PALM HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY

REPORT ON AUDIT OF
CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2014
(*with comparable totals for 2013*)

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Palm Healthcare Foundation, Inc. and subsidiary (a not-for-profit corporation) which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Palm Healthcare Foundation, Inc. and subsidiary as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position, consolidating statement of activities, and the consolidating schedule of functional expenses on pages 22 – 24 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Palm Healthcare Foundation, Inc.'s 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 13, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Holyfield & Thomas, LLC

West Palm Beach, Florida
December 11, 2014

As of June 30, 2014 ***(with comparable totals for 2013)***

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Totals	2013 Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 768,445	$ 868,181	$ -	$ 1,636,626	$ 1,148,761
Contributions and pledges receivable, current	-	7,522	-	7,522	1,010,298
Prepaid expenses and other assets	194,386	65,187	-	259,573	308,159
Total current assets	962,831	940,890	-	1,903,721	2,467,218
Investments	55,310,049	9,761,340	7,661,321	72,732,710	67,581,291
Split-interest agreements	-	3,534,637	1,549,334	5,083,971	4,704,406
Contributions and pledges receivable, non-current, net	-	5,786	-	5,786	21,562
Property and equipment, net	7,603,291	-	-	7,603,291	7,893,109
Total assets	$ 63,876,171	$ 14,242,653	$ 9,210,655	$ 87,329,479	$ 82,667,586
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued expenses	$ 258,843	$ -	$ -	$ 258,843	$ 250,398
Grants payable, current	196,740	542,494	-	739,234	918,858
Total current liabilities	455,583	542,494	-	998,077	1,169,256
Grants payable, non-current (as restated)	-	1,000,000	-	1,000,000	982,960
Total liabilities	455,583	1,542,494	-	1,998,077	2,152,216
Net assets	63,420,588	12,700,159	9,210,655	85,331,402	80,515,370
Total liabilities and net assets	$ 63,876,171	$ 14,242,653	$ 9,210,655	$ 87,329,479	$ 82,667,586

See accompanying notes to consolidated financial statements.

For the Year Ended June 30, 2014 ***(with comparable totals for 2013)***

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Totals	2013 Totals
Revenues, gains and support:					
Contributions, grants and pledges	$ 88,080	$ 77,923	$ -	$ 166,003	$ 1,154,622
Investment income, net of fees	1,120,566	363,814	-	1,484,380	1,601,807
Rental income	379,265	-	-	379,265	392,315
Trust income	75,405	89,422	-	164,827	181,274
Change in value of split-interest agreements	-	366,010	-	366,010	469,798
Net realized and change in unrealized gain on investments	5,585,889	1,831,486	-	7,417,375	6,395,184
Conference, event and other income	338,885	-	-	338,885	104,817
	7,588,090	2,728,655	-	10,316,745	10,299,817
Net assets released from restrictions	1,661,802	(1,661,802)	-	-	-
Total revenues, gains and support	9,249,892	1,066,853	-	10,316,745	10,299,817
Expenses:					
Grants and program services	4,589,387	-	-	4,589,387	3,816,930
Support services:					
General and administrative	295,546	-	-	295,546	450,060
Fundraising	607,160	-	-	607,160	422,192
Total expenses	5,492,093	-	-	5,492,093	4,689,182
Other (gain) loss:					
Loss on disposal of assets	8,275	-	-	8,275	-
(Gain) loss on Intracoastal Health Systems settlement	345	-	-	345	(296,438)
Total expenses and other (gain) loss	5,500,713	-	-	5,500,713	4,392,744
Change in net assets	3,749,179	1,066,853	-	4,816,032	5,907,073
Net assets, beginning of year (as restated)	59,671,409	11,633,306	9,210,655	80,515,370	74,608,297
Net assets, ending of year	$ 63,420,588	$ 12,700,159	$ 9,210,655	$ 85,331,402	$ 80,515,370

See accompanying notes to consolidated financial statements.

