



Certified Public Accountants  
and Financial Advisors

**The San Francisco General  
Hospital Foundation**  
Financial Statements  
June 30, 2018

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
The San Francisco General Hospital Foundation  
San Francisco, California

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, 2018, 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.

### **Auditor's 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 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 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, 2018, 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.

**SQUAR MILNER LLP**

*SQUAR MILNER LLP*

San Francisco, California  
December 21, 2018

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**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2018**

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**ASSETS**

**Assets**

Cash and cash equivalents	\$ 6,583,126
Pledges receivable - net	11,859,885
Prepaid expenses and deposits	49,399
Investments	75,334,506
Furniture and equipment - net	1,252,317
Intangible assets - net	<u>21,082</u>
Total assets	<u>\$ 95,100,315</u>

**LIABILITIES AND NET ASSETS**

**Liabilities**

Accounts payable	\$ 978,060
Accrued expenses	108,342
Funds held in custody for others	1,274,598
Capital lease obligation	<u>7,232</u>
Total liabilities	<u>2,368,232</u>

**Net Assets**

Unrestricted	
Undesignated net assets	11,979,065
Board designated net assets	<u>2,000,000</u>
	13,979,065
Temporarily restricted	74,081,527
Permanently restricted	<u>4,671,491</u>
Total net assets	<u>92,732,083</u>
Total liabilities and net assets	<u>\$ 95,100,315</u>

**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND SUPPORT</b>				
Donations and bequests	\$ 1,030,667	\$ 7,106,641	\$ 317,062	\$ 8,454,370
Investment income	574,433	366,245	-	940,678
Special events - net of direct expenses of \$69,799	2,047,345	-	-	2,047,345
Other income	828,984	109,889	-	938,873
Net assets released from restrictions	8,170,866	(8,170,866)	-	-
	<u>12,652,295</u>	<u>(588,091)</u>	<u>317,062</u>	<u>12,381,266</u>
<b>EXPENSES</b>				
Program expenses				
Grants awarded to others	7,741,338	-	-	7,741,338
Other program expenses	1,550,259	-	-	1,550,259
	<u>9,291,597</u>	<u>-</u>	<u>-</u>	<u>9,291,597</u>
Supporting services				
Management and general	1,237,677	-	-	1,237,677
Fundraising	2,215,171	-	-	2,215,171
	<u>12,744,445</u>	<u>-</u>	<u>-</u>	<u>12,744,445</u>
<b>CHANGE IN NET ASSETS</b>	(92,150)	(588,091)	317,062	(363,179)
<b>NET ASSETS - June 30, 2017</b>	<u>14,071,215</u>	<u>74,669,618</u>	<u>4,354,429</u>	<u>93,095,262</u>
<b>NET ASSETS - June 30, 2018</b>	<u>\$ 13,979,065</u>	<u>\$ 74,081,527</u>	<u>\$ 4,671,491</u>	<u>\$ 92,732,083</u>

**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2018**

	Program Expenses	Management and General	Fundraising	Total	Total (%)
Grants awarded to others	\$ 7,741,338	\$ -	\$ -	\$ 7,741,338	60.74%
Salaries	410,509	621,903	688,964	1,721,376	13.51%
Payroll taxes	26,855	45,756	47,547	120,158	0.94%
Employee benefits	45,368	69,257	76,400	191,025	1.50%
Advertising and promotion	651,393	91,433	1,381	744,207	5.84%
Conferences and education	-	18,924	5,591	24,515	0.19%
Copy and printing	1,344	9,047	41,202	51,593	0.40%
Depreciation and amortization	309,546	32,507	-	342,053	2.68%
Dues and subscriptions	30,878	25,220	8,893	64,991	0.51%
Insurance	-	27,808	4,126	31,934	0.25%
Programs and events	3,137	14,376	1,148,753	1,166,266	9.15%
Occupancy	-	2,252	2,928	5,180	0.04%
Office expenses	-	25,428	15,970	41,398	0.32%
Office supplies	-	12,126	496	12,622	0.10%
Postage and delivery	77	2,567	73,689	76,333	0.60%
Professional services	70,959	225,745	149,845	446,549	3.50%
Travel and parking expense	193	13,328	19,185	32,706	0.26%
<b>Total expenses</b>	<b>9,291,597</b>	<b>1,237,677</b>	<b>2,284,970</b>	<b>12,814,244</b>	<b>100.55%</b>
Less: expenses netted against special events revenues on the statement of activities	-	-	(69,799)	(69,799)	-0.55%
	<b>\$ 9,291,597</b>	<b>\$ 1,237,677</b>	<b>\$ 2,215,171</b>	<b>\$ 12,744,445</b>	<b>100%</b>

