

DESERT HEALTHCARE FOUNDATION

PALM SPRINGS, CALIFORNIA

INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

DESERT HEALTHCARE FOUNDATION

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 11



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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, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Foundation's 2012 financial statements and, in our report dated October 9, 2012, we expressed an unqualified opinion.

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

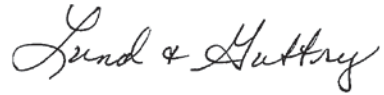
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 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, 2013, 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.

A handwritten signature in cursive script that reads "Lend & Guttry".

October 8, 2013

DESERT HEALTHCARE FOUNDATION

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

WITH COMPARATIVE TOTALS FOR JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Totals	
			2013	2012 (Memorandum Only)
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and cash equivalents	\$ 331,959	\$ -	\$ 331,959	\$ 219,355
Accrued interest receivable	-	-	-	16,484
Grant receivable	-	-	-	55,319
Total current assets	<u>331,959</u>	<u>-</u>	<u>331,959</u>	<u>291,158</u>
OTHER ASSETS				
Contributions receivable - charitable remainder trusts	-	176,125	176,125	167,211
Assets held in charitable remainder trusts	-	89,301	89,301	90,883
Investments	<u>2,581,952</u>	-	<u>2,581,952</u>	<u>2,492,295</u>
TOTAL ASSETS	<u>\$ 2,913,911</u>	<u>\$ 265,426</u>	<u>\$ 3,179,337</u>	<u>\$ 3,041,547</u>
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES				
Current liabilities				
Accounts payable	\$ 8,500	\$ -	\$ 8,500	\$ 3,000
Liability under unitrusts	-	7,022	7,022	6,714
Grants payable - current portion	<u>614,715</u>	-	<u>614,715</u>	<u>186,716</u>
Total current liabilities	<u>623,215</u>	<u>7,022</u>	<u>630,237</u>	<u>196,430</u>
Long-term liabilities				
Grants payable - long-term	<u>456,419</u>	-	<u>456,419</u>	<u>643,135</u>
Total long-term liabilities	<u>456,419</u>	<u>-</u>	<u>456,419</u>	<u>643,135</u>
TOTAL LIABILITIES	<u>1,079,634</u>	<u>7,022</u>	<u>1,086,656</u>	<u>839,565</u>
NET ASSETS	<u>1,834,277</u>	<u>258,404</u>	<u>2,092,681</u>	<u>2,201,982</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,913,911</u>	<u>\$ 265,426</u>	<u>\$ 3,179,337</u>	<u>\$ 3,041,547</u>

(The accompanying notes are an integral part of these financial statements)

DESERT HEALTHCARE FOUNDATION

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2013</u>	<u>2012 (Memorandum Only)</u>
SUPPORT AND REVENUE				
Contributions	\$ 112,907	\$ -	\$ 112,907	\$ 182,912
Interest and dividends	68,689	-	68,689	75,059
Investment gains	11,436	-	11,436	106,396
Change in value - charitable trusts	-	7,025	7,025	(2,745)
Net assets released from restrictions and reclassification	<u>55,320</u>	<u>(55,320)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>248,352</u>	<u>(48,295)</u>	<u>200,057</u>	<u>361,622</u>
EXPENSES				
Grants and services	270,489	-	270,489	874,233
Management and general	<u>38,869</u>	<u>-</u>	<u>38,869</u>	<u>25,876</u>
Total expenses	<u>309,358</u>	<u>-</u>	<u>309,358</u>	<u>900,109</u>
DECREASE IN NET ASSETS	<u>(61,006)</u>	<u>(48,295)</u>	<u>(109,301)</u>	<u>(538,487)</u>
NET ASSETS BEGINNING OF YEAR	<u>1,895,283</u>	<u>306,699</u>	<u>2,201,982</u>	<u>2,740,469</u>
NET ASSETS END OF YEAR	<u>\$ 1,834,277</u>	<u>\$ 258,404</u>	<u>\$ 2,092,681</u>	<u>\$ 2,201,982</u>

(The accompanying notes are an integral part of these financial statements)

DESERT HEALTHCARE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012

			Totals	
	Grants and Services	Management and General	2013	2012 (Memorandum Only)
Grants and services	\$ 270,489	\$ -	\$ 270,489	\$ 874,233
Other expenses	-	529	529	326
Professional fees	-	38,340	38,340	25,550
Total expenses	\$ 270,489	\$ 38,869	\$ 309,358	\$ 900,109

(The accompanying notes are an integral part of these financial statements)

DESERT HEALTHCARE FOUNDATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012

	<u>2013</u>	2012 (Memorandum Only- Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from public support	\$ 168,224	\$ 405,675
Cash paid to suppliers	(62,366)	(69,508)
Interest and dividends received	84,968	76,797
Net cash provided by operating activities	<u>190,826</u>	<u>412,964</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Transfers (to) investments - net	<u>(78,222)</u>	<u>(333,009)</u>
Net cash (used) by investing activities	<u>(78,222)</u>	<u>(333,009)</u>
NET INCREASE IN CASH	112,604	79,955
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>219,355</u>	<u>139,400</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 331,959</u>	<u>\$ 219,355</u>
RECONCILIATION OF (DECREASE) IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Decrease in net assets	<u>\$ (109,301)</u>	<u>\$ (538,487)</u>
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Net gains on investments	(11,436)	(106,396)
(Increase) decrease in assets		
Accrued interest receivable	16,484	-
Grants receivable	55,319	-
Other current assets	-	(52,831)
Charitable trusts	(7,332)	289,348
Increase (decrease) in liabilities		
Accounts payable	5,500	-
Liabilities under unitrusts	308	(8,521)
Grants payable	241,284	829,851
Total adjustments	<u>300,127</u>	<u>951,451</u>
Net cash provided by operating activities	<u>\$ 190,826</u>	<u>\$ 412,964</u>

