

The San Francisco General Hospital Foundation

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The San Francisco General Hospital Foundation

We have audited the accompanying financial statements of The San Francisco General Hospital Foundation (a California nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The San Francisco General Hospital Foundation as of June 30, 2017, 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.

DZH Phillips LLP

San Francisco, California
December 18, 2017

The San Francisco General Hospital Foundation

STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS

ASSETS

| | |
|-------------------------------|---------------|
| Cash and cash equivalents | \$ 40,606,148 |
| Prepaid expenses and deposits | 52,397 |
| Pledges receivable - net | 15,017,695 |
| Investments | 37,770,098 |
| Furniture and equipment - net | 1,517,186 |
| Intangible assets - net | 26,496 |
| | <hr/> |
| Total assets | \$ 94,990,020 |

LIABILITIES AND NET ASSETS

LIABILITIES

| | |
|----------------------------------|------------|
| Accounts payable | \$ 514,815 |
| Accrued expenses | 108,121 |
| Funds held in custody for others | 1,262,736 |
| Capital lease obligation | 9,086 |
| | <hr/> |
| Total liabilities | 1,894,758 |

NET ASSETS

| | |
|----------------------------------|---------------|
| Unrestricted | |
| Undesignated net assets | 12,071,215 |
| Board designated net assets | 2,000,000 |
| | <hr/> |
| | 14,071,215 |
| Temporarily restricted | 74,669,618 |
| Permanently restricted | 4,354,429 |
| | <hr/> |
| Total net assets | 93,095,262 |
| | <hr/> |
| Total liabilities and net assets | \$ 94,990,020 |

The accompanying notes are an integral part of this statement.

The San Francisco General Hospital Foundation

STATEMENT OF ACTIVITIES

For the year ended June 30, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------|---------------------------|---------------------------|----------------------|
| Revenues and support | | | | |
| Donations and bequests | \$ 6,497,243 | \$ 6,011,701 | \$ - | \$ 12,508,944 |
| Investment income | 244,077 | 117,869 | - | 361,946 |
| Special events - net of direct expenses of \$82,587 | 1,993,832 | - | - | 1,993,832 |
| Merchandises sales | 2,376 | - | - | 2,376 |
| Fiscal management fees | 1,130,626 | - | - | 1,130,626 |
| Other income | 4,738 | 114,865 | - | 119,603 |
| Net assets released from restrictions | 8,334,641 | (8,334,641) | - | - |
| | <u>18,207,533</u> | <u>(2,090,206)</u> | <u>-</u> | <u>16,117,327</u> |
| Total revenues and support | | | | |
| Expenses | | | | |
| Program expenses | | | | |
| Grants awarded to others | 6,222,948 | - | - | 6,222,948 |
| Other program expenses | 3,203,999 | - | - | 3,203,999 |
| | <u>9,426,947</u> | <u>-</u> | <u>-</u> | <u>9,426,947</u> |
| Supporting services | | | | |
| Management and general | 1,046,733 | - | - | 1,046,733 |
| Fundraising | 2,012,505 | - | - | 2,012,505 |
| | <u>12,486,185</u> | <u>-</u> | <u>-</u> | <u>12,486,185</u> |
| Total expenses | | | | |
| CHANGE IN NET ASSETS | 5,721,348 | (2,090,206) | - | 3,631,142 |
| Net assets - June 30, 2016 | <u>8,349,867</u> | <u>76,759,824</u> | <u>4,354,429</u> | <u>89,464,120</u> |
| Net assets - June 30, 2017 | <u>\$ 14,071,215</u> | <u>\$ 74,669,618</u> | <u>\$ 4,354,429</u> | <u>\$ 93,095,262</u> |

The accompanying notes are an integral part of this statement.

