

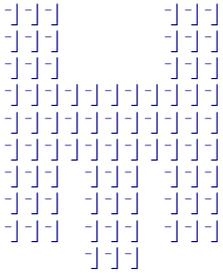
**PALM HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY**

**REPORT ON AUDIT OF
CONSOLIDATED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2016
(with comparable totals for 2015)**

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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, 2016, 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, 2016, 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 statements of financial position, activities, and functional expenses on pages 21 – 23 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 9, 2016

**PALM HEALTHCARE FOUNDATION, INC
AND SUBSIDIARY**

**CONSOLIDATED STATEMENT
OF FINANCIAL POSITION**

As of June 30, 2016

(with comparable totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Totals	2015 Totals
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 477,339	\$ 473,415	\$ -	\$ 950,754	\$ 1,505,680
Contributions and pledges receivable, current	3,596	6,780	-	10,376	11,100
Prepaid expenses and other assets	43,009	40,222	-	83,231	18,249
Total current assets	523,944	520,417	-	1,044,361	1,535,029
Investments	50,786,124	8,661,903	7,661,321	67,109,348	71,284,897
Split-interest agreements	-	1,836,858	1,549,334	3,386,192	4,547,609
Contributions and pledges receivable, non-current, net	1,895	2,940	-	4,835	11,893
Property and equipment, net	6,937,830	-	-	6,937,830	7,262,591
Total assets	<u>\$ 58,249,793</u>	<u>\$ 11,022,118</u>	<u>\$ 9,210,655</u>	<u>\$ 78,482,566</u>	<u>\$ 84,642,019</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued expenses	\$ 202,915	\$ -	\$ -	\$ 202,915	\$ 125,161
Grants payable, current	360,050	346,311	-	706,361	1,897,648
Total current liabilities	562,965	346,311	-	909,276	2,022,809
Grants payable, non-current	-	-	-	-	25,000
Total liabilities	562,965	346,311	-	909,276	2,047,809
Net assets	57,686,828	10,675,807	9,210,655	77,573,290	82,594,210
Total liabilities and net assets	<u>\$ 58,249,793</u>	<u>\$ 11,022,118</u>	<u>\$ 9,210,655</u>	<u>\$ 78,482,566</u>	<u>\$ 84,642,019</u>

See accompanying notes to consolidated financial statements.

**PALM HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENT
OF ACTIVITIES**

For the Year Ended June 30, 2016

(with comparable totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Totals	2015 Totals
Revenues, gains and support:					
Contributions, grants and pledges	\$ 216,055	\$ 74,012	\$ -	\$ 290,067	\$ 112,121
Investment income, net of fees	759,589	253,273	-	1,012,862	1,179,019
Rental income	275,034	-	-	275,034	266,001
Trust income	72,345	110,847	-	183,192	193,860
Change in value of split-interest agreements	-	(161,417)	-	(161,417)	(123,455)
Net realized and change in unrealized gain (loss) on investments	(1,416,280)	(426,694)	-	(1,842,974)	15,389
Conference, event and other income	85,851	-	-	85,851	79,695
Total revenues, gains and support	(7,406)	(149,979)	-	(157,385)	1,722,630
Net assets released from restrictions	536,506	(536,506)	-	-	-
	529,100	(686,485)	-	(157,385)	1,722,630
Expenses:					
Grants and program services	4,177,751	-	-	4,177,751	3,812,716
Support services:					
General and administrative	330,482	-	-	330,482	288,087
Fundraising	355,302	-	-	355,302	359,019
Total expenses	4,863,535	-	-	4,863,535	4,459,822
Change in net assets	(4,334,435)	(686,485)	-	(5,020,920)	(2,737,192)
Net assets, beginning of year	62,021,263	11,362,292	9,210,655	82,594,210	85,331,402
Net assets, ending of year	<u>\$ 57,686,828</u>	<u>\$ 10,675,807</u>	<u>\$ 9,210,655</u>	<u>\$ 77,573,290</u>	<u>\$ 82,594,210</u>

See accompanying notes to consolidated financial statements.