For the Year Ended June 30, 2014 ***(with comparable totals for 2013)***

	2014	2013
Cash flows from operating activities:		
Cash received from contributions, grants and pledges	$ 1,184,210	$ 3,041,000
Cash received from rental and trust income	544,092	573,588
Cash received from conference, event and other sources	338,885	104,817
Cash paid for grants and program services and supporting services	(5,274,474)	(4,392,957)
Investment income, net of fees	1,484,380	1,601,807
Net cash provided by (used in) operating activities	(1,722,907)	928,255
Cash flows from investing activites:		
Proceeds from sale of investments	30,741,435	34,243,910
Purchase of investments	(28,475,479)	(35,245,193)
Purchase of property and equipment	(55,184)	(6,854)
Net cash provided by (used in) investing activities	2,210,772	(1,008,137)
Change in cash and cash equivalents	487,865	(79,882)
Cash and cash equivalents, beginning of year	1,148,761	1,228,643
Cash and cash equivalents, end of year	$ 1,636,626	$ 1,148,761

See accompanying notes to consolidated financial statements.

For the Year Ended June 30, 2014 ***(with comparable totals for 2013)***

	2014	2013
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	$ 4,816,032	$ 5,907,073
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	336,727	333,600
Change in value of split-interest agreements	(379,565)	(469,798)
Net realized and change in unrealized gain on investments	(7,417,375)	(6,395,184)
(Gain) loss on Intracoastal Health Systems settlement	345	(296,438)
Loss on disposal of assets	8,275	-
(Increase) decrease in assets:		
Contributions and pledges receivable	1,018,207	1,886,378
Prepaid expenses and other assets	48,586	(69,297)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	8,445	378,727
Grants payable	(162,584)	(346,806)
Net cash provided by (used in) operating activities	$ (1,722,907)	$ 928,255

See accompanying notes to consolidated financial statements.

1. Nature of Activities

Palm Healthcare Foundation, Inc. (the "Foundation") is a not-for-profit corporation incorporated under the laws of the State of Florida on June 26, 2001 as the result of a merger between the St. Mary's Hospital Foundation, Inc. and the Intracoastal Health Foundation, Inc. Palm Healthcare Foundation, Inc. is organized to promote and support the healthcare of the residents of Palm Beach County, Florida, and its surrounding areas through grants, gifts, donations or charitable contributions to organizations and programs performing these services. Palm Healthcare Foundation, Inc. has one subsidiary, 5205 Building, LLC, a Florida single member limited liability company that was formed in August 2005 to purchase a building and land lease. All intercompany balances and transactions were eliminated in consolidation unless otherwise indicated.

2. Summary of Significant Accounting Policies

Basis of Presentation and Method of Accounting

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

Consolidated Financial Statement Presentation

The Foundation's consolidated financial statements are presented in accordance with FASB Accounting Standards Codification ("FASB ASC") Topic 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*. This topic requires the classification of the Foundation's financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- *Unrestricted net assets* - this classification includes those net assets whose use by the Foundation is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation. Changes in net assets arising from exchange transactions (except income and gains on assets that are restricted by donors or by law) are included in the unrestricted net asset class.
- *Temporarily restricted net assets* - this classification includes those net assets whose use by the Foundation has been limited by donors to either a later period of time, after a specified date, or for a specified purpose.
- *Permanently restricted net assets* - this classification includes those net assets that must be maintained by the Foundation in perpetuity. Permanently restricted net assets increase when the Foundation receives contributions for which donor-imposed restrictions limiting the Foundation's use of an asset or its economic benefits neither expire with the passage of time nor can be removed by the Foundation meeting certain requirements. Permanently restricted net assets also include those assets which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as unrestricted or temporarily restricted, per endowment agreements.

