

**DESERT HEALTHCARE FOUNDATION**

**PALM SPRINGS, CALIFORNIA**

**INDEPENDENT AUDITORS' REPORT AND  
FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**DESERT HEALTHCARE FOUNDATION**

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**INDEPENDENT AUDITORS' REPORT**

To the Honorable Board of Directors  
of the Desert Healthcare Foundation  
Palm Springs, California

We have audited the accompanying financial statements of Desert Healthcare Foundation (Foundation), a not-for-profit organization and a component unit of the Desert Healthcare District, which comprise the statement of financial position, as of June 30, 2017 and the related statements of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements.

**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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Desert Healthcare Foundation as of June 30, 2017 and the changes in its net assets and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## **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.

## **Report on Comparative Summarized Information**

We have previously audited the Foundation's 2016 financial statements, and our report dated October 5, 2016 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Culver City, California  
October 5, 2017

**DESERT HEALTHCARE FOUNDATION**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2017**

**WITH COMPARATIVE TOTALS FOR JUNE 30, 2016**

			<u>Totals</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,017,563	\$ -	\$ 2,017,563	\$ 206,897
Grants receivable	14,477		14,477	102,047
Prepaid expenses	2,500		2,500	2,800
Accrued interest and dividend receivable	11,532		11,532	9,781
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	2,046,072		2,046,072	321,525
	<hr/>	<hr/>	<hr/>	<hr/>
<b>OTHER ASSETS</b>				
Contributions receivable - charitable remainder trusts		185,939	185,939	204,175
Assets held in charitable remainder trusts		86,207	86,207	78,576
Investments	2,410,881		2,410,881	2,352,838
	<hr/>	<hr/>	<hr/>	<hr/>
Total other assets	2,410,881	272,146	2,683,027	2,635,589
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 4,456,953</b>	<b>\$ 272,146</b>	<b>\$ 4,729,099</b>	<b>\$ 2,957,114</b>
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<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued payroll	\$ 16,312	\$ -	\$ 16,312	\$ 2,838
Deferred grant income	2,000,000		2,000,000	
Grants payable - current	217,292		217,292	647,106
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	2,233,604		2,233,604	649,944
	<hr/>	<hr/>	<hr/>	<hr/>
Long-term liabilities:				
Grants payable - long-term	200,000		200,000	200,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total long-term liabilities	200,000		200,000	200,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	2,433,604		2,433,604	849,944
	<hr/>	<hr/>	<hr/>	<hr/>
<b>NET ASSETS</b>	<b>2,023,349</b>	<b>272,146</b>	<b>2,295,495</b>	<b>2,107,170</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,456,953</b>	<b>\$ 272,146</b>	<b>\$ 4,729,099</b>	<b>\$ 2,957,114</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements

**DESERT HEALTHCARE FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Unrestricted	Temporarily Restricted	Totals	
			2017	2016
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 4,980	\$ -	\$ 4,980	\$ 105,305
Grants and bequests	120,306		120,306	405,752
Interest and dividends	57,334		57,334	73,802
Investment gains	58,111		58,111	86,039
Sale of mineral rights	55,000		55,000	
Miscellaneous income	18,406		18,406	
Change in value - charitable trusts		(10,605)	(10,605)	12,333
Total support and revenue	314,137	(10,605)	303,532	683,231
<b>EXPENSES</b>				
Grants and services	60,590		60,590	368,233
Management and general	54,617		54,617	64,009
Total expenses	115,207		115,207	432,242
<b>INCREASE (DECREASE) IN NET ASSETS</b>	198,930	(10,605)	188,325	250,989
<b>NET ASSETS, BEGINNING OF YEAR</b>	1,824,419	282,751	2,107,170	1,856,181
<b>NET ASSETS, END OF YEAR</b>	\$ 2,023,349	\$ 272,146	\$ 2,295,495	\$ 2,107,170

