

**CALIFORNIA HEALTH CARE FOUNDATION
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018



CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

T A B L E O F C O N T E N T S

| | Page(s) |
|---|----------------|
| Independent Auditors' Report | 1 |
| Consolidated Statements of Financial Position | 2 |
| Consolidated Statements of Activities | 3 |
| Consolidated Statements of Cash Flows | 4 |
| Notes to Consolidated Financial Statements | 5–14 |



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
California Health Care Foundation and Subsidiaries:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of California Health Care Foundation and Subsidiaries (the "Foundation"), which comprise the consolidated statements of financial position as of March 31, 2019 and 2018, and the related consolidated statements of activities and cash flows for the fiscal years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 auditors' 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 California Health Care Foundation and Subsidiaries as of March 31, 2019 and 2018, and the results of their operations and their cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

BPM LLP

San Francisco, California
September 30, 2019

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of March 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 5,507,712 | \$ 2,907,669 |
| Investments, at fair value | 776,576,243 | 794,486,788 |
| Program-related investments, net | 7,018,210 | 8,775,905 |
| Receivables, prepaid expenses, and other assets | 1,858,278 | 1,938,002 |
| Fixed assets, net | <u>240,077</u> | <u>219,275</u> |
| Total assets | <u>\$ 791,200,520</u> | <u>\$ 808,327,639</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 1,750,297 | \$ 1,272,959 |
| Grants payable | <u>14,210,676</u> | <u>18,538,383</u> |
| Total liabilities | 15,960,973 | 19,811,342 |
| Net assets: | | |
| Without donor restrictions | <u>775,239,547</u> | <u>788,516,297</u> |
| Total liabilities and net assets | <u>\$ 791,200,520</u> | <u>\$ 808,327,639</u> |

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the fiscal years ended March 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|------------------------------|------------------------------|
| Net investment and other income: | | |
| Net investment income | \$ 23,907,439 | \$ 78,258,111 |
| Net income from private real estate investment | 671,064 | 1,092,138 |
| Program-related investment interest and other income | <u>1,008,684</u> | <u>870,836</u> |
| Net investment and other income | <u>25,587,187</u> | <u>80,221,085</u> |
| Expenses: | | |
| Grants | 24,781,007 | 31,559,848 |
| Direct charitable activities | 2,098,985 | 1,855,248 |
| Grant making support | 8,299,270 | 7,309,287 |
| Management and general | <u>3,684,675</u> | <u>4,410,064</u> |
| Total expenses | <u>38,863,937</u> | <u>45,134,447</u> |
| Change in net assets without donor restrictions | (13,276,750) | 35,086,638 |
| Net assets without donor restrictions, beginning of year | <u>788,516,297</u> | <u>753,429,659</u> |
| Net assets without donor restrictions, end of year | <u><u>\$ 775,239,547</u></u> | <u><u>\$ 788,516,297</u></u> |

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the fiscal years ended March 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets without donor restrictions | \$ (13,276,750) | \$ 35,086,638 |
| Adjustments to reconcile change in net assets without donor restrictions to net cash used in operating activities: | | |
| Depreciation expense | 133,468 | 133,102 |
| Loss on program-related investment loan | 27,005 | 112,000 |
| Net realized and unrealized gain on investments | (26,959,110) | (82,882,376) |
| Net loss on disposition of fixed assets | 1,846 | - |
| Changes in operating assets and liabilities: | | |
| Program-related investments, net | 1,730,690 | (2,152,698) |
| Receivables, prepaid expenses, and other assets | 79,724 | (190,425) |
| Accounts payable and accrued expenses | 477,338 | (135,441) |
| Grants payable | <u>(4,327,707)</u> | <u>3,929,255</u> |
| Net cash used in operating activities | <u>(42,113,496)</u> | <u>(46,099,945)</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | 85,009,564 | 123,716,097 |
| Purchase of investments | (40,130,814) | (77,447,727) |
| Investments pending settlement | (9,095) | (82,758) |
| Purchase of fixed assets | <u>(156,116)</u> | <u>(189,907)</u> |
| Net cash provided by investing activities | <u>44,713,539</u> | <u>45,995,705</u> |
| Increase (decrease) in cash and cash equivalents | 2,600,043 | (104,240) |
| Cash and cash equivalents, beginning of year | <u>2,907,669</u> | <u>3,011,909</u> |
| Cash and cash equivalents, end of year | <u>\$ 5,507,712</u> | <u>\$ 2,907,669</u> |
| Supplemental disclosure of cash flow information: | | |
| Taxes paid on unrelated business income | <u>\$ 536,141</u> | <u>\$ 705,508</u> |

The accompanying notes are an integral
part of these consolidated financial statements.