2. ***Summary of Significant Accounting Policies, continued***

Cash and Cash Equivalents

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

In the ordinary course of operations, the Foundation maintains cash reserves in excess of federally insured limits. The Foundation minimizes its risk by depositing cash in financial institutions which management believes to be in sound financial condition. The Foundation has not experienced any losses of such funds and management believes the Foundation is not exposed to significant risk on cash and cash equivalents. As of June 30, 2014, bank balance deposits of cash exceeded federally insured limits by approximately $1,463,000.

Contributions and Pledges Receivable

In accordance with FASB ASC Topic 958-605, *Revenue Recognition*, the Foundation records pledges when received. These pledges are recorded at their net realized value when the unconditional promises to give are made, and are expected to be collected within one year. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using the present value of their estimated future cash flows. The discounts on those amounts are computed using an interest rate applicable to the years in which the promises are received. The Foundation uses the allowance method of recognizing uncollectible promises to give by estimating the portion of uncollectible promises to give based upon past experience and management’s analysis of specific promises made. As of June 30, 2014, the Foundation had no allowance for uncollectible pledges.

Investments

Investments include equity securities, fixed income obligations, and money market accounts that are reported at fair value as determined by quoted market prices. The Foundation contracts with investment managers to perform ongoing investment functions and investment performance monitoring. All securities are held by a trust company for the benefit of the Foundation.

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

2. __Summary of Significant Accounting Policies__, continued

Investments, continued

The Foundation uses pooling principles to account for certain investments whereby the individual funds of the Foundation share investment earnings, as well as realized and change in unrealized appreciation (depreciation) on investments, based on each fund's pro rata share of the total dollar amount of all funds in the pool. The Foundation’s investment portfolio is managed by outside managers who invest according to the investment guidelines established by the Foundation's Investment Committee and approved by the Board of Trustees. Investment income attributable to the permanently restricted net assets is included in the temporarily restricted column or in the unrestricted column, when appropriated, for financial statement reporting purposes as the investment income earned is available for grants. Furthermore, investment income on temporarily restricted net assets is shown in the unrestricted column when the associated restrictions are met in the same reporting period as the income earned. Investment income is reported net of investment management fees.

Split-Interest Agreements

The Foundation receives contributions of property in which the donor or donor-designated beneficiary may retain a life or term interest. The Foundation has legally enforceable rights and claims to either a specific income stream or a remainder interest in the assets. The assets are administered by third-party investment managers and distributions are made to the beneficiaries under the terms of the agreements. The Foundation records its interest in the split interest agreements at fair value. Subsequent adjustments to the assets’ fair value are reported as a change in value of split-interest agreements.

Property and Equipment

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

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

Grants Payable

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

2. Summary of Significant Accounting Policies, continued

Contributions, including Unconditional Promises to Give

The Foundation accounts for contributions in accordance with the provisions of FASB ASC Topic 958-605, *Not-for-Profit Entities, Revenue Recognition*. In accordance with this topic, contributed goods and services, which meet certain criteria, are recorded as contributions at their estimated fair value at date of receipt.

The Foundation reports gifts as unrestricted support unless they are received with donor stipulations that limit the use of the gift. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities as net assets released from restrictions. However, if the restriction is met in the same period as the restricted income is received, the Foundation classifies such income as unrestricted support.

Advertising

Advertising costs are primarily used to promote healthy behaviors, screenings, and other health activities. Advertising costs are expensed when incurred and are included in the category of community outreach in the Consolidating Schedule of Functional Expenses. The total advertising expense for the year ended June 30, 2014 was approximately $271,000.

Tax Status

The Internal Revenue Service (the “IRS”) has determined that the Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income during the year ended June 30, 2014.

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

2. Summary of Significant Accounting Policies, continued

Comparable Financial Information

The consolidated financial statements include certain prior-year summarized comparable information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, this information should be read in conjunction with the Foundation's consolidated financial statements for the year ended June 30, 2013, from which the summarized information was derived. Certain 2013 amounts may have been reclassified to conform to 2014 classifications. Such reclassifications would have no effect on net assets as previously reported. During the year, management made an adjustment that affected prior year account balances on the financial statements (see Note 14).