**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2018**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ (363,179)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization expense	342,053
Stock contributions	(1,554,873)
Net realized and unrealized loss on investments	167,913
Changes in operating assets and liabilities:	
Pledges receivable - net	3,157,810
Prepaid expenses and deposits	2,998
Accounts payable and accrued expenses	463,466
Funds held in custody for others	<u>11,862</u>
<b>Net cash provided by operating activities</b>	<u>2,228,050</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of furniture and equipment	(71,770)
Purchase of investments	(181,596,639)
Proceeds from sale of investments	<u>145,419,191</u>
<b>Net cash used in investing activities</b>	<u>(36,249,218)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Principal payments under capital lease obligation	<u>(1,854)</u>
<b>Net cash used in financing activities</b>	<u>(1,854)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(34,023,022)
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<u>40,606,148</u>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<u><u>\$ 6,583,126</u></u>
Supplemental cash flow information:	
Noncash transactions:	
Donated goods and services	<u><u>\$ 402,311</u></u>
Donated investments	<u><u>\$ 1,554,873</u></u>

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**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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**1. DESCRIPTION OF OPERATIONS**

The San Francisco General Hospital Foundation (the "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.

**2. 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.

***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.

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**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***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 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.

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**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***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***

Unconditional 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.

***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.

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**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Recently Issued Accounting Standards***

In August 2016, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. ASU 2016-14 requires expanded presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Foundation is currently assessing the potential impact of this guidance on its financial statements.

***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 21, 2018.

**3. PLEDGES RECEIVABLE**

Pledges receivable at June 30, 2018 consist of the following:

Receivable in one year or less	\$ 3,647,785
Receivable in one to five years	8,733,260
	<u>12,381,045</u>
Less: discount to present value	(466,445)
	<u>11,914,600</u>
Less: allowance for uncollectible pledges	(54,715)
	<u><u>\$ 11,859,885</u></u>

These receivables have been discounted using interest rates ranging from 1.2% to 3.4%.

**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**4. INVESTMENTS**

Cost and fair values of investments consist of the following as of June 30, 2018:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash & Cash Equivalents	\$ 1,365,251	\$ 1,365,251	\$ -
Equities			
Communication services	33,628	36,708	(3,080)
Consumer discretionary	442,423	423,112	19,310
Consumer staples	146,481	148,384	(1,903)
Energy	182,145	170,042	12,103
Financials	631,668	634,567	(2,899)
Health care	439,491	410,883	28,608
Industrials	437,693	424,772	12,921
Information technology	689,562	623,816	65,746
Materials	203,518	203,275	243
Real estate	78,744	78,200	545
Utilities	92,448	91,068	1,380
Mutual Funds			
Equity funds	2,696,874	2,695,855	1,019
Real Estate Investment Trust	81,408	80,944	464
Exchange Trade Funds	4,779,787	4,638,852	140,935
U.S. Treasury Bills	38,222,511	38,237,633	(15,121)
Corporate Bonds	24,366,536	24,646,623	(280,087)
Federal Agency Bonds	444,338	453,642	(9,304)
	<u>\$ 75,334,506</u>	<u>\$ 75,363,627</u>	<u>\$ (29,121)</u>

Investment income consists of the following for the year ended June 30, 2018:

Dividends and interest	\$ 1,108,591
Net realized and unrealized loss	<u>(167,913)</u>
	<u>\$ 940,678</u>

**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**5. FAIR VALUE MEASUREMENTS**

The Foundation's assets measured at fair value on a recurring basis at June 30, 2018 consist of the following:

	<u>Fair Value Measurements at June 30, 2018</u>			Total
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Cash & Cash Equivalents	\$ -	\$ 1,365,251	\$ -	\$ 1,365,251
Equities				
Communication services	33,628	-	-	33,628
Consumer discretionary	442,423	-	-	442,423
Consumer staples	146,481	-	-	146,481
Energy	182,145	-	-	182,145
Financials	631,668	-	-	631,668
Health care	439,491	-	-	439,491
Industrials	437,693	-	-	437,693
Information technology	689,562	-	-	689,562
Materials	203,518	-	-	203,518
Real estate	78,744	-	-	78,744
Utilities	92,448	-	-	92,448
Mutual Funds				
Equity funds	2,696,874	-	-	2,696,874
Real Estate Investment Trust	81,408	-	-	81,408
Exchange Trade Funds	4,779,787	-	-	4,779,787
U.S. Treasury Bills	-	38,222,511	-	38,222,511
Corporate Bonds	-	24,366,536	-	24,366,536
Federal Agency Bonds	-	444,338	-	444,338
	<u>\$ 10,935,870</u>	<u>\$ 64,398,636</u>	<u>\$ -</u>	<u>\$ 75,334,506</u>

**6. FURNITURE AND EQUIPMENT - NET**

Furniture and equipment consist of the following at June 30, 2018:

Furniture and equipment - at cost	\$ 2,192,307
Less: accumulated depreciation	<u>(939,990)</u>
	<u>\$ 1,252,317</u>

Depreciation expense for the year ended June 30, 2018 amounted to \$338,068.