The San Francisco General Hospital Foundation

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2017

| | Program Expenses | Management and General | Fundraising | Total | Total (%) |
|-------------------------------------|---------------------|---------------------------|---------------------|----------------------|----------------|
| Grants awarded to others | \$ 6,222,948 | \$ - | \$ - | \$ 6,222,948 | 49.84% |
| Salaries | 441,889 | 535,554 | 685,601 | 1,663,044 | 13.32% |
| Payroll taxes | 27,877 | 40,935 | 47,064 | 115,876 | 0.93% |
| Employee benefits | 51,059 | 62,659 | 79,634 | 193,352 | 1.55% |
| Outreach, advertising and promotion | 2,288,350 | 75,127 | 6,963 | 2,370,440 | 18.98% |
| Conferences and education | - | 6,504 | 4,857 | 11,361 | 0.09% |
| Copy and printing | 7,130 | 15,555 | 33,703 | 56,388 | 0.45% |
| Depreciation and amortization | 281,165 | 33,901 | - | 315,066 | 2.52% |
| Dues and subscriptions | 2,262 | 19,755 | 4,786 | 26,803 | 0.21% |
| Event expenses | - | - | 965,183 | 965,183 | 7.73% |
| Insurance | - | 26,339 | 3,205 | 29,544 | 0.24% |
| Non-fundraising programs and events | 3,245 | 16,264 | 19,235 | 38,744 | 0.31% |
| Occupancy | - | 4,726 | 1,509 | 6,235 | 0.05% |
| Office expenses | - | 19,655 | 17,222 | 36,877 | 0.30% |
| Office supplies | 13 | 12,367 | 104 | 12,484 | 0.10% |
| Postage and delivery | 96 | 2,871 | 52,679 | 55,646 | 0.45% |
| Professional services | 100,913 | 163,012 | 71,459 | 335,384 | 2.69% |
| Travel and parking expense | - | 11,509 | 19,301 | 30,810 | 0.25% |
| Total expenses | <u>\$ 9,426,947</u> | <u>\$ 1,046,733</u> | <u>\$ 2,012,505</u> | <u>\$ 12,486,185</u> | <u>100.00%</u> |

The accompanying notes are an integral part of this statement.

The San Francisco General Hospital Foundation

STATEMENT OF CASH FLOWS

For the year ended June 30, 2017

| | |
|--|----------------------|
| Cash flows provided by (used in) operating activities: | |
| Change in net assets | \$ 3,631,142 |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: | |
| Depreciation and amortization expense | 315,066 |
| Stock contributions | (6,854,604) |
| Net realized and unrealized gains on investments | (177,245) |
| Changes in operating assets and liabilities: | |
| Pledges receivable - net | 8,387,727 |
| Other receivables | 60,619 |
| Prepaid expenses and deposits | (409) |
| Inventory | 1,020 |
| Accounts payable and accrued expenses | (400,425) |
| Funds held in custody for others | 120,520 |
| Other liabilities | (559) |
| Net cash provided by operating activities | <u>5,082,852</u> |
| Cash flows provided by (used in) investing activities: | |
| Purchase of furniture and equipment | (193,835) |
| Purchase of investments | (34,954,641) |
| Proceeds from sale of investments | <u>40,601,318</u> |
| Net cash provided by investing activities | <u>5,452,842</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 10,535,694 |
| Cash and cash equivalents - beginning of year | <u>30,070,454</u> |
| Cash and cash equivalents - end of year | <u>\$ 40,606,148</u> |

The accompanying notes are an integral part of this statement.

The San Francisco General Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE A - DESCRIPTION OF OPERATIONS

The San Francisco General Hospital Foundation is an independent, tax-exempt, non-profit corporation and the only organization dedicated to raising private support for the hospital. The Foundation's mission is to promote excellence in research, education and care for all at Priscilla Chan and Mark Zuckerberg San Francisco General Hospital and Trauma Center ("Zuckerberg San Francisco General", or "the Hospital"), the public safety-net hospital. Zuckerberg San Francisco General is also the Level 1 Trauma Center that serves all who live and/or work in the City and County of San Francisco and in Northern San Mateo County. The Foundation works to ensure that all San Franciscans have the medical care they need, enabling the Hospital to honor its commitment to patients, staff and the community at large.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Foundation's significant accounting policies applied in the preparation of the accompanying financial statements follows:

Basis of accounting

The financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial statement presentation

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

Unrestricted Net Assets

Unrestricted net assets consist of all resources received to help further the Foundation's primary purpose to act for the benefit of the Hospital that have not been restricted as to time or a specific purpose by a donor.

Temporarily Restricted Net Assets

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

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial statement presentation (continued)

Permanently Restricted Net Assets

Permanently restricted net assets consist of assets where the use has been restricted by donor imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Foundation.

Cash and cash equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents. Cash held in the investment accounts as part of the Foundation's investment portfolio is classified as investments.

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances, at times, may be in excess of federally insured amounts (currently \$250,000 per depositor). Certain investment accounts are insured up to \$500,000 by the Securities Investor Protection Corporation (SIPC). The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Investments

Investments in marketable securities are recorded at fair value based on quoted prices in active markets. Investments in certificates of deposit are carried at cost plus accrued interest (which approximates fair value). Donated securities are initially reported at fair value at the date of donation. Gains and losses on securities sales are determined by the specific identification method. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Fair value measurements

The Foundation considers the use of market-based information over entity specific information in valuing its marketable investments, using a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability at the measurement date.