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements and Disclosures

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

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

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

Level 2 - Inputs that include 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 financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities of similar characteristics, or discounted cash flows.

Level 3 - Inputs that are unobservable for the assets or liabilities, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity.

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements and Disclosures, continued

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

3. Investments

A summary of the Foundation's investments as of June 30, 2014, is as follows:

	Fair Value	Cost	Unrealized Gain
Cash and cash equivalents	$ 3,324,979	$ 3,324,979	$ -
Fixed income securities	27,859,709	26,544,878	1,314,831
Domestic equities	29,265,937	22,552,392	6,713,545
International equities	12,282,085	9,479,860	2,802,225
	$ 72,732,710	$ 61,902,109	$ 10,830,601

Investment management fees for the year ended June 30, 2014 were approximately $423,000. Investment income consists of dividends and interest, and is shown net of fees in the accompanying Consolidated Statement of Activities.

4. Fair Value Measurements

The following methods and assumptions were used by the Foundation in estimating the fair value of assets that are measured at fair value on a recurring basis under FASB ASC Topic 820. There have been no changes in the methodologies used as of June 30, 2014.

- *Investments*:
  - Level 1 investments are valued based on quoted market prices.
  - Level 2 investments are valued based on quoted prices of securities with similar characteristics and discounted cash flows.
- *Split-interest agreements* - the assets held in split interest agreements are valued based on quoted market prices of underlying investments, net of the present value of expected cash outflows using estimated life expectancies of the income beneficiaries and appropriate discount rates. Split-interest agreements are valued as Level 1 and Level 3 assets.

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

- *Certain current assets and liabilities* - the carrying amount for cash and accounts payable and accrued expenses approximate fair value due to the short-term nature of those instruments.

4. *Fair Value Measurements, continued*

- *Contributions and pledges receivable* - valued initially at the discounted cash flows of the estimated future payments to be received, which approximates fair value.
- *Grants payable* - the carrying amount for grants payable approximates fair value due to the low market interest rates. Each year, the Foundation evaluates the facts and circumstances to determine an appropriate discount rate related to grants and scholarships payable. No discount is deemed necessary for 2014 for these instruments to be fairly stated in relation to the financial statements as a whole.

The fair value of investments and split-interest agreements is presented in the following table as of June 30, 2014, using the input guidance and valuation techniques described above.

Assets reported at fair value	Level 1	Level 2	Level 3	Fair Value Total
Investments:				
Cash and cash equivalents	$ 3,324,979	$ -	$ -	$ 3,324,979
Fixed income securities:				
Government, agency, and municipal bonds:				
Domestic	6,098,059	-	-	6,098,059
International	266,568	-	-	266,568
Corporate bonds				
Domestic	19,068,736	-	-	19,068,736
International	1,990,696	-	-	1,990,696
Mortgage backed securities	-	435,650	-	435,650
Total fixed income securities	27,424,059	435,650	-	27,859,709
Equity securities:				
Common stock				
Domestic	29,265,937	-	-	29,265,937
International	12,282,085	-	-	12,282,085
Total equity securities	41,548,022	-	-	41,548,022
	$ 72,297,060	$ 435,650	$ -	$ 72,732,710
Split-interest agreements	$ 2,119,444	$ -	$ 2,964,527	$ 5,083,971

4. Fair Value Measurements, continued

A reconciliation of the Foundation's Level 3 financial instruments for the year ended June 30, 2014 is provided below:

Balance, as of July 1, 2013	$ 2,752,892
Change in value	211,635
Balance, as of June 30, 2014	$ 2,964,527

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

	Fair Value	Valuation Techniques	Unobservable Inputs
Split-interest agreements	$ 2,964,527	Discounted cash flows, market comparables, third party valuation specialists	Revenue or earnings multiples, discount rates, life expectancies, growth rates