**PALM HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENT
OF CASH FLOWS**

For the Year Ended June 30, 2016

(with comparable totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from contributions, grants and pledges	\$ 297,849	\$ 102,435
Cash received from rental and trust income	458,226	459,861
Cash received from conference, event and other income	85,851	79,695
Cash paid for grants and program services and supporting services	(4,720,888)	(4,059,473)
Investment income, net of fees	<u>1,012,862</u>	<u>1,179,019</u>
Net cash used in operating activities	<u>(2,866,100)</u>	<u>(2,238,463)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	30,467,949	27,828,721
Purchase of investments	(28,135,374)	(26,132,560)
Proceeds from split-interest agreements	-	412,907
Purchase of property and equipment	<u>(21,401)</u>	<u>(1,551)</u>
Net cash provided by investing activities	<u>2,311,174</u>	<u>2,107,517</u>
Change in cash and cash equivalents	(554,926)	(130,946)
Cash and cash equivalents, beginning of year	<u>1,505,680</u>	<u>1,636,626</u>
Cash and cash equivalents, end of year	<u>\$ 950,754</u>	<u>\$ 1,505,680</u>

See accompanying notes to consolidated financial statements.

**PALM HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENT
OF CASH FLOWS**

For the Year Ended June 30, 2016

(with comparable totals for 2015)

	<u>2016</u>	<u>2015</u>
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ (5,020,920)	\$ (2,737,192)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization expense	346,162	342,251
Change in value of split-interest agreements	161,417	123,455
Net realized and change in unrealized (gain) loss on investments	1,842,974	(15,389)
(Increase) decrease in operating assets:		
Contributions and pledges receivable	7,782	(9,685)
Prepaid expenses and other assets	(64,982)	8,365
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	77,754	(133,682)
Grants payable	<u>(216,287)</u>	<u>183,414</u>
Net cash used in operating activities	<u>\$ (2,866,100)</u>	<u>\$ (2,238,463)</u>

See accompanying notes to consolidated financial statements.

For the Year Ended June 30, 2016

1. Organization and Nature of Activities

Palm Healthcare Foundation, Inc. (the "Foundation") is a not-for-profit corporation that was incorporated under the laws of the State of Florida on June 26, 2001 as the result of a merger between St. Mary's Hospital Foundation, Inc. and Intracoastal Health Foundation, Inc. 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 this consolidation unless otherwise indicated.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

Consolidated Financial Statement Presentation

The Foundation's consolidated financial statements are presented in accordance with 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.

For the Year Ended June 30, 2016

2. Summary of Significant Accounting Policies, continued

Estimates

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

Fair Value of Financial Instruments

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.

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.

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, 2016, bank balance deposits of cash exceeded federally insured limits by approximately \$579,000.

For the Year Ended June 30, 2016

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents, continued

The 5205 Building, LLC has board designated funds set aside in cash as a contingency fund. During the year, \$43,000 was received from the Foundation as a contribution to this fund. As of June 30, 2016 the contingency fund was \$96,400.

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, 2016, 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 and invest according to the investment guidelines established by the Foundation's Finance and Investment Committee and approved by the Board of Trustees. All securities are held by a trust company for the benefit of the Foundation.

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

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.

For financial statement reporting purposes, the investment income earned attributable to the permanently restricted net assets is included in the temporarily restricted column or in the unrestricted column, when appropriated. 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.

For the Year Ended June 30, 2016

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

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.

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.

For the Year Ended June 30, 2016

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

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and according to natural classification in the Consolidating Schedule of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Donated Services

The Foundation follows FASB ASC 958-605, *Revenue Recognition*, for donated services. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

Advertising

Advertising costs are primarily used to educate and 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, 2016 was approximately \$309,500, including approximately \$118,900 of in-kind advertising.

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, 2016.

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.

For the Year Ended June 30, 2016

2. Summary of Significant Accounting Policies, continued

Prior Year Summarized 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, 2015, from which the summarized information was derived. Certain 2015 amounts may have been reclassified to conform to 2016 classifications. Such reclassifications would have no effect on net assets as previously reported.

3. Investments

A summary of the Foundation's investments as of June 30, 2016, is as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Cash and cash equivalents	\$ 6,160,538	\$ 6,160,538	\$ -
Fixed income securities	17,410,271	17,598,305	(188,034)
Domestic equities	24,054,001	19,576,678	4,477,323
International equities	15,877,657	15,116,154	761,503
Global real estate	3,379,295	2,781,022	598,273
Accrued income	227,586	227,586	-
	<u>\$ 67,109,348</u>	<u>\$ 61,460,283</u>	<u>\$ 5,649,065</u>

Investment management fees for the year ended June 30, 2016, were approximately \$445,960. Investment income consists of dividends and interest, and is shown net of fees in the accompanying Consolidated Statement of Activities.

4. Fair Value Measurement

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, 2016.

- *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.

For the Year Ended June 30, 2016

4. **Fair Value Measurement, continued**

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.
- *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 2016 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, 2016, using the input guidance and valuation techniques described above.

