

# Financial Report



*foundation  
for the children  
of the california*

December 31, 2013 and 2012



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## ***INDEPENDENT ACCOUNTANT'S REVIEW REPORT***

Board of Directors  
Foundation for the Children of the Californias  
San Diego, CA

We have reviewed the accompanying financial statements of the Foundation for the Children of the Californias, which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is to express an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement whether due to fraud or error.

### **Accountant's Responsibility**

Our responsibility is to conduct the reviews' engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountant's Conclusion**

Based on our reviews we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

*West Rhode & Roberts*

WEST RHODE & ROBERTS

San Diego, California  
November 6, 2015

**FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS**

**STATEMENTS OF FINANCIAL POSITION**

**December 31, 2013 and 2012**

**See Independent Accountant's Review Report**

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	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,025,133	\$ 969,641
Prepaid expenses	6,462	4,198
Investments	1,770,022	1,716,580
Furniture and equipment	<u>3,757</u>	<u>5,635</u>
Total assets	<u>\$ 2,805,374</u>	<u>\$ 2,696,054</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 18,811	\$ 4,714
Deferred revenue	<u>25,000</u>	<u>-</u>
Total liabilities	<u>43,811</u>	<u>4,714</u>
Commitments and contingency		
Net assets:		
Unrestricted	566,862	796,539
Temporarily restricted	1,140,249	840,349
Permanently restricted	<u>1,054,452</u>	<u>1,054,452</u>
Total net assets	<u>2,761,563</u>	<u>2,691,340</u>
Total liabilities and net assets	<u>\$ 2,805,374</u>	<u>\$ 2,696,054</u>

**FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS**

**STATEMENTS OF ACTIVITIES**

**Years Ended December 31, 2013 and 2012**

**See Independent Accountant's Review Report**

	2013				2012			
	Temporarily		Permanently		Temporarily		Permanently	
	Unrestricted	Restricted	Restricted	Total	Unrestricted	Restricted	Total	
<b>REVENUES</b>								
Contributions and grants	\$ 88,216	\$ 681,172	\$ -	\$ 769,388	\$ 75,445	\$ 1,034,971	\$ -	\$ 1,110,416
Special events	21,288	-	-	21,288	885,668	-	-	885,668
Interest and other investment income	8,610	24,350	-	32,960	61,840	52,523	-	114,363
Other income	980	-	-	980	-	-	-	-
Net assets released from restrictions	405,622	(405,622)	-	-	958,806	(958,806)	-	-
Total revenues	524,716	299,900	-	824,616	1,981,759	128,688	-	2,110,447
<b>EXPENSES</b>								
Program services	543,339	-	-	543,339	1,059,949	-	-	1,059,949
General and administrative	74,791	-	-	74,791	71,641	-	-	71,641
Fundraising	134,940	-	-	134,940	123,507	-	-	123,507
Total program and supporting services	753,070	-	-	753,070	1,255,097	-	-	1,255,097
Special events	1,323	-	-	1,323	237,178	-	-	237,178
Total expenses	754,393	-	-	754,393	1,492,275	-	-	1,492,275
Change in net assets	(229,677)	299,900	-	70,223	489,484	128,688	-	618,172
NET ASSETS AT BEGINNING OF YEAR	796,539	840,349	1,054,452	2,691,340	307,055	711,661	1,054,452	2,073,168
NET ASSETS AT END OF YEAR	\$ 566,862	\$ 1,140,249	\$ 1,054,452	\$ 2,761,563	\$ 796,539	\$ 840,349	\$ 1,054,452	\$ 2,691,340

**FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS**

**STATEMENTS OF CASH FLOWS**

**Year Ended December 31, 2013 and 2012**

**See Independent Accountant's Review Report**

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	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 70,223	\$ 618,172
Adjustments to reconcile excess of revenues over expenses to net cash (used in) provided by operating activities:		
Depreciation	1,878	-
Change in operating assets and liabilities:		
Prepaid expenses	(2,264)	(1,290)
Accounts payable	14,097	(22,678)
Deferred revenue	25,000	-
Net cash provided by operating activities	<u>108,934</u>	<u>594,204</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	-	(5,635)
Net purchases of investments	<u>(53,442)</u>	<u>(793,585)</u>
Net cash used in investing activities	<u>(53,442)</u>	<u>(799,220)</u>
Change in cash and cash equivalents	55,492	(205,016)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>969,641</u>	<u>1,174,657</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,025,133</u>	<u>\$ 969,641</u>

**FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS**

**SCHEDULES OF FUNCTIONAL EXPENSES**

**Years Ended December 31, 2013 and 2012**

**See Independent Accountant's Review Report**

EXPENSES	2013				2012			
	Program	General &	Fund-	Total	Program	General &	Fund-	Total
	Services	Administrative	Raising		Services	Administrative	Raising	
HIC- CURARTE building expense	\$ 250,353	\$ -	\$ -	\$ 250,353	\$ 623,022	\$ -	\$ -	\$ 623,022
Salaries and taxes	93,762	46,880	93,762	234,404	77,822	38,912	77,822	194,556
Clinic - programs	44,762	-	-	44,762	54,009	-	-	54,009
Indigent care	38,298	-	-	38,298	191,209	-	-	191,209
Physical therapy	35,200	-	-	35,200	41,600	-	-	41,600
U.S. nutrition education	34,490	-	-	34,490	26,479	-	-	26,479
Insurance	10,031	8,044	10,031	28,106	8,103	6,873	8,103	23,079
Rent	11,235	5,616	11,235	28,086	10,332	5,168	10,332	25,832
U.S. education	19,879	-	-	19,879	23,212	-	-	23,212
Office expense	5,076	7,764	5,076	17,916	3,991	2,963	3,991	10,945
Miscellaneous	63	668	11,603	12,334	-	526	5,124	5,650
Bank charges	190	3,941	332	4,463	170	3,399	12,449	16,018
Campaign expenses	-	-	2,901	2,901	-	-	2,686	2,686
Depreciation	-	1,878	-	1,878	-	-	-	-
Professional services	-	-	-	-	-	13,800	3,000	16,800
Total expenses	\$ 543,339	\$ 74,791	\$ 134,940	\$ 753,070	\$ 1,059,949	\$ 71,641	\$ 123,507	\$ 1,255,097

**Note 1. Organization and Significant Accounting Policies**

**Organization and Activities**

The Foundation for the Children of the Californias (the Foundation) was incorporated in May 1990 as a California non-profit corporation for the primary purpose of improving the health and nutrition of children in the border region of San Diego, California and Tijuana, Mexico and in the funding of a pediatric medical complex (Hospital Infantil de las Californias) operated in Tijuana, Mexico by Fundación para los Niños de las Californias, a non-profit Mexican organization.

**Significant Accounting Policies**

**Method of Accounting** – The financial statements of the Foundation have been prepared on the accrual basis of accounting.

**Basis of Presentation** – Net assets and revenues, and other support are classified as unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor restrictions on when and how the Foundation is to use the net assets. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to any donor-imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Foundation or the passage of time.

*Permanently restricted net assets* – Net assets subject to donor-imposed restrictions requiring that the principal be maintained permanently by the Foundation. Generally, the donors permit the Foundation to use all or part of the income earned for either general or donor-specified purposes.

**Revenue Recognition** – Contributions are recognized as revenue when they are unconditionally pledged or when all conditions have been met.

The Foundation reports contributions as restricted 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, temporarily restricted revenues are reclassified to unrestricted revenues and reported in the statement of activities as revenues released from restrictions for operations. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as permanently restricted. The income earned from such assets is generally restricted to the purpose designated by the donor.

**Cash and Cash Equivalents** – The Foundation considers all highly liquid investments with an original maturity of less than three months to be cash equivalents. Cash and cash equivalents include cash in readily available checking accounts.

