

**RIVERSIDE COMMUNITY HEALTH FOUNDATION
AND COMMUNITY SETTLEMENT ASSOCIATION**

**CONSOLIDATED AND COMBINED AUDITORS'
REPORT AND FINANCIAL STATEMENTS**

DECEMBER 31, 2022 AND 2021

**RIVERSIDE COMMUNITY HEALTH FOUNDATION
AND COMMUNITY SETTLEMENT ASSOCIATION
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Riverside Community Health Foundation
And Community Settlement Association
Riverside, California

Opinion

We have audited the accompanying consolidated and combined financial statements of Riverside Community Health Foundation (a nonprofit organization) and affiliates, which comprise the consolidated and combined statement of financial position as of December 31, 2022 and 2021, and the related consolidated and combined statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated and combined financial statements.

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of Riverside Community Health Foundation and affiliates as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Riverside Community Health Foundation and affiliates and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Effect of Adopting New Accounting Standard

As discussed in Note 2 to the consolidated and combined financial statements, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases* (Topic 842), which supersedes existing guidance for accounting for leases under Topic 840, *Leases*. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the balance sheet. The Company elected to adopt the new accounting standards effective January 1, 2022, using the modified retrospective transition approach as of the beginning of the period of adoption. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control

relevant to the preparation and fair presentation of consolidated and combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Riverside Community Health Foundation and affiliates' ability to continue as a going concern within one year after the date that the consolidated and combined financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated and combined financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated and combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated and combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Riverside Community Health Foundation and affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Riverside Community Health Foundation and affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Roorda, Piquet & Bessee, Inc.

Roorda, Piquet & Bessee, Inc.

Riverside, California

October 3, 2023



**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**

CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL POSITION

	December 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,251,698	\$ 1,373,778
Investments (Notes 3 and 4)	84,053,889	100,596,792
Accounts receivable, net of unearned revenue (Note 2)	339,276	339,767
Inventory	63,635	50,727
Prepaid expenses	83,136	84,050
Total current assets	<u>85,791,634</u>	<u>102,445,114</u>
Property and equipment:		
Land	1,211,288	1,211,288
Buildings	13,029,855	12,472,163
Furniture and equipment	1,093,521	1,085,739
Transportation equipment	284,954	284,954
Construction in progress	-	476,276
	<u>15,619,618</u>	<u>15,530,420</u>
Accumulated depreciation	(4,833,563)	(4,431,332)
Total property and equipment, net	<u>10,786,055</u>	<u>11,099,088</u>
Other assets:		
Deferred rent receivable	202,410	-
Right of use assets, net of amortization (Note 7)	364,284	-
Total other assets	<u>566,694</u>	<u>-</u>
Total assets	<u><u>\$ 97,144,383</u></u>	<u><u>\$ 113,544,202</u></u>

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**

CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL POSITION

	December 31, 2022	December 31, 2021
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 146,421	\$ 205,856
Accrued expenses	335,262	368,976
Grants payable	44,500	-
Term loan payable, current portion (Note 6)	402,960	386,971
Operating lease liability, current portion (Note 7)	110,853	-
Total current liabilities	<u>1,039,996</u>	<u>961,803</u>
Long-term liabilities:		
Term loan payable, net of current portion (Note 6)	2,838,239	3,239,922
Operating lease liability, net of current portion (Note 7)	268,804	-
Paycheck protection program loan payable (Note 8)	-	781,600
Total long-term liabilities:	<u>3,107,043</u>	<u>4,021,522</u>
Other liabilities:		
Estimated future liability for annuity payments (Note 9)	53,586	53,586
Deferred compensation (Note 5)	721,240	809,647
Total other liabilities	<u>774,826</u>	<u>863,233</u>
Total liabilities	<u>4,921,865</u>	<u>5,846,558</u>
Net Assets:		
Without donor restrictions (Note 2)	10,558,123	10,152,615
With donor restrictions (Notes 2 and 12)	81,664,395	97,545,029
Total net assets	<u>92,222,518</u>	<u>107,697,644</u>
Total liabilities and net assets	<u>\$ 97,144,383</u>	<u>\$ 113,544,202</u>

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**

**CONSOLIDATED AND COMBINED STATEMENTS OF ACTIVITIES AND
CHANGES IN NET ASSETS**

(with comparative totals for year ended December 31, 2021)

	<u>For the year ended December 31, 2022</u>			<u>For the year ended December 31, 2021</u>
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>	
Revenues:				
Grants and contributions	\$ 151,052	\$ 875,867	\$ 1,026,919	\$ 1,282,463
Service fees	345,064	-	345,064	258,755
Rent	710,453	-	710,453	746,470
Fundraising	190,117	-	190,117	104,189
Total revenues	<u>1,396,686</u>	<u>875,867</u>	<u>2,272,553</u>	<u>2,391,877</u>
Other gains and losses:				
Interest and dividends, net	356,078	2,014,056	2,370,134	1,722,065
PPP loan forgiveness (Note 8)	781,600	-	781,600	827,610
Bad debt recovery	15,000	-	15,000	-
Net unrealized and realized gain (loss) on investments	2,451,477	(17,138,240)	(14,686,763)	9,539,709
Net assets released from restrictions:				
Satisfaction of program restrictions	1,632,317	(1,632,317)	-	-
Other income	17,382	-	17,382	-
Total revenues and other gains	<u>6,650,540</u>	<u>(15,880,634)</u>	<u>(9,230,094)</u>	<u>14,481,261</u>
Expenses:				
Grants/Program services	4,307,848	-	4,307,848	4,937,080
Management and general	1,765,434	-	1,765,434	2,165,168
Fundraising	157,818	-	157,818	13,258
Total expenses	<u>6,231,100</u>	<u>-</u>	<u>6,231,100</u>	<u>7,115,506</u>
Change in net assets	419,440	(15,880,634)	(15,461,194)	7,365,755
Adoption of ASC 842 (Note 2)	(13,932)	-	(13,932)	-
Net assets at beginning of period:				
Riverside Community Health Foundation	9,333,317	97,527,058	106,860,375	99,908,279
Community Settlement Association	819,298	17,971	837,269	423,610
Net assets at end of period	<u>\$ 10,558,123</u>	<u>\$ 81,664,395</u>	<u>\$ 92,222,518</u>	<u>\$ 107,697,644</u>

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**

**CONSOLIDATED AND COMBINED STATEMENTS OF ACTIVITIES AND
CHANGES IN NET ASSETS**

	For the year ended December 31, 2021		
	Without Donor Restriction	With Donor Restriction	Total
Revenues:			
Grants and contributions	\$ 557,153	\$ 725,310	\$ 1,282,463
Service fees	258,755	-	258,755
Rent	746,470	-	746,470
Fundraising	104,189	-	104,189
Total revenues	1,666,567	725,310	2,391,877
Other gains and losses:			
Interest and dividends, net	863,034	859,031	1,722,065
PPP loan forgiveness (Note 8)	827,610	-	827,610
Net unrealized and realized gain on investments	1,016,011	8,523,698	9,539,709
Net assets released from restrictions:			
Satisfaction of program restrictions	3,373,898	(3,373,898)	-
Total revenues and other gains and (losses)	7,747,120	6,734,141	14,481,261
Expenses:			
Grants/Program services	4,937,080	-	4,937,080
Management and general	2,165,168	-	2,165,168
Fundraising	13,258	-	13,258
Total expenses	7,115,506	-	7,115,506
Change in net assets	631,614	6,734,141	7,365,755
Net assets at beginning of period:			
Riverside Community Health Foundation	9,147,057	90,761,222	99,908,279
Community Settlement Association	373,944	49,666	423,610
Net assets at end of period	\$ 10,152,615	\$ 97,545,029	\$ 107,697,644

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**

CONSOLIDATED AND COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

	For the year ended December 31, 2022			
	Program Services	Management and General	Fundraising	Total
Amortization	\$ -	\$ 1,441	\$ -	\$ 1,441
Bank charges	9,068	3,488	4,144	16,700
Community services and grants	245,730	13,686	13,385	272,801
Conferences and meetings	19,343	1,900	-	21,243
Depreciation	-	402,231	-	402,231
Dues and subscriptions	13,752	3,514	-	17,266
Events	47,263	-	2,916	50,179
Insurance	53,201	42,819	908	96,928
Interest	-	141,226	-	141,226
Investment management fees	-	256,039	-	256,039
Mailing and printing	48,785	23,776	2,213	74,774
Professional services	258,927	50,009	17,081	326,017
Public relations	2,127	-	661	2,788
Rent	137,464	-	1,000	138,464
Repairs and maintenance	10,589	165,568	-	176,157
Salaries and related benefits	3,273,682	495,074	98,500	3,867,256
Supplies and software	143,140	85,799	3,027	231,966
Local transportation	6,392	4,130	13,610	24,132
Taxes and licenses	5,817	4,187	373	10,377
Utilities	32,568	70,547	-	103,115
Total	<u>\$ 4,307,848</u>	<u>\$ 1,765,434</u>	<u>\$ 157,818</u>	<u>\$ 6,231,100</u>

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**

CONSOLIDATED AND COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

	For the year ended December 31, 2021			
	Program Services	Management and General	Fundraising	Total
Bank charges	\$ 11,388	\$ 3,767	\$ -	\$ 15,155
Bad debt	14,998	4	-	15,002
Community services and grants	339,760	945	-	340,705
Conferences and meetings	20,860	2,506	-	23,366
Depreciation	-	403,759	-	403,759
Dues and subscriptions	13,883	1,909	-	15,792
Events	30,711	-	3,602	34,313
Insurance	43,936	49,805	-	93,741
Interest	-	155,292	-	155,292
Investment management fees	-	544,631	-	544,631
Mailing and printing	44,339	25,064	1,164	70,567
Professional services	252,701	246,054	1,572	500,327
Public relations	3,603	-	220	3,823
Rent	118,234	-	-	118,234
Repairs and maintenance	3,634	86,181	42	89,857
Salaries and related benefits	3,889,225	494,773	-	4,383,998
Supplies and software	112,913	80,950	6,409	200,272
Local transportation	4,239	2,415	64	6,718
Taxes and licenses	4,581	5,003	185	9,769
Utilities	28,075	62,110	-	90,185
Total	<u>\$ 4,937,080</u>	<u>\$ 2,165,168</u>	<u>\$ 13,258</u>	<u>\$ 7,115,506</u>

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2022	For the year ended December 31, 2021
Cash flows from operating activities:		
Changes in net assets	\$ (15,461,194)	\$ 7,365,755
Adjustments to reconcile changes in net assets to net cash used in operations:		
Net realized and unrealized (gains) losses on securities including interest earned on securities	12,316,629	(11,261,774)
PPP loan forgiveness	(781,600)	(827,610)
Depreciation	402,231	403,759
Right of use amortization	99,251	-
Changes in operating assets and liabilities:		
Accounts receivable	491	(14,663)
Prepaid expenses	914	(17,085)
Inventory	(12,908)	(5,820)
Deferred rent receivable	(202,410)	-
Accounts payable	(59,435)	103,918
Accrued expenses	(33,714)	30,197
Grants payable	44,500	-
Deferred compensation	(88,407)	180,695
Operating lease liability	(97,810)	-
Net cash flows used in operating activities	<u>(3,873,462)</u>	<u>(4,042,628)</u>
Cash flows from investing activities		
Proceeds from sale of investments	34,105,322	63,043,246
Purchases of investments	(29,879,048)	(58,373,990)
Purchases of property and equipment	(89,198)	(443,597)
Net cash flows provided by investing activities	<u>4,137,076</u>	<u>4,225,659</u>
Cash flows from financing activities		
Payments on loan payable	(385,694)	(371,617)
Borrowing on PPP loan payable	-	781,600
Net cash flows (used) provided by financing activities	<u>(385,694)</u>	<u>409,983</u>

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION**

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

	For the year ended December 31, 2022	For the year ended December 31, 2021
Net (decrease) increase in cash and cash equivalents	(122,080)	593,014
Cash and cash equivalents at beginning of period	<u>1,373,778</u>	<u>780,764</u>
Cash and cash equivalents at end of period	<u>\$ 1,251,698</u>	<u>\$ 1,373,778</u>
Supplemental cash flow disclosures:		
Cash paid for interest	<u>\$ 141,226</u>	<u>\$ 155,292</u>
Cash paid for income taxes	<u>\$ 800</u>	<u>\$ 800</u>
Disclosure of non-cash activities:		
Liabilities recorded for the amounts included in the measurement of operating lease right of use asset	<u>\$ 477,467</u>	<u>\$ -</u>
Lease assets obtained in exchange for operating lease liabilities	<u>\$ 463,535</u>	<u>\$ -</u>

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 - NATURE OF BUSINESS

The Riverside Community Health Foundation (formerly known as Riverside Community Hospital Foundation) ("The Foundation or RCHF") is a nonprofit organization formed in May 1973 under the laws of the state of California. RCHF merged with Community Health Corporation, formerly a 25% owner with HCA in ownership of Riverside Community Hospital, in 2003 to consolidate their combined mission of providing grants for inpatient and outpatient services, community health education and providing a platform for delivery of medical and dental services to area low-income residents. RCHF is the successor organization.

Riverside Healthcare Plus, LLC ("RHP LLC") was organized in 2014 under the laws of the State of California. RHP LLC was formed as a subsidiary of RCHF for the purpose of effecting the construction improvements and holding of the new administrative and service facility.

The Community Settlement Association of Riverside ("CSA") was incorporated in 1911 under the California Nonprofit Public Benefit Corporation Law. CSA provides programs and activities to meet the needs of low income residents in Riverside, California. CSA offers programs in social services, family counseling, after school programs, and substance abuse counseling. CSA is funded principally by program service fees, United Way allocations, and donations. The majority of service fees are derived from their DUI program.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and combination

During 2016, the board of directors of RCHF and CSA (combined as "the Organizations") jointly resolved to affiliate the two companies providing financial and organizational support to CSA from RCHF. The President of RCHF also became the Executive Director of CSA, and the boards of directors have common membership. As such the financial statements of the two organizations have been combined for reporting purposes. Each individual organization files its required tax reporting independently.

The consolidated and combined financial statements include the accounts of RCHF and RHP LLC (consolidation) and CSA (combined). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of accounting

The consolidated and combined financial statements of the Organizations have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

Pledges receivable and recognition of contributions revenue

Pledges receivable represent written promises of contributions for various campaigns and expected to be collected during the next year. Management has determined that pledges receivable are fully collectible, therefore, no allowance for uncollectible accounts is considered necessary at December 31, 2022. Pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-605, all pledges which represent unconditional promises to pay are recognized as income and assets in the year secured.

The Organizations report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The Organizations report gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Accounts receivable and recognition of program service revenue

CSA records the current and future revenues as an accounts receivable with an offset to unearned revenue liability for the amount due throughout the program when a client has been directed by the courts to the organization and the client has enrolled in a DUI program by completing and signing a contract for a term assigned by the court. The courts determine the specific program mandated to the client, and the client becomes obligated for the funds due to the program in order to have their drivers licenses reinstated. As clients continue to pay for their programming and classwork, accounts receivable and unearned income are reduced and revenue recognized to the extent of the funds received. The accounts receivable and unearned revenue have been netted together within the accompanying consolidated and combined statements of financial position. The anticipated future revenues to be recognized for clients currently enrolled in the program(s) as of December 31, 2022 and 2021, amounted to \$125,861 and \$60,562, respectively, which will be recognized in the periods earned.

Donated services and in-kind contributions

The contribution of goods and services received, that are measureable, are valued at their estimated fair market value and are recorded as revenue when received. No significant contributions of such goods or services were received during the years ended December 31, 2022 and 2021.

Inventory

Inventories are stated at the lower of cost or net realizable value.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

Property and equipment

Property and equipment is stated on the basis of the Organizations' purchase cost or fair market value upon donation and costs with a fair value of less than \$2,500 are expensed. Depreciation is computed by the straight-line method at rates calculated to amortize the costs of the assets over their estimated useful lives. The general range of useful lives is 5 to 45 years. Depreciation expense for 2022 and 2021 were \$402,231 and \$403,759, respectively.

Income taxes

The Organizations are organized as California nonprofit corporations and have been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and have been determined not to be private foundations under IRC Sections 509(a)(1) and (3), respectively. Each entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Organizations' did not incur Federal and California income tax expense related to unrelated business income tax for the years ended December 31, 2022 and December 31, 2021.

RHP LLC pays \$800 in tax and LLC fees to the State of California annually.

The Organizations file returns in the U.S. Federal jurisdiction and the State of California. The Organizations income tax returns are subject to examination by the appropriate jurisdictions.

Operating lease liability

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and operating lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Organization adopted the standard effective January 1, 2022 and recognized and measured leases existing at January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

The Organizations determines at inception whether a contract is or contains a lease. The Organizations initially records a ROU assets and lease liability for its finance and operating leases based on the discounted future minimum lease payments over the term. The lease term is defined as the noncancelable period of the lease plus any options to extend when it is reasonably certain that the Organizations will exercise the option. As the rate implicit in the Organizations' leases is not readily determinable, the present value of the sum of the lease payments is calculated using a risk free interest rate.

The Organization has elected to adopt the package of practical expedients available in the year of adoption. The Organization has elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Organization's ROU assets. The Organization will make the accounting policy election not to separate lease components from nonlease components.

On January 1, 2022, the Organization recognized a lease liability of \$477,467, which represents the present value of the remaining operating lease payments, discounted using the determined risk free interest rate, and a right-of-use asset of \$463,535. The difference between the ROU lease assets and lease liabilities of \$13,932, was recorded as an adjustment to net assets.

The Organization will make the accounting policy election for short-term leases for existing and future short-term leases for all classes of underlying assets.

Cash and cash equivalents

Cash and cash equivalents include highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Irrevocable trust interest

The Foundation has been granted irrevocable interests in certain charitable trusts. Such interests are evaluated each year and recorded as investments in the Foundation records.

Use of estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**RIVERSIDE COMMUNITY HEALTH FOUNDATION AND
COMMUNITY SETTLEMENT ASSOCIATION
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

Fair value of financial instruments

The Organizations record their assets and liabilities at fair value. Cash and cash equivalents, short term financial instruments, accounts receivable, and accounts payable are reported at their carrying value which approximates fair value because of the short maturity of these instruments and related effective market rates.

Alternative investments

The Foundation uses alternative investment strategies to enhance overall portfolio returns and/or reduce portfolio volatility through the use of investment vehicles that have a low correlation to traditional equity and fixed income asset classes.

Net asset classes

Under ASC 958, an explanation of net assets categories included in the accompanying consolidated and combined financial statements as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. Items that affect this net assets category principally consist of certain grants, contributions, gifts, bequests and related income thereon which are available for general operating purposes. The Organizations' board may designate assets without restrictions for specific operational purposes from time to time.

Net Assets With Donor Restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organizations or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Board-designated endowment funds

During the years ended December 31, 2022 and 2021, the Organizations have reviewed all endowment funds and has determined all endowed funds remain classified as with donor restrictions.

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 Organizations to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2022 or 2021.

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The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets the Board of Directors designated funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets should be managed in a prudent manner to provide for preservation of capital.

Understanding that risk is present in all types of securities and investment styles, the Board of Directors and Investment Committee recognize that some risk is necessary to produce long-term investment results that are sufficient to meet the Foundation's objectives. However, the Investment Managers are instructed to make reasonable efforts to control risk which will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

In addition to the emphasis on capital preservation, it is important that the fund be managed to provide a consistent and superior long-term total rate of return. The return on the fund shall be composed of a flexible balance of income (interest and dividends) combined with net long-term growth of principal.

A portion of the return derived from the portfolio will be used to advance and support the mission of the Foundation. As such, it is expected that 5 percent of the average portfolio market value of the preceding three years will be withdrawn each year. This is known as the spending rate and is documented in a spending policy approved by the Board of Directors.

For the year ended December 31, 2022, the Foundation had the following endowment-related activities:

	2022 Board - Designated Endowment Fund
Balance at the end of December 31, 2021	\$ 95,416,504
Investment income	1,992,036
Net market depreciation	(16,962,373)
Total investment loss	(14,970,337)
Amounts appropriated for expenditure	(663,855)
Net change in endowment funds	(15,634,192)
Balance at the end of December 31, 2022	\$ 79,782,312

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Functional allocation of expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

A portion of General and Administrative costs that benefit multiple functional areas (indirect costs) have been allocated across Programs and Fundraising Services based on the proportion of full-time employee equivalent of a program or fundraising services versus the organizational full-time employee equivalent.

Recent accounting pronouncements

In June 2016, the FASB issued ASU 2016-03, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduces new guidance for estimating credit losses on certain types of financial instruments based on expected losses and the timing of the recognition of such losses. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2022. The Foundation is currently evaluating ASU 2016-03 and has not determined the impact it may have on the Foundation's results of operations, financial position, or cash flows.

NOTE 3 - INVESTMENTS

Available-for-sale investments at December 31, 2022 and 2021 were as follows:

	December 31, 2022		December 31, 2021	
	Cost	Fair Market Value	Cost	Fair Market Value
Cash held for investment	\$ 738,808	\$ 738,808	\$ 3,600,633	\$ 3,600,633
Certificate of deposit	30,700	31,208	30,700	31,176
Corporate stocks	57,518,906	51,661,791	50,971,867	60,905,162
Corporate bonds	15,633,721	13,325,267	13,426,163	13,326,681
Tangible assets	36,637	31,495	12,823	33,604
Alternative investments	14,948,530	18,265,320	20,295,815	22,699,536
	<u>\$ 88,907,302</u>	<u>\$ 84,053,889</u>	<u>\$ 88,338,001</u>	<u>\$ 100,596,792</u>

A significant amount of the above investments are held in three trust accounts at three investment firms. Two of the investment firms act as the investment agent for these assets, execute all investment transactions based upon investment policies of the Foundation, and are in physical control of all securities. The Foundation relies upon the investment firms custodians' accounting system for the recording and processing of all investment related information.

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NOTE 4 - FAIR VALUE OF INVESTMENTS

The Foundation adopted Financial Accounting Standards Board Accounting Standards Codification FASB ASC 820, which provides a framework for measuring fair value under GAAP. FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

FASB ASC 820 also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 - Inputs are unobservable inputs for the asset or liability.

It is the Foundation's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon management's own estimates, are often calculated based on the portfolio manager's current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future value.

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The Foundation's investment in debt and equity securities are recorded at fair value on a recurring basis. The value is developed from market data. As such, the investments are classified as Level 1. Unrealized and realized gains and losses are reported in the statement of activities. Net unrealized and realized gains and (losses) for the years ended December 31, 2022 and 2021 were \$(13,917,777) and \$8,559,595, respectively. Realized gains or (losses) for securities sold at fair market value are recognized when incurred. The cost basis of the investments at December 31, 2022 and 2021 were \$73,152,627 and \$64,398,030, respectively. Investment interest and dividend income is reported net of investment management fees for the years ended December 31, 2022 and 2021.

Alternative investments

Management determines the fair value of the Foundation's alternative investments using third party administrators that independently calculate the funds' fair value/NAV on a weekly or sometimes daily basis. The administrators typically receive a direct feed from the funds' prime broker and price the funds securities independently of the manager and classifies the fair value measurement of alternative investments as Level 1, 2, and 3. Net unrealized and realized gains (losses) are reported in the statement of activities. Net unrealized and realized gains (losses) for the years ended December 31, 2022 and 2021 were \$(768,986) and \$980,114, respectively. Realized gains or losses for securities sold at fair market value are recognized when incurred. At December 31, 2022 and 2021, the cost basis of the investments were \$14,948,530 and \$20,295,815, respectively.

Risk and uncertainties

The Foundation's level 3 investments consists of alternative investments, as noted above, which is exposed to various risks, such as interest rate, market, and credit risk, as well as valuation assumptions based on earnings, cash flows, and other such techniques. Due to the level of risk associated with alternative investments and to uncertainties inherent in estimates and assumptions, it is at least reasonably possible that changes in the value of the alternative investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Fair value measurement

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Certificate of deposit	\$ 31,208	\$ 31,208	\$ -	\$ -
Corporate stocks	51,661,791	51,661,791	-	-
Corporate bonds	13,325,267	13,325,267	-	-
Tangible assets	31,495	-	31,495	-
Alternative investments	18,265,320	-	-	18,265,320
	<u>\$ 83,315,081</u>	<u>\$ 65,018,266</u>	<u>\$ 31,495</u>	<u>\$ 18,265,320</u>

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	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Certificate of deposit	\$ 31,176	\$ 31,176	\$ -	\$ -
Corporate stocks	60,905,162	60,905,162	-	-
Corporate bonds	13,326,681	13,326,674	-	7
Tangible assets	33,604	33,604	-	-
Alternative investments	22,699,536	-	-	22,699,536
	<u>\$ 96,996,159</u>	<u>\$ 74,296,616</u>	<u>\$ -</u>	<u>\$ 22,699,543</u>

Changes in level 3 instruments

The table below summarizes the activity for investments in debt and equity securities classified as alternative investments measured at fair value on recurring basis using significant Level 3 inputs for the years ended December 31, 2022 and 2021.

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Balance at beginning of year	\$ 22,699,536	\$ 26,870,254
Purchases	143,766	10,628,195
Withdrawals	(3,964,535)	(15,956,844)
Interest	155,539	177,817
Net realized/unrealized gains (losses) included in income	(768,986)	980,114
Balance at end of year	<u>\$ 18,265,320</u>	<u>\$ 22,699,536</u>

NOTE 5 - EMPLOYEE BENEFIT PLANS

The Foundation employees are participants in a voluntary salary reduction plan pursuant to Sec. 403(B) of the Internal Revenue Code. Employer contributions are on a discretionary basis.

During 2003, the Foundation established a deferred compensation plan for certain key employees pursuant to Section 457 of the Internal Revenue Code. Under the plan, an employee may elect to defer up to \$18,000 of compensation per year. The Foundation shall fund the deferred compensation plan equal to 12% of the salary on behalf of the employees. The total liability of the deferred compensation plan as of December 31, 2022 and 2021 were \$721,240 and \$809,647, respectively, which was funded in its entirety.

The Foundation's total contribution to all benefit plans during the years ended December 31, 2022 and 2021 were \$134,681 and \$256,217, respectively.

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NOTE 6 - TERM LOAN PAYABLE

During December 2019, the Foundation entered into a loan payable agreement with a bank to refinance the prior outstanding debt. The Foundation borrowed \$4,326,000, bearing interest at 4%, and maturing January 1, 2030. The loan is payable in monthly principal and interest installments of \$43,909. This note is secured by all real property held by the Foundation. On December 31, 2022 and 2021, the balance of the term was \$3,241,199 and \$3,626,893, respectively.

The following maturities of the loan payable for the years ended:

Years ending December 31,	
2023	\$ 402,960
2024	419,292
2025	436,934
2026	454,987
2027	473,786
Thereafter	1,053,240
	<u>\$ 3,241,199</u>

NOTE 7 - OPERATING LEASE LIABILITY

The Foundation has obligations as a lessee for their corporate facilities with initial noncancelable terms in excess of one year. The Foundation classified these leases as operating leases. The Foundation's leases do not include restrictive financial or other covenants. Payments due under the lease contracts include fixed payments plus variable payments. Such variable payments are for the leased building's property taxes, insurance, and maintenance. These variable lease payments are not included in lease payments used to determine the lease liability and are recognized as variable costs when incurred.

The balance of the right of use asset is as follows as of:

	December 31, 2022
Right of use assets, beginning of year	\$ 481,258
Additions during the year	195,235
Accumulated amortization	(312,209)
Right of use assets, end of year	<u>\$ 364,284</u>

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The maturities of lease liabilities were as follows:

Years ending December 31,	
2023	\$ 123,316
2024	127,013
2025	101,324
2026	45,378
2027	7,600
Total remaining lease payments	404,631
Less: interest	(24,974)
Present value - operating lease liability	379,657
Less: current portion	(110,853)
Operating lease liability - long-term portion	\$ 268,804

The following summarizes the weighted average remaining lease term and discount rate for the Foundation's operating leases:

	December 31, 2022
Weighted average remaining lease term	3.78 years
Weighted average discount rate	4%

NOTE 8 - PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

On April 15, 2020 and February 3, 2021, the Foundation received loan proceeds in the amounts of approximately \$827,610 and \$781,600, respectively, under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable during the loan period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The Foundation believes it has used the proceeds from the PPP Loan in accordance with the requirements of the CARES Act, primarily for payroll costs and to retain workers.

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Pursuant to the terms of the CARES Act, the Foundation applied for and may be granted forgiveness for all or a portion of the PPP Loan, if and to the extent that the Foundation satisfies all of the requirements applicable to forgiveness of the PPP Loan. Such forgiveness will be determined in part based on the use of PPP Loan proceeds in accordance with the terms of the CARES Act during the 24 week period after loan origination and the maintenance or achievement of certain employee and compensation levels. The Foundation was granted forgiveness on the PPP loans on March 26, 2021 and May 2, 2022, respectively. The funds received from the forgiveness of the PPP loan was received by the end of the year and is included in other income.

NOTE 9 - GIFT ANNUITY FUND

During the fiscal year ended May 31, 1995, the Foundation established a gift annuity program as an additional means to increase contributions. Under this program, the Foundation received cash and investments from donors and provided the donors with an Annuity Contract that promised fixed payments to named beneficiaries at a future date. At the time a donation is received, the Foundation calculates the estimated future liability for annuity payments and records this amount. The State of California regulates such programs and requires a reserve amount to be separately invested for all annuity contracts; funds in this reserve account can only be used to reimburse the Foundation each year for the annuity payments made. Contribution revenue is recorded for that part of the donation that is in excess of the estimated future liability. There were no new annuitants added in 2022 or 2021. The Foundation's total beneficiary distributions during the years ended December 31, 2022 and 2021 were \$630 and \$630, respectively.

NOTE 10 - CONCENTRATIONS AND CREDIT RISK

Cash and cash equivalents

The Foundation maintains its cash balances at three financial institutions. Accounts at each institution are guaranteed by the Federal Deposit Insurance Corporation, (FDIC) up to \$250,000. At various times during the years ended December 31, 2022 and 2021, the Foundation's cash balances exceeded the FDIC insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash.

Contributors and donors

Approximately 94% and 89% of the Foundation's accounts receivable at December 31, 2022 and 2021, respectively, were due from significant contributors and donors.

Vendors

Approximately 38% and 48% of the Foundation's accounts payable at December 31, 2022 and 2021, respectively, were due from significant vendors.

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NOTE 11 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets available within one year of the consolidated and combined statements of financial position date for general expenditure are as follows:

	December 31, 2022	December 31, 2021
Cash and cash equivalents	\$ 1,251,698	\$ 1,373,778
Accounts receivable, net of unearned revenue	339,276	339,767
Investments	84,053,889	100,596,792
Total financial assets available within one year	<u>85,644,863</u>	<u>102,310,337</u>
Less: amounts unavailable for general expenditures within one year due to:		
Board-designated endowment	79,782,312	95,416,504
Restricted by donors with purpose restrictions	1,850,875	2,097,158
Restricted by donors in perpetuity	31,208	31,367
Total amounts unavailable for general expenditures within one year	<u>81,664,395</u>	<u>97,545,029</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 3,980,468</u>	<u>\$ 4,765,308</u>

The Organizations board-designated endowment of \$79,782,312 is subject to an annual spending rate of 5 percent as described in Note 2. Although the Organizations do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

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NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

	December 31, 2022	December 31, 2021
	<u> </u>	<u> </u>
Subject to expenditure for specified purposes:		
Stebler Fund	\$ 919,552	\$ 1,117,841
Arlanza Capital Campaign	655,098	655,098
Other grants and programs	307,432	355,586
Total subject to expenditure for specified purposes	<u>1,882,082</u>	<u>2,128,525</u>
Endowments:		
Board-designated endowment	<u>79,782,313</u>	<u>95,416,504</u>
Total endowments	<u>79,782,313</u>	<u>95,416,504</u>
Total net assets with donor restrictions	<u><u>\$ 81,664,395</u></u>	<u><u>\$ 97,545,029</u></u>

NOTE 13 - COMMITMENTS

Lease expense

The Organizations maintain operating leases with third parties, to lease commercial property in Riverside, California. The monthly lease amounts range from \$3,376 to \$6,748, with certain leases having annual increases and expire on various dates from May 18, 2025 through February 28, 2027. Rent expense for the year ended December 31, 2021 was \$118,234.

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Lease revenue

The Organizations lease land and buildings it owns in Riverside, California as operating leases under the adopted FASB ASC 842. The leases require various monthly payments that range from \$12,092 to \$33,112, through August 31, 2025. Rental income attributable to these properties for the years ended December 31, 2022 and 2021 was \$710,453 and \$746,470, respectively.

Future minimum rental commitments are as follows:

Years ending December 31,	
2023	\$ 607,230
2024	607,230
2025	404,820
	<u>\$ 1,619,280</u>

NOTE 14 - SUBSEQUENT EVENTS

Subsequent to December 31, 2022, in July 2023, the Community Settlement Association of Riverside has decided to end the DUI program.

Management has evaluated subsequent events through October 3, 2023, the date the financial statements were available to be issued, and concluded that there were no other events that require recording or disclosure in the consolidated and combined financial statements as of December 31, 2022.