5. Contributions and Pledges Receivable

Contributions and pledges receivable, as of June 30, 2014, consist of the following:

Contributions receivable	$ -
Pledges receivable, net of discount of $5,281	13,308
Total contributions and pledges receivable	$ 13,308

Pledges receivable as of June 30, 2014 are expected to be collected as follows:

Expected to be collected in:	
Less than one year	$ 7,522
One to five years	11,067
Less discount	(5,281)
Non-current portion	5,786
Total	$ 13,308

On June 27, 2007, the Foundation entered into an agreement with Intracoastal Health Systems, Inc. ("IHS") whereby 70% of the residual proceeds of IHS were to be remitted to the Foundation. As of June 30, 2014, the Foundation had received all of the proceeds under this agreement.

6. *Prepaid Expenses and Other Assets*

Prepaid expenses and other current assets, as of June 30, 2014, consist of the following:

Prepaid expense	$ 20,259
Accrued interest receivable	232,959
Other receivable	3,855
Other assets	2,500
	$ 259,573

7. *Property and Equipment*

Property and equipment, as of June 30, 2014, consist of the following:

Building	$ 8,560,049
Furniture and equipment	412,128
Land improvements	47,184
Ground lease	655,000
	9,674,361
Less accumulated depreciation and amortization	(2,071,070)
Total	$ 7,603,291

Depreciation and amortization expense for the year ended June 30, 2014 was approximately $337,000.

8. *Accounts Payable and Accrued Expenses*

Accounts payable and accrued expenses, as of June 30, 2014, consist of the following:

Accounts payable	$ 111,156
Accrued payroll and other benefits	147,687
	$ 258,843

9. *Commitments and Contingencies*

Grants Payable

As of June 30, 2014, the Board of Trustees has approved future grants of approximately $1,739,000. Such grants are subject only to routine performance of stipulated conditions by the intended recipients before payment is made. Approximate commitments outstanding are payable for each year ending on June 30, as follows:

2015	$ 739,000
2016	1,000,000
Total	$ 1,739,000

9. Commitments and Contingencies, continued

Operating Leases as Lessee

The Foundation leases office space for its administrative offices. The Foundation entered into a ten-year lease which commenced on September 1, 2013. The Foundation has the right to terminate the lease at the end of the fifth year under the terms of the lease.

The lease requires monthly basic rent payments of $4,159 and will be increased at the beginning of each year by 2.5% of the basic rent payable in the previous lease year. In addition, operating costs (CAM) are proportionately assessed, beginning with $4,087 monthly for the first year. Rent expense for the current year was approximately $88,400.

The approximate minimum future rentals to be paid under these non-cancelable leases as of June 30, 2014 are as follows:

2015	$ 98,700
2016	100,000
2017	101,300
2018	102,600
2019	103,900
Thereafter	448,000
Total	$ 954,500

Operating Leases as Lessor

- In May 2008, 5205 Building, LLC entered into a 10-year lease agreement with a third party for 6,200 square feet of space in its building. The lease requires monthly rental payments of approximately $15,045 (including CAM). In addition, the lease provides for two five-year extensions.
- In May 2009, 5205 Building, LLC entered into a 10-year lease agreement with a third party for 3,635 square feet of space in its building. The monthly rental payments under this lease were amended as of July 1, 2012. The monthly rental payment is $3,722. In addition, the lease provides for two five-year extensions.

The property held for lease as of June 30, 2014, had a carrying value of approximately $7,528,000, consisting of assets totaling approximately $9,493,700 less accumulated depreciation of approximately $1,965,700.