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

1. Nature of Organization

California Health Care Foundation (the “Foundation”) is a philanthropic organization established as a tax exempt, nonprofit corporation under Section 501(c)(4) of the Internal Revenue Code and under California Revenue and Taxation Code Section 23701(f). The Foundation’s primary purpose is to promote the availability of, and access to, quality and affordable health care and related services to the people of the state of California, including, without limitation (i) to improve the availability of, and access to, such care and services to the uninsured, underinsured, and other underserved populations, and to improve the health status of all Californians, (ii) to develop and maintain initiatives to address short- and long-term health care needs and concerns, (iii) to provide grants and establish programs to carry out such purposes, and (iv) to otherwise serve the health-related social welfare needs of the people of the state of California.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States. All significant intra-organizational accounts and transactions have been eliminated. The consolidated financial statements include OAC Properties, a wholly owned Limited Liability Company (“LLC”) subsidiary of the Foundation. OAC Properties was created in April 2006 to manage investment real estate in Oakland, California.

The Foundation’s assets are free of donor restrictions and are classified as net assets without donor restrictions in the accompanying consolidated statement of financial position.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments, with maturities of three months or less. The Foundation held its cash in two banking institutions as of March 31, 2019. This cash is insured by the Federal Deposit Insurance Corporation up to regulatory limits.

Investments

Investments are held at fair value or estimated fair value. The Foundation established and maintains an investment policy approved by the Board of Directors, which governs its investment program. The investments are insured by the Securities Investor Protection Corporation (“SIPC”). As of March 31, 2019 and 2018, the Foundation held investments in excess of the SIPC insurance limits.

The Foundation uses a professional investment management firm to manage its investments. In doing so, the Foundation has delegated the authority for asset allocation and the investment of the assets to that firm.

Realized gains or losses on the sale of investments are determined on an average cost basis.

The private real estate, located in Oakland, California, is valued at March 31, 2019 and 2018, based on independent appraisals effective February 1, 2018, and January 30, 2017, respectively. The appraisals use the sales comparison approach to arrive at the property valuation. The sales comparison approach considers recent closed sales of comparable properties and makes transactional and location adjustments to address dissimilarities as necessary.

Continued

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

2. Significant Accounting Policies, continued

Fair Value Measurements

The Foundation follows the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurement and Disclosures*, to value and classify its assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. ASC 820 specifies the use of three classification levels based on the marketability and liquidity of each asset or liability.

Level 1 classifications are based on unadjusted quoted prices from active markets (that the Foundation can access at the measurement date) for identical securities.

Level 2 classifications are based on significant observable market inputs, such as quoted prices for similar securities, or quoted prices in inactive markets.

Level 3 values are based on significant unobservable inputs that reflect the Foundation’s determination of assumptions that market participants might reasonably use in valuing securities.

As allowed under relevant accounting standards, where appropriate, investments are valued using fund-provided net asset values per share or ownership interest (“NAVs”), and those funds are not categorized within the fair value hierarchy. Where NAV information is not available, valuation estimates are based on information provided by investment managers and those funds are listed in the hierarchy as required. Management believes these methods provide a reasonable estimate and presentation of fair value.

Investments valued at NAV are discussed with the Foundation’s investment advisor, and reviewed by the Foundation for reasonableness against both audited December 31 and unaudited March 31 data. In addition, the Foundation reviews the valuation policies of its investment managers annually for reasonableness and consistency with GAAP and industry standards. Finally, the Foundation reviews the audited financial statements of the funds of each investment manager in which the Foundation is invested to ensure that an unqualified audit opinion was issued.