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**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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**7. INTANGIBLE ASSETS - NET**

Intangible assets consist of website development costs with a gross carrying amount of \$80,888 and accumulated amortization of \$59,806. 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, 2018 amounted to \$5,414.

Amortization expense is expected to be as follows:

Year ending June 30,	
2019	\$ 5,414
2020	4,286
2021	3,159
2022	3,159
2023	2,767
Thereafter	<u>2,297</u>
	<u>\$ 21,082</u>

**8. 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	\$ 1,262,736
Funds received	960,081
Funds disbursed	<u>(948,219)</u>
Balance - end of year	<u>\$ 1,274,598</u>

Management fees amounted to \$53,441 for the year ended June 30, 2018.

**9. 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, 2018. 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.

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**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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**10. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2018 are available for the following purposes:

Capital projects and strategic initiatives	\$ 62,309,805
Patient care programs	5,162,549
Education programs	2,815,038
Children's programs	1,840,168
Women's program	778,326
AIDS/HIV programs	633,742
Other	425,539
Volunteers' program	79,813
Lectureship programs	36,547
	<u>\$ 74,081,527</u>

**11. 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, 2018 were as follows:

Patient care programs	\$ 3,348,988
Education programs	2,039,416
Women's program	1,077,020
AIDS/HIV programs	679,799
Capital projects and strategic initiatives	319,407
Volunteers' program	162,537
Children's programs	95,171
Lectureship programs	29,440
Other	419,088
	<u>\$ 8,170,866</u>

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**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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**12. PERMANENTLY RESTRICTED NET ASSETS**

As of June 30, 2018, permanently restricted net assets (endowments) are restricted to the following:

General operations	\$ 4,164,429
Solid Start	250,000
Grossman fund for children's health	67,062
Volunteer program	<u>190,000</u>
	<u>\$ 4,671,491</u>

**13. ENDOWMENT FUND**

The Foundation's endowments consist of a fund established for general operations, and three additional funds to support the volunteer program, Solid Start, and children's health. The endowments include only donor-restricted endowment funds. At June 30, 2018, 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, 2018 the fair market value of assets associated with the Solid Start endowment fund was below the level required to be retained as a fund of perpetual duration, resulting in a decrease of unrestricted net assets of \$7,354. The deficiency resulted from unfavorable market fluctuations during current year.

**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**13. ENDOWMENT FUND (continued)**

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.

Changes in endowment net assets for the fiscal year ended June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	\$ -	\$ 14,131	\$ 4,354,429	\$ 4,368,560
Contributions	-	-	317,062	317,062
Investment return:				
Interest and dividends	-	84,061	-	84,061
Net realized and unrealized gains	(7,354)	147,216	-	139,862
	(7,354)	245,408	4,671,491	4,909,545
Appropriation for expenditure	-	(17,443)	-	(17,443)
Endowment net assets - end of year	<u>\$ (7,354)</u>	<u>\$ 227,965</u>	<u>\$ 4,671,491</u>	<u>\$ 4,892,102</u>

**14. 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, 2018 consist of the following:

Event venue	\$ 250,000
Food for special events	61,152
Other	91,159
	<u>\$ 402,311</u>

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**THE SAN FRANCISCO GENERAL HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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**15. 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, 2018 amounted to \$31,418.

**16. CONCENTRATIONS**

Approximately 30% of donations and bequests came from 3 donors. Approximately 80% of gross pledges receivable at June 30, 2018 are due from two donors.

**17. CAPITAL LEASES**

The Foundation leases equipment under capital leases. The economic substance of the leases is that the Foundation is leasing the assets for a substantial portion of their useful economic lives, and, accordingly, they are recorded in the Foundation'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, 2018.

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

Leased equipment - at cost	\$ 9,703
Less: accumulated depreciation	<u>(2,471)</u>
	<u>\$ 7,232</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, 2018:

Year ending June 30,	
2019	\$ 1,985
2020	1,985
2021	1,985
2033	1,407
2023	<u>300</u>
	7,662
Less: amount representing interest	<u>(430)</u>
Present value of minimum lease payments	<u>\$ 7,232</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.