**Investments**– Investments are recorded at fair value based on quoted market prices.

**Furniture and Equipment** – The Foundation capitalizes all furniture and equipment over \$500. Furniture and equipment are depreciated on a straight-line basis over useful lives of 3 years.

Depreciation expense totaled \$1,878 for the year ended December 31, 2013.

**Income Taxes** – The Foundation is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and is also exempt from state income taxes. The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification No. 740-10, *Accounting for Uncertainties in Income Tax*, which sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The Foundation has reviewed its positions for all open tax years and has determined that it has no uncertain tax positions requiring accrual or disclosure.



**FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS**  
**NOTES TO FINANCIAL STATEMENTS**

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2. Fair Value Measurements**

Due to the short-term nature of cash equivalents, prepaid expense, accounts payable and deferred revenue, fair value approximates carrying value. In accordance with Financial Accounting Standards Board Codification No. 820 (FASB ASC 820), fair value is defined as the price that the Foundation would receive upon selling an asset or transferring a liability in an orderly transaction to an independent buyer in the principal or most advantageous market of the asset.

FASB ASC 820 establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs and to establish the classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The standard describes three-tier hierarchy of inputs that may be used to measure fair value as follows:

**Level 1:** Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

**Level 2:** Significant other observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

**Level 3:** Significant unobservable inputs that reflect the Foundation's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

<u>Fair Value Measurements at December 31, 2013, Using:</u>				
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets				
Investments	<u>\$ 1,770,022</u>	<u>\$ 1,770,022</u>	<u>\$ -</u>	<u>\$ -</u>

<u>Fair Value Measurements at December 31, 2012, Using:</u>				
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets				
Investments	<u>\$ 1,716,580</u>	<u>\$ 1,716,580</u>	<u>\$ -</u>	<u>\$ -</u>

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS  
NOTES TO FINANCIAL STATEMENTS

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The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the Foundation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

**Note 3. Investments**

Investments consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Fixed income	\$ 1,440,608	\$ 1,378,332
Certificate of deposits	251,336	250,839
Money market sweep accounts	78,078	43,846
Mutual funds	-	43,563
	<u>\$ 1,770,022</u>	<u>\$ 1,716,580</u>

**Note 4. Property, Plant and Equipment**

Property, plant and equipment consists of:

	<u>2013</u>	<u>2012</u>
Equipment	\$ 14,545	\$ 14,545
Less accumulated depreciation	<u>(10,788)</u>	<u>(8,910)</u>
	<u>\$ 3,757</u>	<u>\$ 5,635</u>

**Note 5. Commitments**

The Foundation leases office space under a lease agreement, which expires in March 2014.

In addition, the Foundation leases the office copier under an operating lease that expires December 2017. For the years ended December 31, 2013 and 2012, rent expense totaled \$25,832 and \$28,086 respectively.

Future minimum lease obligations are:

Year Ending December 31,	
2014	\$ 5,762
2015	2,796
2016	2,796
2017	2,796
	<u>\$ 14,150</u>

**Note 6. Restricted Net Assets**

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.

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS  
NOTES TO FINANCIAL STATEMENTS

The following is a detail of restricted net assets:

	2013	2012
Temporarily restricted funds:		
HIC CURARTE / other building fund	\$ 375,893	\$ 292,045
U.S. Education / Nutrition Projects	326,829	289,367
Indigent care	177,458	4,158
Medical clinics	108,636	105,829
DARTE - preventive maintenance	91,591	91,722
Physical therapy training	48,755	43,755
Other programs	8,311	8,609
Dr. Dunklee Scholarship Fund	2,776	4,864
	<u>\$ 1,140,249</u>	<u>\$ 840,349</u>
Permanently restricted funds:		
Langdon Endowment Fund	\$ 868,537	\$ 868,537
DARTE Endowment PMA Trust	103,583	103,583
Nutrition Endowment Fund	82,332	82,332
	<u>\$ 1,054,452</u>	<u>\$ 1,054,452</u>

