PALM HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY

REPORT ON AUDIT OF
CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2017
(*with comparable totals for 2016*)

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1-2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows	5-6
Consolidated Statement of Functional Expenses	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8-21
SUPPLEMENTARY INFORMATION	
Consolidating Statement of Financial Position	22
Consolidating Statement of Activities	23

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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, 2017, and the related consolidated statements of activities, cash flows, and functional expense 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 and activities on pages 21 – 22 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 9, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 7, 2017

As of June 30, 2017 *(with comparable totals for 2016)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Totals	2016 Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 713,184	$ 693,293	$ -	$ 1,406,477	$ 950,754
Contributions and pledges receivable	1,931	4,684	-	6,615	15,211
Prepaid expenses and other assets	18,690	765	-	19,455	83,231
Total current assets	733,805	698,742	-	1,432,547	1,049,196
Investments	53,333,139	9,875,277	7,661,321	70,869,737	67,109,348
Split-interest agreements	-	2,353,608	1,549,334	3,902,942	3,386,192
Property and equipment, net	6,574,349	-	-	6,574,349	6,937,830
Total assets	$ 60,641,293	$ 12,927,627	$ 9,210,655	$ 82,779,575	$ 78,482,566
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued expenses	$ 94,764	$ -	$ -	$ 94,764	$ 202,915
Grants payable, current	380,441	119,165	-	499,606	706,361
Total current liabilities	475,205	119,165	-	594,370	909,276
Net assets	60,166,088	12,808,462	9,210,655	82,185,205	77,573,290
Total liabilities and net assets	$ 60,641,293	$ 12,927,627	$ 9,210,655	$ 82,779,575	$ 78,482,566

See accompanying notes to consolidated financial statements.

For the Year Ended June 30, 2017 *(with comparable totals for 2016)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Totals	2016 Totals
Revenues, gains and support:					
Contributions, grants and pledges	$ 32,059	$ 126,748	$ -	$ 158,807	$ 290,067
Investment income, net of fees	777,217	262,383	-	1,039,600	1,012,862
Rental income	268,440	-	-	268,440	275,034
Trust income	118,823	128,731	-	247,554	183,192
Change in value of split-interest agreements	-	436,254	-	436,254	(161,417)
Net realized and change in unrealized gain (loss) on investments	5,020,190	1,693,888	-	6,714,078	(1,842,974)
Conference, event and other income	131,567	-	-	131,567	85,851
Total revenues, gains and support	6,348,296	2,648,004	-	8,996,300	(157,385)
Net assets released from restrictions	515,349	(515,349)	-	-	-
	6,863,645	2,132,655	-	8,996,300	(157,385)
Expenses:					
Grants and program services	3,664,213	-	-	3,664,213	4,177,751
Support services:					
General and administrative	373,591	-	-	373,591	330,482
Fundraising	346,581	-	-	346,581	355,302
Total expenses	4,384,385	-	-	4,384,385	4,863,535
Change in net assets	2,479,260	2,132,655	-	4,611,915	(5,020,920)
Net assets, beginning of year	57,686,828	10,675,807	9,210,655	77,573,290	82,594,210
Net assets, ending of year	$ 60,166,088	$ 12,808,462	$ 9,210,655	$ 82,185,205	$ 77,573,290

See accompanying notes to consolidated financial statements.

	2017	2016
Cash flows from operating activities:		
Cash received from contributions, grants and pledges	$ 78,957	$ 178,917
Cash received from rental and trust income	515,994	458,226
Cash received from conference, event and other income	131,567	85,851
Cash paid for grants and program services and supporting services	(4,264,085)	(4,601,956)
Investment income, net of fees	1,039,600	1,012,862
Net cash used in operating activities	(2,497,967)	(2,866,100)
Cash flows from investing activites:		
Proceeds from sale of investments	27,606,775	30,467,949
Purchase of investments	(24,653,085)	(28,135,374)
Purchase of property and equipment	-	(21,401)
Net cash provided by investing activities	2,953,690	2,311,174
Change in cash and cash equivalents	455,723	(554,926)
Cash and cash equivalents, beginning of year	950,754	1,505,680
Cash and cash equivalents, end of year	$ 1,406,477	$ 950,754

See accompanying notes to consolidated financial statements.

	2017	2016
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	$ 4,611,915	$ (5,020,920)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization expense	363,480	346,162
(Increase) decrease in value of split-interest agreements	(516,750)	161,417
Net realized and change in unrealized (gain) loss on investments	(6,714,078)	1,842,974
(Increase) decrease in operating assets:		
Contributions and pledges receivable	8,596	7,782
Prepaid expenses and other assets	63,776	(64,982)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(108,151)	77,754
Grants payable	(206,755)	(216,287)
Net cash used in operating activities	$ (2,497,967)	$ (2,866,100)

See accompanying notes to consolidated financial statements.

