolidated Statement of Financial Position date, are as follows:

Cash and cash equivalents	\$ 1,987,491
Contributions receivable	<u>7,500</u>
Total financial assets available to meet general expenditures within one year	<u>\$ 1,994,991</u>

The Foundation is primarily supported by contributions and annual endowment draws. As part of the Foundation's liquidity management, it structures financial assets to be available as its general expenditures, liabilities, and other obligations come due. Some of the Foundation's net assets with donor restrictions are available for general expenditure within one year of June 30, 2019 because the restrictions on the net assets are expected to be met by conducting the normal program activities of the Foundation in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year.

For the Year Ended June 30, 2019

4. Liquidity and Availability of Resources, continued

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The endowment is subject to an annual spending rate of 4.5 percent as described in Note 9. As of June 30, 2019, \$3,309,566 of appropriations from the endowment will be available within the next 12 months. Although the Foundation does not intend to spend from this endowment (other than amounts appropriated for general expenditures as part of the Board's annual budget approval and appropriation), these amounts could be made available in the event of unanticipated financial distress or an immediate liquidity need.

5. Property and Equipment

Property and equipment, as of June 30, 2019, consist of the following:

Building	\$ 8,560,049
Furniture and equipment	521,482
Leasehold improvements	59,546
Land improvements	47,185
Ground lease	<u>655,000</u>
	9,843,262
Less accumulated depreciation and amortization	<u>3,791,978</u>
Total	<u>\$ 6,051,284</u>

Depreciation and amortization expense for the year ended June 30, 2019 was approximately \$338,800, including approximately \$13,100 for the ground lease.

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses, as of June 30, 2019, consist of the following:

Accounts payable	\$ 143,155
Accrued payroll and other benefits	<u>97,117</u>
	<u>\$ 240,272</u>

7. Commitments and Contingencies

Grants Payable

As of June 30, 2019, the Board of Trustees has approved future grants of approximately \$1,279,200. Such grants are subject only to routine performance of stipulated conditions by the intended recipients before payment is made.

For the Year Ended June 30, 2019

7. Commitments and Contingencies, continued

Operating Leases as Lessee

The Foundation leases office space for its administrative offices. The Foundation entered into a ten-year lease which commenced on September 1, 2013. The lease requires monthly basic rent payments of \$4,159, that will be increased at the beginning of each year by 2.5% over the basic rent payable in the previous lease year. In addition, common area maintenance (CAM) operating costs are proportionately assessed, beginning with \$4,087 monthly for the first year. Rent expense for the current year was approximately \$113,400.

The approximate minimum future rentals to be paid under these leases as of June 30, 2019 are as follows:

2020	\$ 114,300
2021	115,700
2022	117,100
2023	118,600
2024	<u>19,800</u>
Total	<u>\$ 485,500</u>

Operating Leases as Lessor

In May 2009, the Foundation entered into a 10-year lease agreement with a third party for 3,635 square feet of space in its 5205 building. The monthly rental payments under this lease were amended as of December 1, 2016. The monthly rental payment is approximately \$2,300. In addition, the lease provides for a two-year extension. In February 2019, the lease was terminated by the lessee.

In February 2019, the Foundation entered into an 86-month lease agreement with a third party for 2,068 square feet of space in its 5205 building. The starting monthly rental payment is approximately \$4,136 and increases every year thereafter. In addition, the lease provides a rent abatement for the first two months.

In February 2019, the Foundation entered into an 88-month lease agreement with a third party for 4,602 square feet of space in its 5205 building. The starting monthly rental payment is approximately \$9,204 and increases every year thereafter. In addition, the lease provides a rent abatement for the first four months.

The approximate minimum future rentals to be received under these leases as of June 30, 2019 are as follows:

2020	\$ 162,100
2021	166,900
2022	172,000
2023	177,100
Thereafter	<u>678,700</u>
Total	<u>\$ 1,356,800</u>

Approximately 32% of the remaining office space is provided free of charge to three unrelated not-for-profit organizations as part of the Foundation's mission to promote healthcare. The estimated fair value of the granted rent is approximately \$213,600 for the year ended June 30, 2019.