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

The three-level hierarchy for fair value measurements is defined as follows:

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

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

Furniture and equipment

Furniture and equipment purchased with estimated useful lives in excess of one year are capitalized at cost. Donated assets are capitalized at the fair market value on the date of receipt. Depreciation is computed on the straight-line method using an estimated useful life between three and ten years. The Foundation capitalizes furniture and equipment purchases in excess of \$500.

Promises to give

The Foundation recognizes all unconditional gifts and pledges in the period notified. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Recognition of revenue

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

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

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising

Advertising costs are expensed as incurred.

Income taxes

The Foundation is qualified as a tax exempt organization under Internal Revenue Code Section 501(c)(3) and by the California Revenue and Taxation Code under Section 23701d. Accordingly, no provision has been made for income taxes in the accompanying financial statements.

Each year, management considers whether any material tax position the Foundation has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Foundation has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in the accompanying financial statements.

Functional expense allocation

The costs of providing program services and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among program services based on estimates of employees' time incurred and on usage of resources.

Program expenses include grants to the Hospital for programs to improve patient care and comfort.

Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Fundraising expenses are costs of all activities that constitute an appeal for financial support, that is, costs incurred to induce others to contribute money, securities, time, materials, or facilities to the Foundation.

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent events

Management has evaluated subsequent events through the date the financial statements are available to be issued, December 18, 2017.

NOTE C - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2017 consist of the following:

| | |
|---|-----------------------------|
| Receivable in one year or less | \$ 5,215,577 |
| Receivable in one to five years | 9,548,850 |
| Receivable in more than five years | <u>1,000,000</u> |
| | 15,764,427 |
| Less: discount to present value | <u>(662,268)</u> |
| | 15,102,159 |
| Less: allowance for uncollectible pledges | <u>(84,464)</u> |
| | <u><u>\$ 15,017,695</u></u> |

These receivables have been discounted using interest rates ranging from 1.8% to 3.8%.

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE D - INVESTMENTS

Cost and fair values of investments consist of the following as of June 30, 2017:

| | <u>Fair Value</u> | <u>Cost</u> | <u>Unrealized Appreciation</u> |
|------------------------------|----------------------|----------------------|------------------------------------|
| Cash & Cash Equivalents | \$ 14,644,206 | \$ 14,644,206 | \$ - |
| Equities | | | |
| Basic Industry | 92,318 | 88,676 | 3,642 |
| Industrials | 75,741 | 67,508 | 8,233 |
| Consumer | 208,471 | 152,755 | 55,716 |
| Technology | 365,605 | 244,513 | 121,092 |
| Communications | 50,243 | 54,567 | (4,324) |
| Energy | 99,614 | 150,976 | (51,362) |
| Finance | 150,778 | 117,077 | 33,701 |
| Healthcare | 353,510 | 245,869 | 107,641 |
| Transportation | 43,465 | 26,625 | 16,840 |
| Mutual Funds | | | |
| Equity Funds | 95,539 | 84,600 | 10,939 |
| U.S. Treasury Bills | 20,641,400 | 20,594,245 | 47,155 |
| Corporate Bonds | 833,756 | 853,918 | (20,162) |
| Real Estate Investment Trust | 44,744 | 52,967 | (8,223) |
| Exchange Traded Funds | 70,708 | 88,209 | (17,501) |
| | <u>\$ 37,770,098</u> | <u>\$ 37,466,711</u> | <u>\$ 303,387</u> |

Investment income consists of the following for the year ended June 30, 2017:

| | |
|-----------------------------------|-------------------|
| Dividends and interest | \$ 184,701 |
| Net realized and unrealized gains | <u>177,245</u> |
| | <u>\$ 361,946</u> |

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE E - FAIR VALUE MEASUREMENTS