<u>Assets reported at fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Total</u>
<i>Investments:</i>				
Cash and cash equivalents	\$ 6,160,538	\$ -	\$ -	\$ 6,160,538
<i>Fixed income securities:</i>				
<i>Government, agency, and municipal bonds:</i>				
Domestic	3,378,126	-	-	3,378,126
International	279,880	-	-	279,880
<i>Corporate bonds:</i>				
Domestic	11,349,285	-	-	11,349,285
International	1,795,392	-	-	1,795,392
Mortgage backed securities	-	607,588	-	607,588
Total fixed income securities	<u>16,802,683</u>	<u>607,588</u>	<u>-</u>	<u>17,410,271</u>
<i>Equity securities:</i>				
<i>Common stock:</i>				
Domestic	24,054,001	-	-	24,054,001
International	15,877,657	-	-	15,877,657
Global Real Estate	<u>3,379,295</u>	<u>-</u>	<u>-</u>	<u>3,379,295</u>
Total equity securities	<u>43,310,953</u>	<u>-</u>	<u>-</u>	<u>43,310,953</u>
Accrued income	<u>227,586</u>	<u>-</u>	<u>-</u>	<u>227,586</u>
	<u>\$ 66,501,760</u>	<u>\$ 607,588</u>	<u>\$ -</u>	<u>\$ 67,109,348</u>

For the Year Ended June 30, 2016

4. **Fair Value Measurement, continued**

<u>Assets reported at fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Total</u>
<i>Split-interest agreements</i>	<u>\$ 1,881,899</u>	<u>\$ -</u>	<u>\$ 1,504,293</u>	<u>\$ 3,386,192</u>

A reconciliation of the Foundation's Level 3 financial instruments for the year ended June 30, 2016 is provided below:

Balance, as of July 1, 2015	\$ 2,552,482
Distribution	(1,000,000)
Change in value	<u>(48,189)</u>
Balance, as of June 30, 2016	<u>\$ 1,504,293</u>

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:

	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>
Split-interest agreements	<u>\$ 1,504,293</u>	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, 2016, consisted of pledges receivable of \$15,211, net of a discount of \$271.

Pledges receivable as of June 30, 2016 are expected to be collected as follows:

Expected to be collected in:	
Less than one year	<u>\$ 10,376</u>
One to five years	5,106
Less discount	<u>271</u>
Non-current portion	<u>4,835</u>
Total	<u>\$ 15,211</u>

For the Year Ended June 30, 2016

6. Property and Equipment

Property and equipment, as of June 30, 2016, consist of the following:

Building	\$ 8,560,049
Furniture and equipment	435,086
Land improvements	47,185
Ground lease	<u>655,000</u>
	9,697,320
Less accumulated depreciation and amortization	<u>2,759,490</u>
Total	<u>\$ 6,937,830</u>

Depreciation and amortization expense for the year ended June 30, 2016 was approximately \$346,200.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses, as of June 30, 2016, consist of the following:

Accounts payable	\$ 134,931
Accrued payroll and other benefits	<u>67,984</u>
	<u>\$ 202,915</u>

8. Commitments and Contingencies

Grants Payable

As of June 30, 2016, the Board of Trustees has approved future grants of approximately \$706,400. Such grants are subject only to routine performance of stipulated conditions by the intended recipients before payment is made.

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 \$102,300.

For the Year Ended June 30, 2016

8. Commitments and Contingencies, continued

The approximate minimum future rentals to be paid under these leases as of June 30, 2016 are as follows:

2017	\$ 110,200
2018	111,500
2019	112,900
2020	114,300
2021	115,700
Thereafter	<u>255,500</u>
Total	<u>\$ 820,100</u>

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 \$16,270 (including CAM). The lessee has the option to terminate, without penalty, upon giving six months notice. 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 approximately \$4,000. In addition, the lease provides for two five-year extensions.

The property held for lease as of June 30, 2016, had a carrying value of approximately \$6,884,600, consisting of assets totaling approximately \$9,510,500 less accumulated depreciation of approximately \$2,625,900.

The approximate minimum future rentals to be received under these leases as of June 30, 2016 are as follows:

2017	\$ 245,200
2018	219,800
2019	<u>43,500</u>
Total	<u>\$ 508,500</u>

During the year, the Foundation provided office space at 5205 Building, LLC under lease agreements with three tenants in relation to program grants awarded (see Note 10).

9. 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

For the Year Ended June 30, 2016

9. Pension Plan, continued

eligible employees upon completing one year of service. The program has a three year vesting schedule. Upon separation, employees who have completed three years of service under the terms of the plan will receive the employer contribution as well as all of their individual contributions. The employer contribution is 6% of the employee's gross compensation, limited to a maximum of \$8,400. The Foundation contributed approximately \$31,300 to the pension plan for the year ended June 30, 2016.