Although a secondary market exists for some investments valued using NAV, it is not an active market and individual transactions are typically not observable. When transactions occur in this limited secondary market, they may occur at discounts to the reported net asset value. Therefore, where redemption rights in funds are restricted or non-existent, if the Foundation was to sell these investments in the secondary market, it is reasonably possible that a buyer in that market may require a discount to the reported NAV or valuation estimate, and the discount could be significant.

Reclassifications

Certain reclassifications have been made to the 2018 financial statement presentation to correspond to the 2019 fiscal year presentation with no effect on previously reported consolidated net assets and changes in net assets.

Continued

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

2. Significant Accounting Policies, continued

Program-Related Investments

Program-Related Investments (“PRIs”) is funding which specifically furthers the Foundation’s charitable purpose. The investments support the testing and evaluation of innovative, market-based approaches to significantly lower the total cost of care, improve the quality of care, or substantially improve access to care for low-income Californians. The majority of the Foundation’s PRI investments are below market interest rate loans which vary in duration, with the longest being seven years. Repayment of the currently outstanding loans is scheduled through March of 2024. Some of the transactions have warrants that may be convertible to equity in the future if certain events transpire. All loans are current as of March 31, 2019 and 2018. Unpaid PRI loans are written off and recorded as grant expense.

Additionally, the Foundation made an equity investment in the fiscal year ended March 31, 2019. This investment has no specified maturity date.

The program-related loans are recorded at a discount to face value to capture the interest rate benefit to the borrower of a below market rate. In recording that discount, a contribution expense is also recorded which is reflected in grants expense on the consolidated statement of activities. The discount is amortized over the life of the loan to interest income. An allowance for doubtful accounts is not deemed necessary as the risks associated with the loan are reflected in the discount. The loans are monitored on an annual basis for impairment. As of March 31, 2019 and 2018, the Foundation does not have any impaired loans.

The loans and investments are summarized in the table below as of March 31, 2019 and 2018, and for the years then ended:

| | 2019 | 2018 |
|---|--------------|--------------|
| Program-related investments, gross, beginning of year | \$ 9,652,650 | \$ 7,640,150 |
| Additional loans | 1,850,000 | 2,250,000 |
| New equity investment | 1,000,000 | - |
| Loans written off | (27,005) | (112,500) |
| Principal repayments | (4,534,645) | (125,000) |
| Gross program-related investments | 7,941,000 | 9,652,650 |
| Interest receivable | 496,251 | 865,968 |
| Net program-related investments | 8,437,251 | 10,518,618 |
| Less discount | (1,419,041) | (1,742,713) |
| Program-related investments, net, end of year | \$ 7,018,210 | \$ 8,775,905 |

Fixed Assets

Fixed assets are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective assets, ranging from three to five years.

Continued

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

2. Significant Accounting Policies, continued

Grants

Grants include unconditional promises to give and other awarded contracts that further the Foundation's mission. Grants awarded with an unconditional promise to give are accrued as a liability and expensed when approved. Grant amendments, including cancellations, are recorded as increases or decreases of grant expense in the year of amendment. No discount is recorded for grants expected to be paid after one year, as the short duration of the overall grant portfolio makes the amount of discount immaterial.

Expense Allocations

Expenses are allocated between direct charitable activities, program support, management and general, and investment activities, based upon estimates by management.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Significant accounting estimates reflected in the Foundation's financial statements include the determination of the fair value of investments, the functional expense allocation, and the effective market interest rates for program-related investment loans.

Income Taxes

While the Foundation is generally exempt from income taxes, it is subject to tax on income which is deemed to be unrelated to its exempt purpose. The Foundation generates such unrelated business income through some of its investment activity.

Management evaluated the Foundation's tax positions and concluded that the Foundation has maintained its tax-exempt status and had taken no uncertain tax positions that require adjustments to the financial statements.

Changes in Accounting Principles

During the year ended March 31, 2019, the Foundation adopted the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions. A footnote on liquidity and availability (Note 3) and functional allocation of expenses (Note 8) have also been added.