The approximate minimum future rentals to be received under these non-cancelable leases as of June 30, 2014 are as follows:

2015	$ 226,700
2016	235,700
2017	245,200
2018	219,800
Thereafter	43,500
Total	$ 970,900

9. Commitments and Contingencies, continued

During the year, the Foundation provided office space at 5205 Building, LLC under lease agreements with two tenants in relation to program grants awarded. As of June 30, 2014, the Foundation was providing office space to one tenant under a program grant award. (See Note 11)

10. Pension Plan

The Foundation sponsors a retirement plan under the provisions of 403(b) of the Internal Revenue Code covering substantially all full time employees. Under the terms of the plan, employees are eligible to participate upon hire. The Foundation also has an employer contribution benefit plan for eligible employees upon completing one year of service. Employees are vested in the employer contributions after three years of employment. The employer contribution is 6% of the employee's gross compensation, limited to a maximum of $8,400. The Foundation contributed approximately $42,300 to the pension plan for the year ended June 30, 2014.

11. 5205 Building, LLC and In-Kind Rent

The Foundation leases office space in its 20,900 square-foot building located in West Palm Beach, Florida to medical related and other not-for-profit organizations. 5205 Building, LLC leases office space to two tenants occupying approximately 47% of the space in the building. Approximately 28% of the remaining office space is provided free of charge to two not-for-profit organizations as part of the Foundation's mission to promote healthcare, 16% is occupied by the Foundation, and 9% is common area.

Rental income of approximately $256,000 for the two tenants with the majority occupancy is included in rental income in the accompanying Consolidated Statement of Activities for the year ended June 30, 2014 (see Note 9). Approximately $209,000 is the estimated fair value of the in-kind rent for the two unrelated, not-for-profit organizations included with contributions, grants and pledges income in the accompanying Consolidated Statement of Activities for the year ended June 30, 2014.

Expenses for the operation of 5205 Building, LLC were approximately $307,000, and are included in the accompanying Consolidated Statement of Activities as part of both grants and program services and general and administrative expense. These expenses consist of operating costs and depreciation for the year ended June 30, 2014. Expenses relating to the not-for-profit and Foundation's portion of the building expenses were approximately $450,000, and are included in the accompanying Consolidated Statement of Activities as part of grants and program services expense.

12. ***Net Asset Classification***

Interpretation of Relevant Guidance

FASB ASC Topic 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*, provides guidance on the net asset classification of donor restricted endowment funds and also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated funds). The State of Florida follows the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA), which a) provides consistent investment and spending standards to all forms of charitable funds, b) strengthens the concept of prudent investing, c) abandons historic dollar value as a floor for expenditures and provides more flexibility to the organization in making decisions about whether to expend any portion of an endowment fund, and d) provides a process for the release or modification of restrictions on a gift instrument.

The Board of Trustees of the Foundation has interpreted the current guidance in effect under FUPMIFA, along with the Foundation's Articles of Incorporation and By-Laws (governing documents), and gift instruments (fund agreements), as requiring the preservation of the original value of the gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence. The Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

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

12. Net Asset Classification, continued

The Foundation's endowment net asset composition by type of fund, and reconciliation to restricted net asset totals as of June 30, 2014, consists of the following:

	Temporarily Restricted	Permanently Restricted
Endowment net assets:		
Scholarships	$ 1,064,970	$ 1,897,666
Purpose-restricted	3,089,348	5,763,655
Split-interest agreements	646,226	1,549,334
Total endowment net assets	4,800,544	9,210,655
Non-endowment net assets:		
Scholarships	588,512	-
Purpose-restricted	2,322,609	-
Split-interest agreements	2,026,265	-
Donor advised	2,962,229	-
Total non-endowment net assets	7,899,615	-
Total net assets	$ 12,700,159	$ 9,210,655

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	$ 10,320,669	$ 9,210,655
Reclassification of beginning net assets	(6,777,713)	-
	3,542,956	9,210,655
Investment income, net of fees	244,624	-
Market gains, net	1,200,009	-
Change in value of split-interest agreements	213,645	-
Trust and other income	59,944	-
Amounts appropriate for expenditure (released)	(460,634)	-
Change in endowment net assets	1,257,588	-
Endowment net assets, end of year	$ 4,800,544	$ 9,210,655

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. When deficiencies occur, unless allowed by the agreement, the Foundation does not appropriate expenditures from funds with deficiencies until the historical value is restored. These fund deficiencies are reported as reductions in unrestricted net assets. As of June 30, 2014, there were two funds with deficiencies with a total deficiency of approximately $25,000. Subsequent to year-end, there was one fund with a deficient balance of approximately $22,000.