10. 5205 Building, LLC and Granted 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 32% of the remaining office space is provided free of charge to three not-for-profit organizations as part of the Foundation's mission to promote healthcare, 12% is occupied by the Foundation, and 9% is common area.

Rental income of approximately \$275,000 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, 2016 (see Note 8). Approximately \$246,300 is the estimated fair value of the granted rent for the three unrelated, not-for-profit organizations for the year ended June 30, 2016.

Total building expenses, including depreciation, for the 5205 Building, LLC were approximately \$545,100, of which \$256,200 is associated with the two medical-related tenants, \$174,400 is associated with the grantee not-for-profits organizations, and the balance relates to the Foundation's use and common area. These expenses are included in the accompanying Consolidated Statement of Activities and Consolidating Schedule of Functional Expenses as part of grants and program services for the year ended June 30, 2016.

11. 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.

For the Year Ended June 30, 2016

11. **Net Asset Classification, continued**

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

The Foundation's endowment net asset composition by type of fund, and reconciliation to restricted net asset totals as of June 30, 2016, consists of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
<i>Endowment net assets:</i>		
Scholarships	\$ 575,886	\$ 1,897,666
Purpose-restricted	2,717,990	5,763,655
Split-interest agreements	<u>465,395</u>	<u>1,549,334</u>
Total endowment net assets	<u>3,759,271</u>	<u>9,210,655</u>
<i>Non-endowment net assets:</i>		
Scholarships	60,225	-
Purpose-restricted	2,772,157	-
Split-interest agreements	1,561,474	-
Donor advised	<u>2,522,681</u>	<u>-</u>
Total non-endowment net assets	<u>6,916,536</u>	<u>-</u>
Total net assets	<u>\$ 10,675,807</u>	<u>\$ 9,210,655</u>

For the Year Ended June 30, 2016

11. ***Net Asset Classification, continued***

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year	\$ 4,372,121	\$ 9,210,655
Investment income, net of fees	175,515	-
Market losses, net	(292,294)	-
Change in value of split-interest agreements	(119,657)	-
Trust and other income	72,346	-
Amounts appropriated for expenditure	(449,995)	-
Reclassification and other	<u>1,235</u>	<u>-</u>
Change in endowment net assets	<u>(612,850)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 3,759,271</u>	<u>\$ 9,210,655</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. When deficiencies occur, unless allowed by the agreement, the Foundation does not appropriate expenditures from funds with deficiencies until the historical value is restored. These fund deficiencies are reported as reductions in unrestricted net assets. As of June 30, 2016, there was one fund with a deficiency of approximately \$21,000.

Return Objectives and Risk Parameters

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

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.

For the Year Ended June 30, 2016

11. **Net Asset Classification, continued**

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 4.75% 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.

12. **Subsequent Events**

Date of Management Evaluation

Management has evaluated subsequent events through December 9, 2016 the date on which the consolidated financial statements were available to be issued, and determined there were no events to disclose in these consolidated financial statements.

SUPPLEMENTARY INFORMATION

**PALM HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY**

**CONSOLIDATING STATEMENT
OF FINANCIAL POSITION**

As of June 30, 2016

	Palm Healthcare Foundation, Inc.	5205 Building, LLC	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 774,258	\$ 176,496	\$ -	\$ 950,754
Contributions and pledges receivable, current	10,376	-	-	10,376
Prepaid expenses and other assets	43,009	40,222	-	83,231
Total current assets	827,643	216,718	-	1,044,361
Investments	67,109,348	-	-	67,109,348
Investment in 5205 Building, LLC	8,302,618	-	(8,302,618)	-
Split-interest agreements	3,386,192	-	-	3,386,192
Contributions and pledges receivable, non-current, net	4,835	-	-	4,835
Property and equipment, net	53,211	6,884,619	-	6,937,830
Total assets	<u>\$ 79,683,847</u>	<u>\$ 7,101,337</u>	<u>\$ (8,302,618)</u>	<u>\$ 78,482,566</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued expenses	\$ 195,608	\$ 7,307	\$ -	\$ 202,915
Grants payable, current	706,361	-	-	706,361
Total liabilities	901,969	7,307	-	909,276
Net assets	78,781,878	7,094,030	(8,302,618)	77,573,290
Total liabilities and net assets	<u>\$ 79,683,847</u>	<u>\$ 7,101,337</u>	<u>\$ (8,302,618)</u>	<u>\$ 78,482,566</u>

See independent auditor's report.

