

Financial Report



foundation
for the children
of the californias

December 31, 2015



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Foundation for the Children of the Californias (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, cash flows and functional expenses 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 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 Foundation for the Children of the Californias as of December 31, 2015, 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.

WEST RHODE & ROBERTS

San Diego, California
November 15, 2016

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS

STATEMENT OF FINANCIAL POSITION

December 31, 2015

ASSETS

Cash and cash equivalents	\$ 284,223
Investments	5,280,494
Accounts receivable	27,238
Prepaid expenses	8,440
Furniture and equipment	-
Total assets	<u>\$ 5,600,395</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued liabilities	<u>\$ 19,255</u>
Total liabilities	<u>19,255</u>

Commitments (Note 5)

Net assets:

Unrestricted	3,752,451
Temporarily restricted	724,237
Permanently restricted	<u>1,104,452</u>
Total net assets	<u>5,581,140</u>
Total liabilities and net assets	<u>\$ 5,600,395</u>

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS

STATEMENT OF ACTIVITIES

Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES				
Contributions and grants	\$ 3,895,023	\$ 179,997	\$ -	\$ 4,075,020
Special events	407,922	-	-	407,922
Investment income (loss)	(67,171)	36,008	-	(31,163)
Net assets released from restrictions	<u>723,492</u>	<u>(723,492)</u>	-	-
Total revenues	<u>4,959,266</u>	<u>(507,487)</u>	-	<u>4,451,779</u>
EXPENSES				
Program services	893,389	-	-	893,389
Supporting services:				
General and administrative	109,490	-	-	109,490
Fundraising	<u>171,420</u>	-	-	<u>171,420</u>
Total program and supporting services	1,174,299	-	-	1,174,299
Special events	<u>395,049</u>	-	-	<u>395,049</u>
Total expenses	<u>1,569,348</u>	-	-	<u>1,569,348</u>
Change in net assets	3,389,918	(507,487)	-	2,882,431
NET ASSETS AT BEGINNING OF YEAR	<u>362,533</u>	<u>1,231,724</u>	<u>1,104,452</u>	<u>2,698,709</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,752,451</u>	<u>\$ 724,237</u>	<u>\$ 1,104,452</u>	<u>\$ 5,581,140</u>

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 2,882,431
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:	
Depreciation	1,879
Realized and unrealized loss on investments	130,760
Change in operating assets and liabilities:	
Accounts receivable	26,462
Prepaid expenses	(337)
Accounts payable	<u>5,230</u>
Net cash used in operating activities	<u>3,046,425</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net purchases from investments	<u>(3,619,198)</u>
Net cash provided by investing activities	<u>(3,619,198)</u>

Change in cash and cash equivalents (572,773)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 856,996

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 284,223

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015

	<u>Program Services</u>	<u>General & Administrative</u>	<u>Fund- Raising</u>	<u>Total</u>
EXPENSES				
HIC- CURARTE building expense	\$ 421,081	\$ -	\$ -	\$ 421,081
Salaries and payroll taxes	124,074	65,973	124,074	314,121
Indigent care	157,407	-	-	157,407
U.S. nutrition education	44,237	-	-	44,237
Physical therapy	38,963	-	-	38,963
Insurance	11,957	10,303	11,957	34,217
Office expense	7,306	5,727	19,366	32,399
Clinic - programs	30,941	-	-	30,941
Telemedicine	24,379	-	-	24,379
U.S. education	21,504	-	-	21,504
Rent	8,150	4,075	8,150	20,375
Bank charges	3,263	8,698	-	11,961
Professional services	-	10,750	-	10,750
Miscellaneous	127	2,085	7,873	10,085
Depreciation	-	1,879	-	1,879
Total expenses	<u>\$ 893,389</u>	<u>\$ 109,490</u>	<u>\$ 171,420</u>	<u>\$ 1,174,299</u>

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 organization 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 \$1,879 for the year ended December 31, 2015.

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.

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.

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 15, 2016, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that needed to be disclosed.

Note 2. Fair Value Measurements

Due to the short-term nature of the assets and liabilities, 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.

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS
NOTES TO FINANCIAL STATEMENTS

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

	Fair Value Measurements Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Investments at December 31, 2015	\$ 5,280,494	\$ 5,280,494	\$ -

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 at December 31, 2015, consist of the following:

Fixed income	\$ 4,257,494
Money market	992,243
Equities	<u>30,757</u>
Total investments	<u>\$ 5,280,494</u>

Note 4. Furniture and Equipment

Furniture and equipment at December 31, 2015, consists of:

Equipment	\$ 14,545
Less accumulated depreciation	<u>(14,545)</u>
	<u>\$ -</u>

Note 5. Commitments

The Foundation leases office space under a lease agreement, which expires in June 2017.

In addition, the Foundation leases the office copier under an operating lease that expires in December 2017. For the year ended December 31, 2015, rent expense totaled \$20,375.

Future minimum lease obligations are:

<u>Years Ending December 31,</u>	
2016	\$ 22,439
2017	<u>12,779</u>
	<u>\$ 35,218</u>

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS
 NOTES TO FINANCIAL STATEMENTS

Note 6. Restricted Net Assets

Restricted net assets at December 31, 2015, are as follows:

	<u>2015</u>
Temporarily restricted funds:	
U.S. Education / Nutrition Projects	\$ 388,770
Medical clinics	114,669
Accumulated endowment earnings	94,163
Physical therapy training	53,340
HIC CURARTE / other building fund	37,962
Indigent care	31,186
Dr. Dunklee Scholarship Fund	2,459
Other programs	1,688
	<u>\$ 724,237</u>
Permanently restricted funds:	
Langdon Endowment Fund	\$ 868,537
Nutrition Endowment Fund	132,332
DARTE Endowment PMA Trust	103,583
	<u>\$ 1,104,452</u>

Permanently restricted net assets represent investments to be held in perpetuity, the income from which is expendable for purposes as defined by the donors.

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:

	<u>2015</u>
HIC CURARTE / other building fund	\$ 420,781
Indigent care	157,407
U.S. Education / Nutrition Projects	46,237
Physical therapy training	38,963
Langdon/Nutrition/Surgery Center	31,170
Telemedicine	20,723
DARTE - preventive maintenance	5,475
Other programs	2,119
Dr. Dunklee Scholarship Fund	617
	<u>\$ 723,492</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.

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 3 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 3 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, 2015, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 94,800	\$ 1,104,452	\$ 1,199,252
Investment return:			
Investment income	34,632	-	34,632
Net appreciation (realized and unrealized)	1,376	-	1,376
Total investment return	36,008	-	36,008
Contributions	-	-	-
Appropriation of assets for expenditure	(36,645)	-	(36,645)
	(637)	-	(637)
Endowment net assets, end of year	\$ 94,163	\$ 1,104,452	\$ 1,198,615

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.