12. Net Asset Classification, continued

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy the endowment assets are invested in a manner that is intended to produce results assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time and considering a total return approach, to provide an annual return of 8.5%. Actual returns in a given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 5% of the three-year moving average fiscal year end closing fair value of its endowment funds, to the extent there are no donor restrictions on the funds. However, the Board of Trustees being governed by prudent investment management may override the formula and apply a different distribution amount, as provided by the Bylaws of the Foundation and applicable Florida law, if market conditions or operating circumstances dictate.

13. Subsequent Events

Date of Management Evaluation

Management has evaluated subsequent events through December 11, 2014 the date on which the consolidated financial statements were available to be issued, and determined there were no events to disclose in these consolidated financial statements.

14. Prior Period Adjustment

During the year, management performed a review and evaluation of a previously recognized donor-restricted gift. Management determined an adjustment of $500,000 to grants payable and temporarily restricted net assets was necessary. In addition, the Foundation received notification of a purpose restriction on a bequest received during the fiscal year ended June 30, 2013. These adjustments had no effect on the change in net assets reported as of June 30, 2013 as shown in the table below:

14. Prior Period Adjustment, continued

	Grants Payable	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balance, as originally stated July 1, 2012	$ 1,248,619	$ 54,562,321	$ 11,335,321	$ 9,210,655	$ 75,108,297
Prior period adjustment	500,000	-	(500,000)	-	(500,000)
Balance, as restated July 1, 2012	1,748,619	54,562,321	10,835,321	9,210,655	74,608,297
Net account activity	153,199	-	-	-	-
Change in net assets	-	5,743,174	153,899	-	5,907,073
Prior period adjustment	-	(644,086)	644,086	-	-
Balance, as of June 30, 2013	$ 1,901,818	$ 59,671,409	$ 11,633,306	$ 9,210,655	$ 80,515,370

SUPPLEMENTARY INFORMATION

As of June 30, 2014

	Palm Healthcare Foundation, Inc.	5205 Building, LLC	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,556,717	$ 79,909	$ -	$ 1,636,626
Contributions and pledges receivable, current	7,522	-	-	7,522
Prepaid expenses and other assets	259,118	455	-	259,573
Total current assets	1,823,357	80,364	-	1,903,721
Investments	72,732,710	-	-	72,732,710
Investment in 5205 Building, LLC	8,302,618	-	(8,302,618)	-
Split-interest agreements	5,083,971	-	-	5,083,971
Contributions and pledges receivable, non-current, net	5,786	-	-	5,786
Property and equipment, net	75,270	7,528,021	-	7,603,291
Total assets	$ 88,023,712	$ 7,608,385	$ (8,302,618)	$ 87,329,479
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued expenses	$ 254,485	$ 4,358	$ -	$ 258,843
Grants payable, current	739,234	-	-	739,234
Total current liabilities	993,719	4,358	-	998,077
Grants payable, non-current	1,000,000	-	-	1,000,000
Total liabilities	1,993,719	4,358	-	1,998,077
Net assets	86,029,993	7,604,027	(8,302,618)	85,331,402
Total liabilities and net assets	$ 88,023,712	$ 7,608,385	$ (8,302,618)	$ 87,329,479

See independent auditor's report.