For the Year Ended June 30, 2019

8. Pension Plan

The Foundation sponsors a retirement plan under the provisions of 403(b) of the Internal Revenue Code covering substantially all full-time employees. Under the terms of the plan, employees are eligible to participate upon hire. The Foundation also has an employer contribution benefit plan for eligible employees upon completing one year of service. The program has a three-year vesting schedule. Upon separation, employees who have completed three years of service under the terms of the plan will receive the employer contribution as well as all of their individual contributions. The employer contribution is 6% of the employee's gross compensation, limited to a maximum of \$8,400 annually. The Foundation contributed approximately \$55,000 to the pension plan for the year ended June 30, 2019.

9. Endowments

FASB ASC 958-205, *Presentation of Financial Statements*, provides guidance on the net asset classification of donor restricted endowment funds and also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated funds). The State of Florida follows the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA), which a) provides consistent investment and spending standards to all forms of charitable funds, b) strengthens the concept of prudent investing, c) abandons historic dollar value as a floor for expenditures and provides more flexibility to the organization in making decisions about whether to expend any portion of an endowment fund, and d) provides a process for the release or modification of restrictions on a gift instrument.

The Board of Trustees of the Foundation has interpreted the current guidance in effect under FUPMIFA, along with the Foundation's Articles of Incorporation and By-Laws (governing documents), and gift instruments (fund agreements), as requiring the preservation of the original value of the 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.

The Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation (depreciation) of investments
- The investment policies and other resources of the organization

For the Year Ended June 30, 2019

9. Endowments, continued

Endowment net assets by type of fund as of June 30, 2019, consisted of the following:

	Board Designated Endowment	With Donor Restrictions	Total
Investments	<u>\$ 57,717,909</u>	<u>\$ 19,778,835</u>	<u>\$ 77,496,744</u>

Changes in endowment net assets for the year ended June 30, 2019, consisted of the following:

	Board Designated Endowment	With Donor Restrictions	Total
Endowment net assets, beginning of year	<u>\$ 57,112,253</u>	<u>\$ 19,149,546</u>	<u>\$ 76,261,799</u>
Investment return:			
Investment income, net of fees	764,328	260,198	1,024,526
Net appreciation	<u>2,581,774</u>	<u>892,299</u>	<u>3,474,073</u>
Total investment return	<u>3,346,102</u>	<u>1,152,497</u>	<u>4,498,599</u>
Contributions	<u>-</u>	<u>150,000</u>	<u>150,000</u>
Appropriation of endowment assets for expenditures	<u>(2,740,446)</u>	<u>(673,208)</u>	<u>(3,413,654)</u>
Endowment net assets, end of year	<u>\$ 57,717,909</u>	<u>\$ 19,778,835</u>	<u>\$ 77,496,744</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. When deficiencies occur, unless allowed by the agreement, the Foundation does not appropriate expenditures from funds with deficiencies until the historical value is restored. These fund deficiencies are reported as reductions in unrestricted net assets. As of June 30, 2019, there were no funds with deficiencies.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy the endowment assets are invested in a manner that is intended to produce results assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time and considering a total return approach, to provide an annual return of 7.5%-8%. Actual returns in a given year may vary from this amount.

For the Year Ended June 30, 2019

9. Endowments, continued

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and change in unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 4.5% of the three-year moving average fiscal year end closing fair value of its endowment funds, to the extent there are no donor restrictions on the funds. However, the Board of Trustees being governed by prudent investment management may override the formula and apply a different distribution amount, as provided by the Bylaws of the Foundation and applicable Florida law, if market conditions or operating circumstances dictate.