(The accompanying notes are an integral part of these financial statements)

DESERT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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's unrestricted net assets includes unrestricted – Board designated net assets of \$57,677 for its Social Service Fund at June 30, 2013. The Foundation has temporarily restricted net assets of \$258,404 at June 30, 2013. The Foundation did not have any permanently restricted net assets at June 30, 2013.

Use of Estimates

The preparation of 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.

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 are 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 for the use of its office facilities and personnel at no cost to the Foundation. The value of the on-site facilities and personnel 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, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Investments

Investments are stated at fair market 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 generally accepted accounting principles. 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 (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, 2013 AND 2012

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, 2013 and 2012, 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, 2013 and 2012, was \$2,581,952 and \$2,492,295, respectively. (See Note 3)

3. CASH AND INVESTMENTS

Demand Deposits

The carrying amounts of the Foundation's cash deposits were \$331,959 at June 30, 2013, and \$219,355 at June 30, 2012. Bank balances were \$331,959 and \$219,355 at June 30, 2013 and 2012, respectively. The Foundation occasionally carries cash balances in banks in excess of the Federal Deposit Insurance Corporation's insurance limits.

Investments

At June 30, 2013, investments consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Corporate bonds	\$ 833,263	\$ 831,407	\$ (1,856)
Government bonds	1,258,172	1,279,784	21,612
Marketable securities	<u>425,082</u>	<u>470,761</u>	<u>45,679</u>
Total Investments	<u>\$ 2,516,517</u>	<u>\$ 2,581,952</u>	<u>\$ 65,435</u>

At June 30, 2012, investments consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
International bonds	\$ 43,283	\$ 44,546	\$ 1,263
Corporate bonds	629,859	677,113	47,254
Government bonds	1,326,064	1,388,908	62,844
Marketable securities	<u>393,349</u>	<u>381,728</u>	<u>(11,621)</u>
Total Investments	<u>\$ 2,392,555</u>	<u>\$ 2,492,295</u>	<u>\$ 99,740</u>

DESERT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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 1 (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. At June 30, 2013 and 2012, the estimated fair market value of the trust was approximately \$89,301 and \$90,883, respectively.

Because the present value of the minimum payments owed to the life beneficiary exceed the fair market value of the trust assets, it is possible that there will be no trust assets to distribute to the Foundation upon the death of the donor. If trust assets are remaining at the death of the donor, the Foundation may use these assets for general purposes, as outlined in the trust agreement.

The Foundation was named beneficiary to three additional charitable remainder unitrusts (whose trustees are someone other than the Foundation), all of which are recorded at fair market value. The general terms of the three 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, 2012 and 2011, which is the most current information available, the estimated present value of future cash flows was \$114,603 and \$111,906, respectively.

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, 2013 and 2012 was \$61,522 and \$55,305, respectively.

Trust 8 (dated December 20, 1990): The lesser of the trust income or 9% 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 general purposes. The life beneficiary passed away during the year ended June 30, 2011 and the remaining account value of \$278,081 was received and reclassified to the Foundation's unrestricted net assets during the year ended June 30, 2012.

DESERT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

5. NOTE RECEIVABLE

As part of the distribution from Charitable Remainder Trust 6 during the year ended June 30, 2006, the Foundation received a note receivable with fair market value of \$63,947 as of June 30, 2006. The balance of the note receivable at June 30, 2013 and 2012 amounted to \$0 (net of \$25,015 reserve).

6. GRANTS AND SERVICES

Grants and services consisted of the following for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Grant for Healthy Planet Wellness Festival	\$ 200,000	\$ -
Grant for Science and Math	20,000	-
Grant for Coachella Valley healthy schools program	-	829,851
Grant for Social Services Fund	<u>50,489</u>	<u>44,382</u>
	<u>\$ 270,489</u>	<u>\$ 874,233</u>

7. 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, 2013 and 2012 are subject to the following restrictions:

	<u>2013</u>	<u>2012</u>
<u>Time Restrictions</u>		
Contributions receivable - charitable remainder trusts	\$ 176,125	\$ 167,211
Assets held in charitable remainder trusts	89,301	90,883
Liability under unitrusts	<u>(7,022)</u>	<u>(6,714)</u>
	<u>258,404</u>	<u>251,380</u>
<u>Purpose Restrictions</u>		
Specific programs – assets	-	55,319
	-	<u>55,319</u>
	<u>\$ 258,404</u>	<u>\$ 306,699</u>

8. SUBSEQUENT EVENTS

The Foundation evaluated all potential subsequent events as of October 8, 2013 when the financial statements were authorized and available to be issued. No subsequent events or transaction were identified after June 30, 2013 or as of October 8, 2013 that require disclosure to the financial statements.