PALM HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY

CONSOLIDATING STATEMENT
OF ACTIVITIES

For the Year Ended June 30, 2014

	Palm Healthcare Foundation, Inc.	5205 Building, LLC	Eliminations	Consolidated
Revenues, gains and support:				
Contributions, grants and pledges	$ 166,003	$ -	$ -	$ 166,003
Investment income, net of fees	1,484,380	-	-	1,484,380
Rental income	3,225	465,099	(89,059)	379,265
Trust income	164,827	-	-	164,827
Change in value of split-interest agreements	366,010	-	-	366,010
Net realized and change in unrealized gain on investments	7,417,375	-	-	7,417,375
Conference, event and other income	338,885	-	-	338,885
Total revenues, gains and support	9,940,705	465,099	(89,059)	10,316,745
Expenses:				
Grants and program services	3,921,135	757,311	(89,059)	4,589,387
Support services:				
General and administrative	295,546	-	-	295,546
Fundraising	607,160	-	-	607,160
Total expenses	4,823,841	757,311	(89,059)	5,492,093
Other loss:				
Loss on disposal of assets	8,275	-	-	8,275
Loss on Intracoastal Health System settlement	345	-	-	345
Total expenses and other loss	4,832,461	757,311	(89,059)	5,500,713
Change in net assets	5,108,244	(292,212)	-	4,816,032
Net assets, beginning of year (as restated)	80,921,749	7,896,239	(8,302,618)	80,515,370
Net assets, ending of year	$ 86,029,993	$ 7,604,027	$ (8,302,618)	$ 85,331,402

See independent auditor's report.

PALM HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY

CONSOLIDATING SCHEDULE
OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2014

	Grants and Program Services			Supporting Services			
	Grant Making	5205 Building, LLC	Total Grants and Program Services	General and Administrative	Fundraising	Total Supporting Services	2014 Totals
Salaries and wages	$ 511,174	$ -	$ 511,174	$ 233,659	$ 284,082	$ 517,741	$1,028,915
Payroll taxes	24,958	-	24,958	27,098	19,848	46,946	71,904
Employee benefits	29,964	-	29,964	45,217	38,020	83,237	113,201
Total salary and related	566,096	-	566,096	305,974	341,950	647,924	1,214,020
Bad debt	24,045	-	24,045	-	-	-	24,045
Community outreach	244,809	-	244,809	16	26,673	26,689	271,498
Consulting and contract labor	353,693	-	353,693	36	13,609	13,645	367,338
Donor recognition	769	-	769	2,234	4,170	6,404	7,173
Dues and memberships	14,455	-	14,455	6,067	1,483	7,550	22,005
Grants to others	2,350,402	-	2,350,402	-	-	-	2,350,402
Insurance	-	44,134	44,134	19,331	-	19,331	63,465
Meeting and event expense	39,623	-	39,623	2,255	141,076	143,331	182,954
Miscellaneous	140	123	263	2,275	100	2,375	2,638
Office supplies	3,694	65	3,759	37,402	3,205	40,607	44,366
Printing and postage	13,128	33	13,161	6,799	19,103	25,902	39,063
Professional fees	11,859	-	11,859	39,312	39	39,351	51,210
Property taxes	-	10,184	10,184	-	-	-	10,184
Rent	74	120,256	120,330	89,640	-	89,640	209,970
Repairs and maintenance	12,739	108,250	120,989	63,085	16,610	79,695	200,684
Training and education	4,195	-	4,195	622	354	976	5,171
Travel and related	10,635	-	10,635	2,651	3,777	6,428	17,063
Utilities	1,271	56,774	58,045	12,750	1,322	14,072	72,117
Volunteer and employee recognition	-	-	-	-	-	-	-
Indirect administrative allocation	269,508	-	269,508	(303,197)	33,689	(269,508)	-
	3,921,135	339,819	4,260,954	287,252	607,160	894,412	5,155,366
Depreciation and amortization	-	328,433	328,433	8,294	-	8,294	336,727
Total expenses	$3,921,135	$ 668,252	$4,589,387	$ 295,546	$ 607,160	$ 902,706	$5,492,093

See independent auditor's report.