Continued

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

3. Liquidity

The Foundation's financial assets available within one year of March 31, 2019 to meet grant, operating expenses, and other obligations include:

| | |
|--|----------------------|
| Cash and cash equivalents | \$ 5,507,712 |
| Global equity indexed exchange traded fund | 9,827,335 |
| Fixed income commingled global fund | 63,642,678 |
| Receivables | <u>768,447</u> |
| Available financial assets | <u>\$ 79,746,172</u> |

The Foundation structures its investments so that funds are available as expenditure obligations become due. This is achieved through the policies and practices guiding management of the Foundation's investment portfolio, including the liquidity policy. The Foundation's liquidity policy provides that 12% of Foundation's assets are to be liquid. Liquid assets are defined as assets which can be converted to cash within 90 days or less. The liquidity policy results in liquid assets available to satisfy approximately 2 times annual grantmaking and operating expenses. Additionally, funds may become available during the year from real estate rental net income and net distributions from legacy private equity investments.

4. Investments

Investments as of March 31, 2019 and 2018, may include investment sales pending settlement, and consist of the following:

| | 2019 | 2018 |
|---|-----------------------|-----------------------|
| Global equity indexed exchange traded fund | \$ 9,827,335 | \$ 37,872,442 |
| Fixed income commingled global fund | 63,642,678 | 46,222,554 |
| Multi-strategy and fixed income absolute return funds | 968,244 | 1,051,972 |
| Multi-asset class commingled funds | 589,236,538 | 585,807,833 |
| Private equity and venture capital | 75,351,448 | 87,441,987 |
| Private real estate (a) | <u>37,550,000</u> | <u>36,090,000</u> |
| | <u>\$ 776,576,243</u> | <u>\$ 794,486,788</u> |

(a) On June 30, 2006, the Foundation acquired a building as an investment. The Foundation occupies less than 25% of the building, and the remainder is leased to non-affiliated tenants under non-cancelable operating leases which expire through June 2025.

Continued

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

5. Fair Value Measurements

The following two tables present the FASB ASC 820 fair value categorization of the Foundation's investments as of March 31, 2019 and 2018:

| | March 31, 2019 | | | | |
|---|---------------------|----------------------|-------------|-----------------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | NAV | Total |
| Investments (Note 4): | | | | | |
| Global Equity Indexed ETF | \$ 9,827,335 | \$ - | \$ - | \$ - | \$ 9,827,335 |
| Private real estate | - | 37,550,000 | - | - | 37,550,000 |
| Fixed income commingled global fund | - | - | - | 63,642,678 | 63,642,678 |
| Multi-strategy and fixed income absolute return funds | - | - | - | 968,244 | 968,244 |
| Multi-asset class commingled funds | - | - | - | 589,236,538 | 589,236,538 |
| Private equity and venture capital | - | - | - | 75,351,448 | 75,351,448 |
| Total | \$ 9,827,335 | \$ 37,550,000 | \$ - | \$ 729,198,908 | \$ 776,576,243 |

| | March 31, 2018 | | | | |
|---|----------------------|----------------------|-------------|-----------------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | NAV | Total |
| Investments (Note 4): | | | | | |
| Global Equity Indexed ETF | \$ 37,872,442 | \$ - | \$ - | \$ - | \$ 37,872,442 |
| Private real estate | - | 36,090,000 | - | - | 36,090,000 |
| Fixed income commingled global fund | - | - | - | 46,222,554 | 46,222,554 |
| Multi-strategy and fixed income absolute return funds | - | - | - | 1,051,972 | 1,051,972 |
| Multi-asset class commingled funds | - | - | - | 585,807,833 | 585,807,833 |
| Private equity and venture capital | - | - | - | 87,441,987 | 87,441,987 |
| Total | \$ 37,872,442 | \$ 36,090,000 | \$ - | \$ 720,524,346 | \$ 794,486,788 |

The following table summarizes, by strategy, the Foundation's investments that are valued based on the NAVs. These NAV amounts are reported by the fund managers as of March 31, 2019 and 2018:

| Strategies | 2019 | | 2018 | | Redemption Frequency | Notice Period |
|--|------------|-----------------------|------------|-----------------------|----------------------|---------------|
| | # of Funds | Valuation | # of Funds | Valuation | | |
| Commingled funds: | | | | | | |
| Multi-asset class redeemable - long term (a) | 1 | \$ 589,236,538 | 1 | \$ 585,807,833 | Annually | 1 year |
| Fixed income redeemable - long term (b) | 1 | 63,642,678 | 1 | 46,222,554 | Monthly | 7 days |
| Absolute return funds: | | | | | | |
| Non-redeemable (c) | 3 | 968,244 | 3 | 1,051,972 | Not permitted | N/A |
| Private equity and venture capital (d) | 20 | 75,351,448 | 20 | 87,441,987 | Not permitted | N/A |
| Total | | \$ 729,198,908 | | \$ 720,524,346 | | |