The Foundation's assets measured at fair value on a recurring basis at June 30, 2017 consist of the following:

| | Fair Value Measurements at June 30, 2017 | | | Total |
|------------------------------|--|----------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | |
| Cash & Cash Equivalents | \$ - | \$ 14,644,206 | \$ - | \$ 14,644,206 |
| Equities | | | | |
| Basic Industry | 92,318 | - | - | 92,318 |
| Industrials | 75,741 | - | - | 75,741 |
| Consumer | 208,471 | - | - | 208,471 |
| Technology | 365,605 | - | - | 365,605 |
| Communications | 50,243 | - | - | 50,243 |
| Energy | 99,614 | - | - | 99,614 |
| Finance | 150,778 | - | - | 150,778 |
| Healthcare | 353,510 | - | - | 353,510 |
| Transportation | 43,465 | - | - | 43,465 |
| Mutual Funds | | | | |
| Equity Funds | 95,539 | - | - | 95,539 |
| U.S. Treasury Bills | - | 20,641,400 | - | 20,641,400 |
| Corporate Bonds | - | 833,756 | - | 833,756 |
| Real Estate Investment Trust | 44,744 | - | - | 44,744 |
| Exchange Traded Funds | 70,708 | - | - | 70,708 |
| | <u>\$ 1,650,736</u> | <u>\$ 36,119,362</u> | <u>\$ -</u> | <u>\$ 37,770,098</u> |

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE F - FURNITURE AND EQUIPMENT - NET

Furniture and equipment consist of the following at June 30, 2017:

| | | |
|---|----|--------------|
| Furniture and equipment - at cost | \$ | 2,107,884 |
| Less: accumulated depreciation | | (604,780) |
| | | 1,503,104 |
| Furniture and equipment not placed in service yet | | 14,082 |
| | | \$ 1,517,186 |

Depreciation expense for the year ended June 30, 2017 amounted to \$309,652.

NOTE G - INTANGIBLE ASSETS - NET

Intangible assets consist of website development costs with a gross carrying amount of \$80,888 and accumulated amortization of \$54,392. Such costs are amortized on the straight-line method over an estimated useful life of 10 years. Amortization expense for the year ended June 30, 2017 amounted to \$5,414.

Amortization expense is expected to be as follows:

| | | |
|----------------------|----|-----------|
| Year ending June 30, | | |
| 2018 | \$ | 5,414 |
| 2019 | | 5,414 |
| 2020 | | 4,286 |
| 2021 | | 3,159 |
| 2022 | | 3,159 |
| Thereafter | | 5,064 |
| | | \$ 26,496 |

The San Francisco General Hospital Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE H - FUNDS HELD IN CUSTODY FOR OTHERS

The Foundation acts as a fiscal agent for several organizations providing services to the Hospital and affiliates. In return for providing such services, the Foundation charges a fiscal agent fee of up to ten percent of the funds received.

| | |
|-----------------------------|---------------------|
| Balance - beginning of year | \$ 1,142,216 |
| Funds received | 1,110,363 |
| Funds disbursed | <u>(989,843)</u> |
| Balance - end of year | <u>\$ 1,262,736</u> |

Fiscal agent fees amounted to \$63,975 for the year ended June 30, 2017.

NOTE I - BOARD DESIGNATED NET ASSETS

Board designated net assets totaling \$2,000,000 represent funds set aside for future use, but not formally intended to be used as an endowment fund during the year ended June 30, 2017. Since the amount of board designated net assets resulted from an internal designation rather than a donor restriction, it is classified and reported under unrestricted net assets.

NOTE J - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017 are available for the following purposes:

| | |
|-----------------------------------|----------------------|
| The Heart of Our City Campaign | \$ 62,760,477 |
| Patient Care Programs | 4,858,701 |
| Education Programs | 2,953,889 |
| Children's Programs | 1,534,832 |
| Women's Program | 1,521,461 |
| AIDS/HIV Programs | 640,166 |
| Other | 207,041 |
| Volunteers' Program | 162,934 |
| Lectureship Programs | 15,986 |
| Unappropriated endowment earnings | <u>14,131</u> |
| | <u>\$ 74,669,618</u> |

The San Francisco General Hospital Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE K - NET ASSETS RELEASED FROM RESTRICTIONS

The Foundation raises temporarily restricted donations for projects providing goods and services at Zuckerberg San Francisco General. The activities and balances for these projects have been combined and reported as temporarily restricted net assets in the accompanying financial statements. Temporarily restricted net assets can be released from restriction when the Foundation receives an approved disbursement request from the fund administrator. Net assets released from donors' restrictions by incurring allowable expenses for the year ended June 30, 2017 were as follows:

| | |
|--------------------------------|---------------------|
| Education Programs | \$ 2,558,954 |
| Patient Care Programs | 2,094,319 |
| The Heart of Our City Campaign | 2,085,603 |
| Women's Program | 828,598 |
| AIDS/HIV Programs | 356,602 |
| Volunteers' Program | 261,624 |
| Children's Programs | 87,385 |
| Lectureship Programs | 61,556 |
| | <u>\$ 8,334,641</u> |