**PALM HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY**

**CONSOLIDATING STATEMENT
OF ACTIVITIES**

For the Year Ended June 30, 2016

	Palm Healthcare Foundation, Inc.	5205 Building, LLC	Eliminations	Consolidated
Revenues, gains and support:				
Contributions, grants and pledges	\$ 290,067	\$ -	\$ -	\$ 290,067
Investment income, net of fees	1,012,862	-	-	1,012,862
Rental income	-	275,034	-	275,034
Trust income	183,192	-	-	183,192
Change in value of split-interest agreements	(161,417)	-	-	(161,417)
Net realized and change in unrealized loss on investments	(1,842,974)	-	-	(1,842,974)
Conference, event and other income	85,851	-	-	85,851
Total revenues, gains and support	<u>(432,419)</u>	<u>275,034</u>	<u>-</u>	<u>(157,385)</u>
Expenses:				
Grants and program services	3,632,631	545,120	-	4,177,751
Support services:				
General and administrative	330,482	-	-	330,482
Fundraising	355,302	-	-	355,302
Total expenses	<u>4,318,415</u>	<u>545,120</u>	<u>-</u>	<u>4,863,535</u>
Change in net assets	(4,750,834)	(270,086)	-	(5,020,920)
Net assets, beginning of year	83,575,845	7,320,983	(8,302,618)	82,594,210
Transfer for consolidation	(43,133)	43,133	-	-
Net assets, ending of year	<u>\$ 78,781,878</u>	<u>\$ 7,094,030</u>	<u>\$ (8,302,618)</u>	<u>\$ 77,573,290</u>

See independent auditor's report.

**PALM HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY**

**CONSOLIDATING SCHEDULE
OF FUNCTIONAL EXPENSES**

For the Year Ended June 30, 2016

(with comparable totals for 2015)

	Grants and Program Services			Supporting Services			2016 Totals	2015 Totals
	Grant Making	5205 Building, LLC	Total Grants and Program Services	General and Administrative	Fundraising	Total Supporting Services		
Salaries and wages	\$ 514,140	\$ -	\$ 514,140	\$ 254,279	\$ 225,520	\$ 479,799	\$ 993,939	\$ 925,899
Payroll taxes	35,673	-	35,673	16,131	15,797	31,928	67,601	68,103
Employee benefits	55,020	-	55,020	26,172	22,375	48,547	103,567	106,045
Total salary and related	604,833	-	604,833	296,582	263,692	560,274	1,165,107	1,100,047
Community outreach	302,508	-	302,508	2,920	4,090	7,010	309,518	248,837
Consulting and contract labor	305,630	-	305,630	27,238	-	27,238	332,868	262,757
Donor recognition	3,655	-	3,655	2,130	2,245	4,375	8,030	10,438
Dues and memberships	19,135	-	19,135	903	3,319	4,222	23,357	25,961
Grants to others	1,918,004	-	1,918,004	-	-	-	1,918,004	1,734,498
Insurance	-	38,450	38,450	26,395	-	26,395	64,845	67,220
Meeting and event expense	53,717	-	53,717	3,491	16,523	20,014	73,731	75,468
Miscellaneous	829	139	968	4,489	1,319	5,808	6,776	11,492
Office supplies	1,199	56	1,255	7,189	1,268	8,457	9,712	12,817
Printing and postage	21,617	-	21,617	2,615	24,187	26,802	48,419	53,209
Professional fees	64,483	-	64,483	45,130	-	45,130	109,613	51,435
Property taxes	-	10,004	10,004	-	-	-	10,004	10,130
Rent	-	-	-	104,632	-	104,632	104,632	111,653
Repairs and maintenance	57,838	102,124	159,962	57,839	-	57,839	217,801	225,225
Training and education	3,827	-	3,827	7,247	1,762	9,009	12,836	12,730
Travel and related	15,033	-	15,033	4,488	3,941	8,429	23,462	24,687
Utilities	2,681	62,547	65,228	10,428	750	11,178	76,406	75,665
Volunteer and employee recognition	74	-	74	2,168	10	2,178	2,252	3,302
Indirect administrative allocation	257,568	-	257,568	(289,764)	32,196	(257,568)	-	-
	3,632,631	213,320	3,845,951	316,120	355,302	671,422	4,517,373	4,117,571
Depreciation and amortization	-	331,800	331,800	14,362	-	14,362	346,162	342,251
Total expenses	\$ 3,632,631	\$ 545,120	\$ 4,177,751	\$ 330,482	\$ 355,302	\$ 685,784	\$ 4,863,535	\$ 4,459,822

See independent auditor's report.