**Note 7. Net Assets Released from Restriction**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished:

	2013	2012
HIC CURARTE/other building fund	\$ 250,055	\$ 410,284
Indigent care	45,298	164,984
Nutrition	44,136	26,479
Physical therapy training	35,200	41,600
Langdon/Nutrition/Surgery Center	23,454	52,384
Dr. Dunklee Scholarship Fund	5,838	384
Medical clinics	1,193	257,842
Other programs	448	4,849
	<u>\$ 405,622</u>	<u>\$ 958,806</u>

**Note 8. Endowment**

The Foundation follows the standards codified in FASB ASC 958-205-65, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the 2006 UPMIFA. The endowment includes only donor-restricted endowment funds.

**Interpretation of Relevant Law** – The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (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.

**FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS**  
**NOTES TO FINANCIAL STATEMENTS**

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 consistent with the standard of prudence prescribed by UPMIFA.

**Endowment Investment and Spending Policies** – 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 of donor-restricted funds that the Foundation must hold in perpetuity. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 4.25 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, 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). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy of appropriating for distribution each year 4.25 percent of its endowment fund's average value over the prior fiscal year. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4.25 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Donor-restricted endowment net asset composition as of December 31, 2013 and 2012, is as follows:

**Changes in Endowment Net Assets**  
**for the Fiscal Year Ended December 31, 2013**

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	<u>\$ 93,414</u>	<u>\$ 1,194,452</u>	<u>\$ 1,287,866</u>
Investment return:			
Investment Income	<u>24,350</u>	<u>-</u>	<u>24,350</u>
Total investment return	<u>24,350</u>	<u>-</u>	<u>24,350</u>
Appropriation of assets for expenditure	<u>(24,943)</u>	<u>-</u>	<u>(24,943)</u>
	<u>(593)</u>	<u>-</u>	<u>(593)</u>
Endowment net assets, end of year	<u>\$ 92,821</u>	<u>\$ 1,194,452</u>	<u>\$ 1,287,273</u>

**Changes in Endowment Net Assets**  
**for the Fiscal Year Ended December 31, 2012**

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	<u>\$ 93,425</u>	<u>\$ 1,194,452</u>	<u>\$ 1,287,877</u>
Investment return:			
Investment Income	<u>27,965</u>	<u>-</u>	<u>27,965</u>
Net appreciation (realized and unrealized)	<u>24,558</u>	<u>-</u>	<u>24,558</u>
Total investment return	<u>52,523</u>	<u>-</u>	<u>52,523</u>
Appropriation of assets for expenditure	<u>(52,534)</u>	<u>-</u>	<u>(52,534)</u>
	<u>(11)</u>	<u>-</u>	<u>(11)</u>
Endowment net assets, end of year	<u>\$ 93,414</u>	<u>\$ 1,194,452</u>	<u>\$ 1,287,866</u>

**Note 9. Concentration of Credit Risk**

The Foundation maintains its cash in bank deposit accounts, which at times, exceed federally insured deposit limits. The Foundation adheres to a policy by which cash balances in excess of short-term needs are diversified amongst short-term, low risk investment vehicles. The Foundation has not experienced any losses in such accounts.

In addition, the Foundation invests in various investments, including mutual funds and money market accounts. Investment securities, in general, are subject to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments could occur in the near term and that such change could materially affect amounts reported on the financial statements

**Note 10. 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 that date, including the estimates inherent in the process of preparing financial statements. The Foundation's financial statements do not recognize subsequent events that provide evidence about conditions that the Foundation did not exist at the date of the statement of financial position, but arose after that date and before the financial statements are available to be issued.

The Foundation has evaluated subsequent events through November 6, 2015, which is the date the financial statements are available for issuance, and concluded the following events should be disclosed:

- The Foundation signed a new lease agreement for office space expiring June 30, 2017. The total lease commitment related to the lease through June 30, 2017 is \$65,699.