The accompanying notes are an integral part of these financial statements

**DESERT HEALTHCARE FOUNDATION**

**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Grants and Services</u>	<u>Management and General</u>	<u>Totals</u>	
			<u>2017</u>	<u>2016</u>
Grants and social services	\$ 60,589	\$ -	\$ 60,589	\$ 368,233
Other expenses		369	369	210
Professional fees		54,248	54,248	63,799
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 60,589</b>	<b>\$ 54,617</b>	<b>\$ 115,206</b>	<b>\$ 432,242</b>

The accompanying notes are an integral part of these financial statements

**DESERT HEALTHCARE FOUNDATION**

**STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from public support	\$ 2,212,856	\$ 844,010
Cash paid to suppliers	(531,247)	(1,151,690)
Miscellaneous cash receipts	73,406	
Interest and dividends received	55,583	64,021
Net cash provided (used) by operating activities	<u>1,810,598</u>	<u>(243,659)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investment activity	<u>68</u>	<u>374,715</u>
Net cash provided by investing activities	<u>68</u>	<u>374,715</u>
<b>NET INCREASE IN CASH</b>	1,810,666	131,056
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF FISCAL YEAR</b>	<u>206,897</u>	<u>75,841</u>
<b>CASH AND CASH EQUIVALENTS, END OF FISCAL YEAR</b>	<u>\$ 2,017,563</u>	<u>\$ 206,897</u>
<b>RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 188,325	\$ 250,989
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Net (gains) on investments	(58,111)	(86,039)
Increase (decrease) in assets		
Grants receivable	87,570	332,953
Other current assets	300	(300)
Charitable trusts	10,605	(12,333)
Accrued interest and dividends	(1,751)	(9,781)
Increase (decrease) in liabilities		
Accounts payable	13,474	(31,698)
Deferred grant income	2,000,000	
Grants payable	(429,814)	(687,450)
Total adjustments	<u>1,622,273</u>	<u>(494,648)</u>
Net cash provided (used) by operating activities	<u>\$ 1,810,598</u>	<u>\$ (243,659)</u>

The accompanying notes are an integral part of these financial statements



# **DESERT HEALTHCARE FOUNDATION**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Nature of Activities**

Desert Healthcare Foundation (Foundation), a not-for-profit organization, is a health and welfare organization created to identify the health care needs of the Desert Healthcare District (District) and to work toward treating those needs through various programs and services. The Foundation is a component unit of the District due to the nature and significance of their relationship with the District. The Foundation operates primarily in the Coachella Valley area of Southern California and, as such, is subject to market conditions, which could affect charitable giving and the realization of recorded asset values at various times.

#### **Basis of Accounting**

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

#### **Basis of Presentation**

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation has temporarily restricted net assets of \$272,146 at June 30, 2017. The Foundation did not have any permanently restricted net assets at June 30, 2017.

#### **Use of Estimates**

The preparation of 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.

#### **Revenue Recognition**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are 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 is reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

#### **Donated Facilities and Services**

The District has provided to the Foundation the use of its office facilities at no charge. For the fiscal year ended June 30, 2017 the District allocated to the Foundation \$25,524 related to personnel charges. The value of the on-site facilities is not reflected in these statements, as they do not meet the criteria for recognition.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

# **DESERT HEALTHCARE FOUNDATION**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Investments**

Investments are stated at fair value. Realized and unrealized gains and losses on investments are recognized as changes in net assets in the periods in which they occur.

#### **Income Taxes**

The Foundation is a not-for-profit organization that is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), and from California franchise taxes under related state tax regulations and classified by the Internal Revenue Service as other than a private foundation. The Foundation may be subject to tax on income from any unrelated business operations. The Foundation does not currently have any unrelated business operations.

The Foundation's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

#### **Memorandum Totals**

The financial statements include certain prior-year summarized comparative 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, such information should be read in conjunction with the Foundation's financial statements for the prior year, from which the summarized information was derived.

### **2. FAIR VALUE MEASUREMENTS**

The Foundation applies Generally Accepted Accounting Principles (US GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis.