NOTE L - PERMANENTLY RESTRICTED NET ASSETS

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

| | |
|--------------------|---------------------|
| General operations | \$ 4,164,429 |
| Volunteer program | 190,000 |
| | <u>\$ 4,354,429</u> |

The San Francisco General Hospital Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE M - ENDOWMENT FUND

The Foundation's endowments consists of two funds established for general operations and the volunteer program and include only donor-restricted endowment funds. These funds are classified as permanently restricted net assets. At June 30, 2017, the Foundation did not have any board designated endowment funds.

The Foundation is subject to the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) governing endowments. The Foundation has interpreted this law as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Foundation classifies as permanently restricted net assets a) the original value of the 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 standards of prudence under the law.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. At June 30, 2017, the Foundation did not have any underwater funds.

The Foundation has adopted investment policies for endowment assets that attempt to provide for a stable stream of earnings to provide on-going financial support. Under this policy, the endowment assets are invested in a manner that is intended to produce results that earn an average annual return of approximately 6%. To satisfy its long term rate-of-return objective, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The investment of these funds is guided by an investment policy statement that considers general economic conditions, asset diversification, total returns, risk management, the needs of the institution, and investment costs and fees to achieve the Foundation's long-term return objectives with prudent risk constraints.

The Foundations spending policy from the fund is based on the quarterly average of year-over-year growth over the previous three years less an analysis of the three-year forecast of inflation, informed by the three-year projection of CPI increases provided by the US Bureau of Labor Statistics.

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE M - ENDOWMENT FUND (continued)

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

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets - beginning of year | \$ (9,882) | \$ - | \$ 4,354,429 | \$ 4,344,547 |
| Investment return: | | | | |
| Interest and dividends | - | 14,131 | - | 14,131 |
| Net realized and unrealized gains | <u>9,882</u> | <u>-</u> | <u>-</u> | <u>9,882</u> |
| | - | 14,131 | 4,354,429 | 4,368,560 |
| Appropriation for expenditure | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Endowment net assets - end of year | <u>\$ -</u> | <u>\$ 14,131</u> | <u>\$ 4,354,429</u> | <u>\$ 4,368,560</u> |

NOTE N - DONATED GOODS AND SERVICES

Donated products and services that would otherwise have been purchased are included in donations and bequests in the accompanying statement of activities. Such donated goods and services for the year ended June 30, 2017 consist of the following:

| | |
|-------------------------|-------------------|
| Event venue | \$ 250,000 |
| Food for special events | 67,891 |
| Other | <u>41,352</u> |
| | <u>\$ 359,243</u> |

NOTE O - RETIREMENT PLAN

The Foundation has a 403(b) retirement plan. All employees are eligible to participate and may contribute any portion of their compensation up to the statutory maximum amount. The plan allows for discretionary employer contributions. Total employer contributions for the year ended June 30, 2017 amounted to \$31,800.

The San Francisco General Hospital Foundation
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE P - CONCENTRATIONS

Approximately 46% of total donations and bequests came from one donor. Approximately 73% of gross pledges receivable at June 30, 2017 are due from two donors.

NOTE Q - CAPITAL LEASES

The Organization leases equipment under capital leases. The economic substance of the leases is that the Organization is leasing the assets for a substantial portion of their useful economic lives, and, accordingly, they are recorded in the Organization's assets and liabilities. Assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for the year ended June 30, 2017.

The following is an analysis of the leased assets included in Furniture and Equipment:

| | | |
|--------------------------------|----|---------------------|
| Leased equipment - at cost | \$ | 9,645 |
| Less: accumulated depreciation | | <u>(466)</u> |
| | \$ | <u><u>9,179</u></u> |

The following is a schedule by years of future minimum payments required under the lease together with their present value as of June 30, 2017:

| | | |
|---|----|---------------------|
| Year ending June 30, | | |
| 2018 | \$ | 1,974 |
| 2019 | | 1,953 |
| 2020 | | 1,933 |
| 2021 | | 1,913 |
| 2022 | | 1,314 |
| Thereafter | | <u>467</u> |
| | | 9,554 |
| Less: amount representing interest | | <u>(468)</u> |
| Present value of minimum lease payments | \$ | <u><u>9,086</u></u> |

Interest rates on capitalized leases vary from 1.80% to 2.60% and are imputed based on the lower of the Organization's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.