PALM HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENT
OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

(with comparable totals for 2016)

	Grants and Program Services			Supporting Services				
	Grant Making	5205 Building, LLC	Total Grants and Program Services	General and Administrative	Fundraising	Total Supporting Services	2017 Totals	2016 Totals
Salaries and wages	$ 484,470	$ -	$ 484,470	$ 225,209	$ 212,532	$ 437,741	$ 922,211	$ 993,939
Payroll taxes	31,686	-	31,686	14,330	14,111	28,441	60,127	67,601
Employee benefits	70,230	-	70,230	34,422	36,438	70,860	141,090	103,567
Total salary and related	586,386	-	586,386	273,961	263,081	537,042	1,123,428	1,165,107
Community outreach	162,147	-	162,147	3,011	1,981	4,992	167,139	309,518
Consulting and contract labor	146,469	28,524	174,993	978	-	978	175,971	332,868
Donor recognition	3,542	208	3,750	850	2,896	3,746	7,496	8,030
Dues and memberships	6,775	-	6,775	1,888	1,714	3,602	10,377	23,357
Grants to others	1,831,128	-	1,831,128	-	-	-	1,831,128	1,918,004
Insurance	-	36,696	36,696	25,713	-	25,713	62,409	64,845
Meeting and event expense	54,782	-	54,782	5,838	20,571	26,409	81,191	73,731
Miscellaneous	-	362	362	1,019	12	1,031	1,393	6,776
Office supplies	1,295	-	1,295	6,646	2,213	8,859	10,154	9,712
Printing and postage	14,276	-	14,276	1,254	26,452	27,706	41,982	48,419
Professional fees	60,772	-	60,772	45,608	-	45,608	106,380	109,613
Property taxes	-	9,794	9,794	-	-	-	9,794	10,004
Rent	-	-	-	111,399	-	111,399	111,399	104,632
Repairs and maintenance	41,633	92,313	133,946	50,209	1,231	51,440	185,386	217,801
Training and education	3,360	-	3,360	243	219	462	3,822	12,836
Travel and related	11,518	-	11,518	2,291	2,557	4,848	16,366	23,462
Utilities	2,500	61,465	63,965	8,461	1,200	9,661	73,626	76,406
Volunteer and employee recognition	-	-	-	1,464	-	1,464	1,464	2,252
Indirect administrative allocation	179,633	-	179,633	(202,087)	22,454	(179,633)	-	-
	3,106,216	229,362	3,335,578	338,746	346,581	685,327	4,020,905	4,517,373
Depreciation and amortization	-	328,635	328,635	34,845	-	34,845	363,480	346,162
Total expenses	$ 3,106,216	$ 557,997	$ 3,664,213	$ 373,591	$ 346,581	$ 720,172	$ 4,384,385	$ 4,863,535

See accompanying notes to consolidated financial statements.

1. *Organization and Nature of Activities*

Palm Healthcare Foundation, Inc. (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.

2. Summary of Significant Accounting Policies, continued

Use of 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 that 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, 2017, bank balance deposits of cash exceeded federally insured limits by approximately $16,000.

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. As of June 30, 2017, the balance of the contingency fund was $136,400.

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, 2017, 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.

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 in the Consolidated Statement of Activities.

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.

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 from volunteers and professionals who donate their services. Donated services should be 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. No amounts have been reflected in the financial statements for such donated services because management believes the criteria for recognition under FASB ASC 958-605, *Revenue Recognition*, has not been satisfied.

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 Consolidated Statement of Functional Expenses. The total advertising expense for the year ended June 30, 2017 was approximately $167,100, including approximately $10,340 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, 2017.

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**

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, 2016, from which the summarized information was derived. Certain 2016 amounts may have been reclassified to conform to 2017 classifications. Such reclassifications would have no effect on net assets as previously reported.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) recently issued several Accounting Standards Updates (ASU's) that affect the accounting and reporting of not-for-profit entities. The FASB issued ASU 2016-02, *Leases* (Topic 842), which does not take effect until the Organization's fiscal year ending June 2021, and provides new guidance for leases such that virtually all leases will be capitalized and create "right of use" assets along with associated liabilities. This standard will impact the interpretation of certain Organization transactions, and management is evaluating the effect that the updated standard will have on the financial statements. ASU 2016-14, *Not-for-Profit Entities* (Topic 958), imposes new requirements for the presentation and disclosure of not-for-profit financial statements, including a reduction in the number of net asset categories from 3 classes to 2 classes, a requirement to present a statement of functional expenses, a requirement to disclose the quantitative and qualitative aspects of its liquidity, in addition to other provisions. This ASU will be effective for the Organization's fiscal period ending June 30, 2019, with early implementation permitted. As with the new guidance on leasing, management is evaluating the effect that this updated standard will have on the financial statements.