GAAP establishes 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 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- 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 are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

**DESERT HEALTHCARE FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**2. FAIR VALUE MEASUREMENTS (Continued)**

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

At June 30, 2017 all investments are measured at fair value on a recurring basis and were valued at Level 1 inputs (quoted prices in active markets for identical assets). Fair value for investments at June 30, 2017 was \$2,410,881. (See Note 3)

**3. CASH AND INVESTMENTS**

Demand Deposits

The carrying amounts, at June 30, 2017, of the Foundation's cash deposits were \$1,984,893 and money market funds were \$32,670. Bank balances were \$1,984,893 at June 30, 2017. The Foundation occasionally carries cash balances in banks in excess of the Federal Deposit Insurance Corporation's insurance limits.

Investments

At June 30, 2017, investments consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Corporate bonds	\$ 873,796	\$ 891,720	\$ 17,924
U.S. Government agencies	263,597	264,575	978
U.S. Treasury notes	429,340	434,550	5,210
Municipal bonds	90,685	94,228	3,543
Marketable securities	<u>557,886</u>	<u>725,808</u>	<u>167,922</u>
Total Investments	<u>\$2,215,304</u>	<u>\$2,410,881</u>	<u>\$ 195,577</u>

**DESERT HEALTHCARE FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**4. SPLIT INTEREST AGREEMENTS**

Charitable Remainder Trusts

The Foundation was named trustee in one charitable remainder unitrust in which the trustee has a fiduciary responsibility to maintain and invest the trust assets prudently.

Trust I (dated April 12, 1989): Upon the death of the donor, 100% of the principal and income of the trust that is not required to have been distributed to the life beneficiary shall become the property of the Foundation. The donor passed away May 30, 2015. As of June 30, 2017 the Foundation has a receivable in the amount of \$86,207.

The Foundation was named beneficiary to two additional charitable remainder unitrusts (whose trustees are someone other than the Foundation), all of which are recorded at fair value. The general terms of the two trusts are as follows:

Trust 4 (dated October 3, 1989): The lesser of the trust income or 8% of the net fair market value of trust assets is to be distributed to the life beneficiary annually. Upon the death of the life beneficiary, 50% of the principal and income not required to have been distributed to the life beneficiary shall become the property of the Foundation, to be used for cancer treatment, or for general purposes if a cure for cancer has been found. At December 31, 2016, which is the most current information available, the estimated present value of future cash flows was \$119,011.

Trust 7 (dated May 17, 1990): 8.5% of the net fair market value of trust assets is to be distributed to the life beneficiary annually. Upon the death of the life beneficiary, all of the principal and income not required to have been distributed to the life beneficiary shall become the property of the Foundation, to be used for general purposes. The estimated present value of future cash flows at June 30, 2017 was \$66,928.

**DESERT HEALTHCARE FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**5. GRANTS AND SERVICES PAYABLE**

Grants and services provided by the Foundation consisted of the following for the fiscal years ended June 30:

	<u>2017</u>	<u>2016</u>
Grant for Health Portal	\$ 242,451	\$ 298,016
Grant for Swim Lessons	97,296	257,578
Boys and Girls Stabilization		155,000
Alliance-School Program		82,987
California Endowment and School District	37,757	37,757
North Palm Springs		15,768
Desert Highland Gateway Health & Wellness	<u>39,788</u>	
	<u>\$ 417,292</u>	<u>\$ 847,106</u>

**6. TEMPORARILY RESTRICTED NET ASSET RESTRICTIONS**

Temporarily restricted net assets are subject to restrictions limiting the Foundation's use of the contributed assets to later periods or after specific dates (time restrictions), special purposes (purpose restriction), or both. Temporarily restricted net assets at June 30, 2017 and 2016 are subject to the following restrictions:

	<u>2017</u>	<u>2016</u>
<u>Time Restrictions</u>		
Contributions receivable - charitable remainder trusts	\$ 185,939	\$ 204,175
Assets held in charitable remainder trusts	<u>86,207</u>	<u>78,576</u>
	<u>\$ 272,146</u>	<u>\$ 282,751</u>

**7. SUBSEQUENT EVENTS**

The Foundation evaluated all potential subsequent events as of October 5, 2017 when the financial statements were authorized and available to be issued. No subsequent events or transaction were identified after June 30, 2017 or as of October 5, 2017 that require disclosure to the financial statements.