

DESERT HEALTHCARE FOUNDATION
PALM SPRINGS, CALIFORNIA
INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015 and the related statement of activities, functional expenses, and cash flows for the fiscal years then ended, and the related notes to the financial statements.

Report on Comparative Summarized Information

We have previously audited the Foundation's 2014 financial statements, and our report dated October 8, 2014 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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, 2015 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.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
September 25, 2015

DESERT HEALTHCARE FOUNDATION

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

WITH COMPARATIVE TOTALS FOR JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2015</u>	<u>2014 (Memorandum Only)</u>
ASSETS				
Cash and cash equivalents	\$ 75,841	\$ -	\$ 75,841	\$ 203,947
Grants receivable	435,000		435,000	1,139,274
Prepaid expenses	2,500		2,500	2,277
	<u>513,341</u>		<u>513,341</u>	<u>1,345,498</u>
OTHER ASSETS				
Contributions receivable - charitable remainder trusts		193,008	193,008	196,946
Assets held in charitable remainder trusts		77,410	77,410	90,410
Investments	2,641,514		2,641,514	2,587,493
Total other assets	<u>2,641,514</u>	<u>270,418</u>	<u>2,911,932</u>	<u>2,874,849</u>
TOTAL ASSETS	<u><u>\$ 3,154,855</u></u>	<u><u>\$ 270,418</u></u>	<u><u>\$ 3,425,273</u></u>	<u><u>\$ 4,220,347</u></u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 34,536	\$ -	\$ 34,536	\$ 43,384
Liability under unitrusts				7,970
Grants Payable - ACA Covered CA	431,961		431,961	720,947
Grants payable - current portion	874,779		874,779	962,739
Total current liabilities	<u>1,341,276</u>		<u>1,341,276</u>	<u>1,735,040</u>
Long-term liabilities:				
Grants payable - long-term	227,816		227,816	586,948
Total long-term liabilities	<u>227,816</u>		<u>227,816</u>	<u>586,948</u>
Total liabilities	<u>1,569,092</u>		<u>1,569,092</u>	<u>2,321,988</u>
NET ASSETS	<u>1,585,763</u>	<u>270,418</u>	<u>1,856,181</u>	<u>1,898,359</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,154,855</u></u>	<u><u>\$ 270,418</u></u>	<u><u>\$ 3,425,273</u></u>	<u><u>\$ 4,220,347</u></u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Totals	
			2015	2014 (Memorandum Only)
SUPPORT AND REVENUE				
Contributions	\$ 205,080	\$ -	\$ 205,080	\$ 307,793
Grants and bequests	241,378		241,378	1,684,924
Interest and dividends	69,101		69,101	69,086
Investment gains	9,045		9,045	131,196
Change in value - charitable trusts		(8,968)	(8,968)	20,982
Total support and revenue	524,604	(8,968)	515,636	2,213,981
EXPENSES				
Grants and services	448,889		448,889	2,328,457
Management and general	108,925		108,925	79,846
Total expenses	557,814		557,814	2,408,303
DECREASE IN NET ASSETS	(33,210)	(8,968)	(42,178)	(194,322)
NET ASSETS, BEGINNING OF YEAR	1,618,973	279,386	1,898,359	2,092,681
NET ASSETS, END OF YEAR	\$ 1,585,763	\$ 270,418	\$ 1,856,181	\$ 1,898,359

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, 2015

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Grants and Services	Management and General	Totals	
			2015	2014 (Memorandum Only)
Grants and services	\$ 448,889	\$ -	\$ 448,889	\$ 2,328,457
Other expenses		791	791	207
Professional fees		108,134	108,134	79,639
TOTAL FUNCTIONAL EXPENSES	\$ 448,889	\$ 108,925	\$ 557,814	\$ 2,408,303

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, 2015

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>2015</u>	<u>2014</u> <u>(Memorandum</u> <u>Only)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from public support	\$ 1,150,732	\$ 2,052,943
Cash paid to suppliers	(1,310,933)	(2,375,696)
Interest and dividends received	32,095	69,086
	<u>(128,106)</u>	<u>(253,667)</u>
Net cash provided (used) by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Transfers to (out) of investments - net		<u>125,655</u>
Net cash provided (used) by investing activities		<u>125,655</u>
NET INCREASE (DECREASE) IN CASH	(128,106)	(128,012)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	<u>203,947</u>	<u>331,959</u>
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	<u>\$ 75,841</u>	<u>\$ 203,947</u>
RECONCILIATION OF DECREASE IN NET ASSETS TO		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Decrease in net assets	\$ (42,178)	\$ (194,322)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities		
Net (gains) on investments	(54,021)	(131,196)
Increase (decrease) in assets		
Grants receivable	704,274	(1,139,274)
Other current assets	(223)	(2,277)
Charitable trusts	16,938	(21,930)
Increase (decrease) in liabilities		
Accounts payable	(8,848)	34,884
Liabilities under unitrusts	(7,970)	948
Grants payable	(736,078)	1,199,500
Total adjustments	<u>(85,928)</u>	<u>(59,345)</u>
Net cash (used) provided by operating activities	<u>\$ (128,106)</u>	<u>\$ (253,667)</u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 \$270,418 at June 30, 2015. The Foundation did not have any permanently restricted net assets at June 30, 2015.

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, 2015 the District allocated to the Foundation \$78,948 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, 2015

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, 2015

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, 2015 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, 2015 was \$2,641,514. (See Note 3)

3. CASH AND INVESTMENTS

Demand Deposits

The carrying amounts of the Foundation's cash deposits were \$75,841 at June 30, 2015. Bank balances were \$75,841 at June 30, 2015. The Foundation occasionally carries cash balances in banks in excess of the Federal Deposit Insurance Corporation's insurance limits.

Investments

At June 30, 2015, investments consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Mutual funds	\$ 502,420	\$ 605,889	\$ 103,469
Corporate bonds	940,934	953,142	12,208
Government bonds	1,002,853	1,010,388	7,535
Marketable securities	<u>72,095</u>	<u>72,095</u>	
 Total Investments	 <u>\$ 2,518,302</u>	 <u>\$ 2,641,514</u>	 <u>\$ 123,212</u>

DESERT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015 the Foundation has a receivable in the amount of \$77,410.

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, 2014, which is the most current information available, the estimated present value of future cash flows was \$127,324.

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, 2015 was \$65,684.

DESERT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

5. GRANTS AND SERVICES

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

	<u>2015</u>	<u>2014</u>
Grant for Social Services Fund	\$ 30,000	\$ 43,179
Grant for Healthy Planet Wellness Festival	200,000	
Grant for Health Portal		400,000
Grant for Swim Lessons	100,000	200,000
Grant for Collective Fund	62,490	180,000
Boys and Girls Stabilization	70,000	320,000
Grant for Covered California - unexpended	<u>(13,601)</u>	<u>1,185,278</u>
	<u>\$ 448,889</u>	<u>\$ 2,328,457</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, 2015 and 2014 are subject to the following restrictions:

	<u>2015</u>	<u>2014</u>
<u>Time Restrictions</u>		
Contributions receivable -		
charitable remainder trusts	\$ 193,008	\$ 196,946
Assets held in charitable remainder trusts	77,410	90,410
Liability under unitrusts		<u>(7,970)</u>
	<u>\$ 270,418</u>	<u>\$ 279,386</u>

7. SUBSEQUENT EVENTS

The Foundation evaluated all potential subsequent events as of September 25, 2015 when the financial statements were authorized and available to be issued. No subsequent events or transaction were identified after June 30, 2015 or as of September 25, 2015 that require disclosure to the financial statements.