3. ***Investments***

A summary of the Foundation's investments as of June 30, 2017, is as follows:

	Fair Value	Cost	Unrealized Gain (Loss)
Cash and cash equivalents	$ 3,028,110	$ 3,028,110	$ -
Fixed income securities	19,090,305	19,334,698	(244,393)
Domestic equities	27,847,723	20,990,483	6,857,240
International equities	17,337,814	14,753,646	2,584,168
Global real estate	3,330,617	2,781,022	549,595
Accrued income	235,168	235,168	-
	$ 70,869,737	$ 61,123,127	$ 9,746,610

3. *Investments, continued*

Investment income consists of dividends and interest, and is shown net of fees in the accompanying Consolidated Statement of Activities. Investment management fees for the year ended June 30, 2017, were approximately $424,000.

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, 2017.

- *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 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.
- *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 2017 for these instruments to be fairly stated in relation to the financial statements as a whole.

4. Fair Value Measurement, continued

The fair value of investments and split-interest agreements is presented in the following table as of June 30, 2017, 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	$ 3,028,110	$ -	$ -	$ 3,028,110
Fixed income securities:				
Government, agency, and municipal bonds:				
Domestic	4,473,825	-	-	4,473,825
International	182,925	-	-	182,925
Corporate bonds:				
Domestic	12,147,968	-	-	12,147,968
International	2,211,105	-	-	2,211,105
Mortgage backed securities	-	74,482	-	74,482
Total fixed income securities	19,015,823	74,482	-	19,090,305
Equity securities:				
Common stock:				
Domestic	27,847,723	-	-	27,847,723
International	17,337,814	-	-	17,337,814
Global Real Estate	3,330,617	-	-	3,330,617
Total equity securities	48,516,154	-	-	48,516,154
Accrued income	235,168	-	-	235,168
	$ 70,795,255	$ 74,482	$ -	$ 70,869,737

Assets reported at fair value	Level 1	Level 2	Level 3	Fair Value Total
Split-interest agreements	$ -	$ -	$ 3,902,942	$ 3,902,942

4. *Fair Value Measurement, continued*

A reconciliation of the Foundation's Level 3 financial instruments for the year ended June 30, 2017 is provided below:

Balance, as of July 1, 2016	$ 3,386,192
Distributions	-
Settlements	-
Issuances	-
Change in value	516,750
Balance, as of June 30, 2017	$ 3,902,942

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	$ 3,902,942	Discounted cash flows, market comparables, third party valuation specialists	Revenue or earnings multiples, discount rates, life expectancies, growth rates

5. *Property and Equipment*

Property and equipment, as of June 30, 2017, consist of the following:

Building	$ 8,560,049
Furniture and equipment	435,086
Land improvements	47,185
Ground lease	655,000
	9,697,320
Less accumulated depreciation and amortization	3,122,971
Total	$ 6,574,349

Depreciation and amortization expense for the year ended June 30, 2017 was approximately $363,500.

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses, as of June 30, 2017, consist of the following:

Accounts payable	$ 17,099
Accrued payroll and other benefits	77,665
	$ 94,764

7. Commitments and Contingencies

Grants Payable

As of June 30, 2017, the Board of Trustees has approved future grants of approximately $499,600. 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 which will be increased at the beginning of each year by 2.5% over the basic rent payable in the previous lease year. In addition, common area maintenance (CAM) operating costs are proportionately assessed, beginning with $4,087 monthly for the first year. Rent expense for the current year was approximately $109,000.

The approximate minimum future rentals to be paid under these leases as of June 30, 2017 are as follows:

2018	$ 111,500
2019	112,900
2020	114,300
2021	115,700
2022	117,100
Thereafter	138,400
Total	$ 709,900

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 $16,920 (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.

7. Commitments and Contingencies, continued

- 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 December 1, 2016. The monthly rental payment is approximately $2,200. In addition, the lease provides for a two-year extension.

The property held for lease as of June 30, 2017, had a carrying value of approximately $6,556,000, consisting of assets totaling approximately $9,510,500 less accumulated depreciation of approximately $2,954,500.

The approximate minimum future rentals to be received under these leases as of June 30, 2017 are as follows:

2018	$ 196,330
2019	28,500
Total	$ 224,830

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 9).

8. 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. 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 $37,600 to the pension plan for the year ended June 30, 2017.

9. 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.

9. 5205 Building, LLC and Granted Rent, continued

Rental income of approximately $268,400, 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, 2017 (see Note 7). Approximately $261,760 is the estimated fair value of the granted rent for the three unrelated, not-for-profit organizations for the year ended June 30, 2017. Total building expenses, including depreciation, for the 5205 Building, LLC were approximately $558,000, of which $262,300 is associated with the two medical-related tenants, $178,560 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 Consolidated Statement of Functional Expenses as part of grants and program services for the year ended June 30, 2017.

10. 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.

10. Net Asset Classification, continued

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, 2017, consists of the following:

	Temporarily Restricted	Permanently Restricted
Endowment net assets:		
Scholarships	$ 602,222	$ 1,897,666
Purpose-restricted	3,577,349	5,763,655
Split-interest agreements	560,433	1,549,334
Total endowment net assets	4,740,004	9,210,655
Non-endowment net assets:		
Scholarships	5,728	-
Purpose-restricted	3,425,518	-
Split-interest agreements	2,010,715	-
Donor advised	2,626,497	-
Total non-endowment net assets	8,068,458	-
Total net assets	$ 12,808,462	$ 9,210,655

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

	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	$ 3,759,271	$ 9,210,655
Investment income, net of fees	180,201	-
Change in gains/(losses), net	1,163,190	-
Change in value of split-interest agreements	67,508	-
Trust and other income	72,742	-
Amounts appropriated for expenditure	(489,246)	-
Reclassification and other	(13,662)	-
Change in endowment net assets	980,733	-
Endowment net assets, end of year	$ 4,740,004	$ 9,210,655

10. Net Asset Classification, continued

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, 2017, there was one fund with a deficiency of approximately $7,300.

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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 4.5% 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.

11. Subsequent Events

Date of Management Evaluation

Management has evaluated subsequent events through December 7, 2017 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

As of June 30, 2017

	Palm Healthcare Foundation, Inc.	5205 Building, LLC	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,148,300	$ 258,177	$ -	$ 1,406,477
Contributions and pledges receivable	6,615	-	-	6,615
Prepaid expenses and other assets	18,690	765	-	19,455
Total current assets	1,173,605	258,942	-	1,432,547
Investments	70,869,737	-	-	70,869,737
Investment in 5205 Building, LLC	6,814,373	-	(6,814,373)	-
Split-interest agreements	3,902,942	-	-	3,902,942
Property and equipment, net	18,365	6,555,984	-	6,574,349
Total assets	$ 82,779,022	$ 6,814,926	$ (6,814,373)	$ 82,779,575
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued expenses	$ 94,211	$ 553	$ -	$ 94,764
Grants payable, current	499,606	-	-	499,606
Total liabilities	593,817	553	-	594,370
Net assets	82,185,205	6,814,373	(6,814,373)	82,185,205
Total liabilities and net assets	$ 82,779,022	$ 6,814,926	$ (6,814,373)	$ 82,779,575

See independent auditor's report.

For the Year Ended June 30, 2017

	Palm Healthcare Foundation, Inc.	5205 Building, LLC	Eliminations	Consolidated
Revenues, gains and support:				
Contributions, grants and pledges	$ 158,807	$ -	$ -	$ 158,807
Investment income, net of fees	1,039,600	-	-	1,039,600
Rental income	-	268,440	-	268,440
Trust income	247,554	-	-	247,554
Change in value of split-interest agreements	436,254	-	-	436,254
Net realized and change in unrealized loss on investments	6,714,078	-	-	6,714,078
Conference, event and other income	131,567	-	-	131,567
Total revenues, gains and support	8,727,860	268,440	-	8,996,300
Expenses:				
Grants and program services	3,106,216	557,997	-	3,664,213
Support services:				
General and administrative	373,591	-	-	373,591
Fundraising	346,581	-	-	346,581
Total expenses	3,826,388	557,997	-	4,384,385
Other losses:				
Loss on investment in 5205 Building, LLC	(279,657)	-	279,657	-
Total expenses and other loss	(279,657)	-	279,657	-
Change in net assets	4,621,815	(289,557)	279,657	4,611,915
Net assets, beginning of year	77,573,290	7,094,030	(7,094,030)	77,573,290
Transfer for consolidation	(9,900)	9,900	-	-
Net assets, ending of year	$ 82,185,205	$ 6,814,373	$ (6,814,373)	$ 82,185,205

See independent auditor's report.