10. Net Assets and Restrictions

As of June 30, 2019, the Foundation held net assets with donor restrictions for the following purposes or periods:

Subject to expenditures for a specific purpose:	
Scholarships	\$ 400,209
Grants to other organizations	<u>420,919</u>
Total purpose restrictions	<u>821,128</u>
Subject to the passage of time:	
Split-interest agreements	<u>2,716,545</u>
Subject to endowment spending policy and appropriation:	
Scholarships	2,576,800
Donor advised funds	2,776,941
Grants to other organizations	<u>14,425,094</u>
Total endowment	<u>19,778,835</u>
Total net assets with donor restrictions	<u>\$ 23,316,508</u>

11. Subsequent Events

Date of Management Evaluation

Management has evaluated subsequent events through December 9, 2019 the date on which the consolidated financial statements were available to be issued, and determined there were no events to disclose in these consolidated financial statements.

SUPPLEMENTARY INFORMATION

PALM HEALTHCARE FOUNDATION, INC.
d/b/a PALM HEALTH FOUNDATION

**CONSOLIDATING STATEMENT
OF FINANCIAL POSITION**

As of June 30, 2019

	Palm Healthcare Foundation, Inc.	5205 Building, LLC	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,638,833	\$ 348,658	\$ -	\$ 1,987,491
Contributions receivable	7,500	-	-	7,500
Prepaid expenses and other assets	9,637	-	-	9,637
Total current assets	1,655,970	348,658	-	2,004,628
Investments	77,496,744	-	-	77,496,744
Investment in 5205 Building, LLC	6,353,379	-	(6,353,379)	-
Split-interest agreements	2,716,545	-	-	2,716,545
Property and equipment, net	18,956	6,032,328	-	6,051,284
Total assets	<u>\$ 88,241,594</u>	<u>\$ 6,380,986</u>	<u>\$ (6,353,379)</u>	<u>\$ 88,269,201</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued expenses	\$ 237,326	\$ 2,946	\$ -	\$ 240,272
Grants payable	1,279,200	-	-	1,279,200
Current portion of obligation under capital lease	2,008	-	-	2,008
Total current liabilities	1,518,534	2,946	-	1,521,480
Rent deposits	-	24,661	-	24,661
Obligation under capital lease	8,086	-	-	8,086
Total liabilities	1,526,620	27,607	-	1,554,227
Net assets	<u>86,714,974</u>	<u>6,353,379</u>	<u>(6,353,379)</u>	<u>86,714,974</u>
Total liabilities and net assets	<u>\$ 88,241,594</u>	<u>\$ 6,380,986</u>	<u>\$ (6,353,379)</u>	<u>\$ 88,269,201</u>

See independent auditor's report.

PALM HEALTHCARE FOUNDATION, INC.
d/b/a PALM HEALTH FOUNDATION

CONSOLIDATING STATEMENT
OF ACTIVITIES

For the Year Ended June 30, 2019

	Palm Healthcare Foundation, Inc.	5205 Building, LLC	Eliminations	Consolidated
Revenues, gains and support:				
Contributions, grants and pledges	\$ 1,861,589	\$ -	\$ -	\$ 1,861,589
Rental income	-	59,956	-	59,956
Trust income	253,736	-	-	253,736
Conference, event and other income	177,216	239	-	177,455
Investment income, net of fees	1,047,399	1,242	-	1,048,641
Net realized and change in unrealized gain on investments	3,474,073	-	-	3,474,073
Change in value of split-interest agreements	(70,144)	-	-	(70,144)
Change in value of investment in 5205 Building, LLC	(306,375)	-	306,375	-
Total revenues, gains and support	<u>6,437,494</u>	<u>61,437</u>	<u>306,375</u>	<u>6,805,306</u>
Expenses:				
Grants and program services	3,672,932	629,894	-	4,302,826
Support services:				
General and administrative	303,823	-	-	303,823
Fundraising	408,843	-	-	408,843
Total expenses	<u>4,385,598</u>	<u>629,894</u>	<u>-</u>	<u>5,015,492</u>
Change in net assets	2,051,896	(568,457)	306,375	1,789,814
Net assets, beginning of year	84,925,160	6,659,754	(6,659,754)	84,925,160
Transfer for consolidation	(262,082)	262,082	-	-
Net assets, ending of year	<u>\$ 86,714,974</u>	<u>\$ 6,353,379</u>	<u>\$ (6,353,379)</u>	<u>\$ 86,714,974</u>

See independent auditor's report.