Continued

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

5. Fair Value Measurements, continued

- (a) This holding is the investment advisor's primary investment vehicle. It is structured to generate performance in excess of relevant benchmarks while realizing substantially lower volatility than public equity markets. It was allocated across the following asset classes at March 31, 2019 and 2018:

| Asset Class | % of Fund | |
|---|-----------|------|
| | 2019 | 2018 |
| Global public equity, tactical, and hedged equity | 37 | 34 |
| Private equity | 22 | 21 |
| Absolute return | 11 | 16 |
| Real estate | 11 | 12 |
| Fixed income | 10 | 8 |
| Natural resources | 7 | 7 |
| Cash | 2 | 2 |
| | 100 | 100 |

- (b) This holding is the investment advisor's fixed income offering. It has a global fixed income strategy that seeks to provide diversification benefits, attractive risk-adjusted returns over full interest rate cycles, and monthly liquidity.
- (c) These represent trailing investment balances from redeemed investments which will be paid out as the underlying investments can be liquidated by the investment manager.
- (d) Prior to hiring the current investment advisor, the Foundation invested directly in private equity and venture capital through both investment funds and fund of funds relationships, with the intent to diversify across industries, industry sectors, and geographies. These investments are not redeemable and have a current remaining life of between one and five years. The Foundation will not be investing directly in any new funds. The unfunded commitment was \$16,515,612 and \$17,411,034 at March 31, 2019 and 2018, respectively. However, due to the maturity of many of these holdings, it is unlikely that all the remaining unfunded commitment will be called.

6. Fixed Assets

Fixed assets as of March 31, 2019 and 2018, consist of the following:

| | 2019 | 2018 |
|--------------------------------|-------------|-------------|
| Furniture and fixtures | \$ 826,838 | \$ 767,782 |
| Office computers and equipment | 1,559,576 | 1,533,631 |
| | 2,386,414 | 2,301,413 |
| Less accumulated depreciation | (2,146,337) | (2,082,138) |
| Fixed assets, net | \$ 240,077 | \$ 219,275 |

Depreciation expense for the fiscal years ended March 31, 2019 and 2018, was \$133,468 and \$133,102, respectively.

Continued

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

7. Grants Payable

Grants payable as of March 31, 2019 are expected to be paid in the following years:

| | |
|-----------|----------------------|
| 2019-2020 | \$ 10,276,501 |
| 2020-2021 | 3,182,263 |
| 2021-2022 | <u>751,912</u> |
| | <u>\$ 14,210,676</u> |

8. Functional Expenses

The Foundation's non-grant expenses have been allocated among direct charitable activities, grantmaking support, and management and general, based on estimates made by the Foundation's management of time spent by employees on various activities. Direct charitable activities expenses are non-grant costs that directly further the Foundation's philanthropic efforts, including the publishing and dissemination of research and educational information. Grantmaking support represents expenses incurred to originate, administer, and evaluate the Foundation's grants and direct charitable activities. Management and general expense are expenses for governing and operating the Foundation, not associated specifically with the Foundation's grants and direct charitable activities.

The Foundation's functional expenses, displayed by natural expense classification, for the fiscal year ended March 31, 2019, were as follows:

| | <u>Program Expenses</u> | | | | <u>Total</u> |
|--|--|---------------------------------|---------------------------------------|-----------------------------------|----------------------|
| | <u>Grants and Direct Charitable Activities</u> | <u>Grant Making Support</u> | <u>Total Program Expenses</u> | <u>Management and General</u> | |
| Grants expense | \$ 24,781,007 | \$ - | \$ 24,781,007 | \$ - | \$ 24,781,007 |
| Salaries, benefits, and payroll taxes | 1,897,507 | 6,960,668 | 8,858,175 | 2,539,942 | 11,398,117 |
| Board fees and expenses | - | - | - | 366,091 | 366,091 |
| Consulting | - | 308,289 | 308,289 | 328,464 | 636,753 |
| Audit, tax, legal, and other support services | 28,565 | 251,314 | 279,879 | 133,789 | 413,668 |
| Staff travel, meetings, and professional development | 33,544 | 234,968 | 268,512 | 167,492 | 436,004 |
| Rent, utilities, insurance, and property taxes | 40,685 | 130,086 | 170,771 | 45,660 | 216,431 |
| Electronic communications and equipment maintenance | 60,040 | 207,361 | 267,401 | 59,432 | 326,833 |
| Information services, office supplies, and other | 13,552 | 126,370 | 139,922 | 15,643 | 155,565 |
| Depreciation | <u>25,092</u> | <u>80,214</u> | <u>105,306</u> | <u>28,162</u> | <u>133,468</u> |
| Total expenses | <u>\$ 26,879,992</u> | <u>\$ 8,299,270</u> | <u>\$ 35,179,262</u> | <u>\$ 3,684,675</u> | <u>\$ 38,863,937</u> |

Continued

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

8. Functional Expenses, continued

Grants expense represents grants awarded by the Foundation in a given year. Grants expense is net of cancellations, refunds, and amendments. Refunds totaled \$124,048 and \$212,383 for the fiscal years ended March 31, 2019 and 2018, respectively.

In addition to investment management fees and unrelated business income taxes related to investment activity, net investment income on the consolidated statement of activities includes \$193,305 and \$182,837 for the fiscal years ended March 31, 2019 and 2018, respectively, of allocated operating expenses attributable to portfolio management.

9. Employee Benefit Plans

Retirement Savings 401(k) Plan

The Foundation maintains a voluntary 401(k) plan (the "Plan") for all employees. The Foundation makes an annual employer contribution of between 8% and 14% (age-based) of annual compensation for all employees who have at least 1,000 service hours during the calendar year. Employees are also eligible for matching contributions equal to 100% of the first 4.5% of employees' salary deferral contributions after six calendar months of service.

The Foundation's employer contributions to the Plan for the fiscal years ended March 31, 2019 and 2018 were \$1,165,715 and \$1,099,194, respectively.

Deferred Compensation 457(b) Plan

The Foundation also offers an unfunded deferred compensation plan for a select group of highly compensated employees under Internal Revenue Code Section 457(b). Subject to statutory limits, these employees are eligible to make voluntary contributions to the plan and rollover amounts from other plans as allowed by law. The Foundation does not make plan contributions. Related assets and liabilities total \$580,894 at March 31, 2019, and \$506,748 at March 31, 2018.

10. Commitments

Leases

In April 2011, the Foundation leased office space in Sacramento, California. The current lease term extends through March 2022. Future minimum lease commitments are as follows:

| | | |
|-----------|----|-----------------------|
| 2019-2020 | \$ | 114,204 |
| 2020-2021 | | 117,060 |
| 2021-2022 | | <u>29,444</u> |
| | \$ | <u><u>260,708</u></u> |

Total rent expense was \$117,156 and \$114,178 for the fiscal years ended March 31, 2019 and 2018, respectively.

Continued

CALIFORNIA HEALTH CARE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

11. Related Party Transactions

In the course of carrying out its charitable purpose, the Foundation may make grants and conduct business with entities that have connections with members of the Board of Directors, Officers, or Key Employees. Such situations are subject to the Foundation's conflict of interest policy and each grant and contract the Foundation makes is reviewed in advance for any potential conflict of interest or legal issues. As such, Board Members, Officers, and Key Employees are required to disclose potential conflicts of interest annually, and throughout the year as circumstances change. The Audit Committee of the Board reviews the annual disclosures. Board members are also required to recuse themselves from voting on grants or contracts with which they may have a conflict.

Additionally, the Foundation provides a discretionary giving program for its Board of Directors, whereby each Director may individually award up to \$50,000 for the fiscal years ended March 31, 2019 and 2018, to nonprofit organizations doing work aligned with the Foundation's mission. Each year some of these awards are made to organizations affiliated with members of the Board of Directors. For the years ended March 31, 2019 and 2018, these totaled \$30,000 and \$30,000, respectively.

12. Subsequent Events

The Foundation has reviewed the change in net assets for the fiscal year ended March 31, 2019, through September 30, 2019, the date the consolidated financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements.