



Report of Independent Auditors
and Financial Statements for

Seacrest Foundation

June 30, 2016

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Audit Committee of the Board of Directors
Seacrest Foundation

Report on Financial Statements

We have audited the accompanying financial statements of Seacrest Foundation, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

MOSS ADAMS_{LLP}

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seacrest Foundation as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Los Angeles, California
October 28, 2016

SEACREST FOUNDATION
STATEMENT OF FINANCIAL POSITION
YEAR ENDED JUNE 30, 2016

ASSETS

Investments	\$ 23,124,217
Pledges receivable	361,775
Accounts receivable - related party	209,470
Interest receivable	<u>63,364</u>
Total Assets	<u><u>\$ 23,758,826</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 21,000
Grants payable	<u>796,991</u>
Total Liabilities	817,991
Net Assets:	
Unrestricted	18,672,618
Temporarily restricted	3,524,362
Permanently restricted	<u>743,855</u>
Total Net Assets	<u><u>22,940,835</u></u>
Total Liabilities and Net Assets	<u><u>\$ 23,758,826</u></u>

**SEACREST FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support:				
Investment return	\$ 375,921	\$ 8,015	\$ -	\$ 383,936
Contributions	-	393,766	100,000	493,766
Net assets released from restriction	796,991	(796,991)	-	-
Total Revenue and Support	1,172,912	(395,210)	100,000	877,702
Expenses:				
General and administrative	72,581	-	-	72,581
Grant to Jewish Home Care Services	10,000	-	-	10,000
Grant to San Diego Hebrew Homes	786,991	-	-	786,991
Total Expenses	869,572	-	-	869,572
Change in Net Assets	303,340	(395,210)	100,000	8,130
Net Assets, beginning	18,369,278	3,919,572	643,855	22,932,705
Net Assets, ending	<u>\$ 18,672,618</u>	<u>\$ 3,524,362</u>	<u>\$ 743,855</u>	<u>\$ 22,940,835</u>

SEACREST FOUNDATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

Cash Flows from Operating Activities:	
Change in net assets	\$ 8,130
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized loss on investments	315,089
Change in discount on pledges receivable	(31,104)
Changes in operating assets and liabilities:	
Accounts receivable - related party	(130,419)
Pledges receivable	107,500
Interest receivable	(6,883)
Accounts payable	1,800
Grants payable	796,991
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Net Cash Provided by Operating Activities	1,061,104
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Cash Flows from Investing Activities:	
Purchase of investments	(3,337,286)
Proceeds from sale of investments	2,276,182
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Net Cash Used by Investing Activities	(1,061,104)
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Net Change in Cash	-
	<hr/>
Cash, beginning	-
	<hr/>
Cash, ending	\$ -
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SEACREST FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of activities – Seacrest Foundation (Foundation) is a California nonprofit public benefit corporation formed in August 2002 to support San Diego Hebrew Homes and charitable activities that are connected with San Diego Hebrew Homes (SDHH).

Per the bylaws, the Foundation’s principal purpose is to support SDHH, Guardians of San Diego Inc., and Jewish Home Care Services Inc. in their provision of service to the elderly Jewish community of San Diego County, or to support a successor to that supported organization in the event that they no longer principally serves the elderly Jewish community of San Diego County. The Board of Directors has the right to distribute, in any fiscal year, up to 5% of the fair market value of the net assets held as of the end of the preceding fiscal year. Any distribution in excess of 5% requires a two-thirds majority. The current Board of Directors is comprised of 8 members.

Financial statement presentation – The Foundation reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- *Unrestricted net assets* represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- *Temporarily restricted net assets* consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Foundation may spend the funds.
- *Permanently restricted net assets* are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Fair value measurements – The Foundation defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Foundation applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. The three levels are defined as follows:

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|---------|---|
| Level 1 | Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. |
| Level 2 | Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

SEACREST FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of receivables and payables approximates fair value as of June 30, 2016, due to the relative short maturities of these instruments.

Investments – The Foundation's investments include various marketable securities, which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near-term, and such changes could materially affect the amounts reported in the financial statements. The fair value is determined using quoted market prices. Investment gains and losses are included in the changes in net assets in the statement of activities.

Investment return on restricted assets is reported as an increase in unrestricted net assets if the asset restriction expires in the reporting period in which the income is recognized. All other restricted investment return is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Pledges receivable – Unconditional written pledges of private gifts to the Foundation in the future are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Unconditional written pledges must be evidenced by donor signature and deemed legally enforceable by the Board of Directors. Conditional pledges, including intentions to pledge, are recognized as revenue when the funds are actually received. After pledges are originally recorded, an allowance for uncollectible pledges may be established based on specific circumstances.

Revenue and support – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed services – Many individuals volunteer their time and perform a variety of tasks that assist the Foundation with various programs. The services do not meet the criteria for recognition as a contribution, and are not reflected in the financial statements. The fair market value of contributed professional services is reported as support and an expense in the period in which the services are performed. Contributions of noncash assets are recorded at their fair values in the period received.

Grants – The Foundation recognizes grant expense and corresponding grant payable when grants are approved by the Board for distribution to recipient organizations.

SEACREST FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

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

Income taxes – The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Foundation has been determined by the Internal Revenue Service not to be private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The Foundation may be subject to tax on income which is not related to its exempt purpose. The Foundation reported no unrelated business income for the year ended June 30, 2016.

The Foundation follows accounting standards related to the recognition of uncertain tax positions. These standards provide detailed guidance for financial statement recognition, measurement and disclosure of uncertain tax positions taken or expected to be taken on the income tax returns. The Foundation will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. Management has determined that the Foundation does not have any uncertain tax positions as of June 30, 2016. The Foundation files informational and income tax returns in the United States and various state and local jurisdictions.

Recent accounting standards – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. As compared to existing guidance on revenue recognition, ASU No. 2014-09 will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The largely principles-based guidance in ASU No. 2014-09 will provide a framework for addressing revenue recognition issues comprehensively for entities that apply U.S. GAAP in addition to those entities that apply International Financial Reporting Standards. The guidance in ASU No. 2014-09 also improves U.S. GAAP by reducing the number of requirements to which an entity must consider in recognizing revenue, as well as requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The effective date of ASU No. 2014-09 was deferred by ASU No. 2015-14, *Deferral of the Effective Date*, to annual periods beginning after December 15, 2017. Management is currently evaluating the impact of the provisions of ASU No. 2014-09 on the financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40) – Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*. ASU No. 2014-15 is intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. This guidance is effective for the Company in the annual period ending December 31, 2017 and annual periods thereafter. Management is currently evaluating the impact of the provisions of ASU No. 2014-15 on the financial statements.

SEACREST FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU No. 2016-04, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which improves the current net asset classification requirements and the information presented in financial statements and notes about an entity’s liquidity, financial performance, and cash flows. The update removes the requirement to present three classes of net assets with two classes, net assets with donor restrictions and net assets without donor restrictions. The update also removes the requirement to present or disclose the indirect method (reconciliation) if using the direct method for the statement of cash flows as well as added several additional enhanced disclosures to the notes. The amendments in this update are effective for fiscal years beginning after December 15, 2017 and interim periods beginning after December 15, 2018, with application to interim financial statements permitted but not required in the initial year of application. Management is currently evaluating the impact of the provisions of ASU No. 2016-04 on the combined financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Foundation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Foundation’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

The Foundation has evaluated subsequent events through October 28, 2016, which is the date the financial statements were issued.

Note 2 – Pledges Receivable

Pledges receivable consist of the following as of June 30, 2016:

Gross pledges receivable	\$ 405,928
Present value discount - 6%	(44,153)
Allowance for doubtful pledges	-
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	\$ 361,775
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Due in one year or less	\$ 105,928
Due after one year through five years	300,000
Due thereafter	-
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	\$ 405,928
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SEACREST FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 3 – Investments

Investment return and its classification for the year ended June 30, 2016 consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Dividends and interest	\$ 636,541	\$ 17,914	\$ 654,455
Investment expense	(65,160)	(3,430)	(68,590)
Unrealized and realized losses	<u>(195,460)</u>	<u>(6,469)</u>	<u>(201,929)</u>
	<u>\$ 375,921</u>	<u>\$ 8,015</u>	<u>\$ 383,936</u>

The following table presents the fair value of financial instruments in the fair value hierarchy as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Corporate bonds	\$ 5,462,955	\$ -	\$ -	\$ 5,462,955
Certificates of deposit	-	2,463,591	-	2,463,591
Corporate preferred securities	1,338,738	-	-	1,338,738
Money market funds	986,208	-	-	986,208
Foreign corporate bonds	-	360,945	-	360,945
Corporate trusts	-	175,313	-	175,313
Mutual funds:				
U.S. equity-large cap	4,774,270	-	-	4,774,270
Developed non-U.S. equity	2,282,738	-	-	2,282,738
U.S. equity-small/mid-cap	1,751,054	-	-	1,751,054
Emerging market	956,256	-	-	956,256
Growth equity	811,875	-	-	811,875
Global high yield fixed income	793,676	-	-	793,676
Real estate	668,662	-	-	668,662
Corporate preferred	236,342	-	-	236,342
Equity income funds	<u>61,594</u>	<u>-</u>	<u>-</u>	<u>61,594</u>
	<u>\$ 20,124,368</u>	<u>\$ 2,999,849</u>	<u>\$ -</u>	<u>\$ 23,124,217</u>

The fair value of certificates of deposit and foreign bonds are determined by discounting the related cash flow based on the current yield on similar instruments with comparable durations considering the credit worthiness of the issuer.

Corporate trusts are reported at fair value based on the net asset value estimates provided by the custodian.

SEACREST FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 4 - Endowment

The Foundation's endowment consists of two individual funds established for separate purposes. The Foundation's policy is to administer the endowment fund consistent with donor wishes and the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The Board of Directors of the Foundation has interpreted the UPMIFA as requiring the preservation of the fair value of the original 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 that is consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Foundation and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policies of the Foundation

At June 30, 2016, the endowment net asset composition by type of fund consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 62,827	\$ 743,855	\$ 806,682

SEACREST FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 4 - Endowment (continued)

Changes in endowment net assets for the year ended June 30, 2016, consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 61,501	\$ 643,855	\$ 705,356
Investment return:				
Interest and dividends	-	17,914	-	17,914
Investment expenses	-	(3,430)	-	(3,430)
Realized and unrealized gain	-	(6,469)	-	(6,469)
Total investment return	-	8,015	-	8,015
Grant to SDHH	-	(6,689)	-	(6,689)
Contributions	-	-	100,000	100,000
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 62,827</u>	<u>\$ 743,855</u>	<u>\$ 806,682</u>

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies in the year ended June 30, 2016.

Return objectives and risk parameters – The Foundation has adopted investment and spending policies for endowment assets that attempt to provide funding for the operating expenses of programs supported by its endowment.

Investment strategy – The investment strategy of the Foundation is to develop a diversified portfolio of investments. The Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending policy – The Foundation has a policy of appropriating for distribution each year an amount equal to one percent (1%) per calendar quarter of the Calculated Average Endowment Fund Value, equaling four percent (4%) per annum. No amounts will be appropriated to the extent that such distributions will result in the endowment assets falling below the historic contribution amount. This policy is consistent with the donor instructions. This is consistent with the Foundation’s objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

SEACREST FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 5 – Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2016:

Sunshine Brooks endowment	\$ 2,805,400
Restricted for the benefit of SDHH:	
SDHH expansion	373,093
Katzin resident assistance	62,827
SDHH resident assistance	202,801
Guardians of San Diego	30,655
Home Care services	49,586
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	\$ 3,524,362
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The Sunshine Brooks general endowment, contributed by SDHH to the Foundation, states that the Board of Directors may release and use the principal of the fund only in emergency situations. No endowment funds were released during the year ended June 30, 2016.

Permanently restricted net assets consist of the following as of June 30, 2016:

Fisher Fund, income restricted for SDHH resident assistance	\$ 100,000
Silverman Fund, income restricted for Katzin resident assistance	643,855
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	\$ 743,855
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Note 6 – Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 7 – Related Parties

Accounts receivable – related party – The Foundation at times receives contributions from donors which are paid directly to SDHH with the noted intent to be for the Foundation. These contributions are recorded as an accounts receivable-related party and are paid to the Foundation during the year. The amounts due to the Foundation from SDHH are approximately \$209,470 at June 30, 2016.

Grant expense – As part of its operating activities, the Foundation makes grants to the organizations it supports. As of and for the year ended June 30, 2016, the Foundation had grant payable and expense to SDHH of \$786,991 and Jewish Home Care Services of \$10,000, respectively.

SEACREST FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 7 – Related Parties (continued)

Management agreement – The Foundation has a management agreement with SDHH for the performance of administrative services for a monthly fee of \$2,500 plus billable expenses as defined in the agreement. The agreement expired on June 30, 2016. The Foundation paid SDHH \$30,000 in monthly fees and billable expenses for the year ended June 30, 2016 which is included in general and administrative expenses in the statement of activities. The Foundation has a new philanthropic and management agreement with SDHH that is in effect as of July 1, 2016 for the performance of philanthropic and operational administrative services for a monthly fee of \$2,500 plus billable expenses as defined in the agreement. The agreement expires on June 30, 2021.

Guaranty on bonds – On August 27, 2010, the Colorado Educational and Cultural Authority (Issuer) issued \$8 million of fixed rate Revenue Bonds Series H-1 (Bonds) on behalf of SDHH and Seacrest Holdings Corp. (collectively the Borrower). The Bonds have been issued pursuant to and secured by a financing agreement (Agreement) between the Issuer, City National Bank (Bondholder and Lender) and the Borrower. The term of the Bonds is 10 years, beginning October 1, 2010. Principal and interest payments are due monthly at an interest rate of 4.67%. The Bonds are secured by a first trust deed on real property held by Seacrest Holdings Corp. and a guaranty by the Foundation. The balance of the Bonds at June 30, 2016 was \$564,488.

Note 8 – Risks and Uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.