Financial Report

foundation for the children of the californias

December 31, 2014 and 2013

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Contents

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

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, 2014 and 2013, 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

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San Diego, California
January 27, 2016

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS

STATEMENTS OF FINANCIAL POSITION
December 31, 2014 and 2013
(See Independent Accountant's Review Report)

	2014	2013
ASSETS		
Cash and cash equivalents	$ 856,996	$ 1,025,133
Investments	1,792,056	1,770,022
Accounts receivable	53,700	-
Prepaid expenses	8,103	6,462
Furniture and equipment	1,879	3,757
Total assets	$ 2,712,734	$ 2,805,374
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 14,025	$ 18,811
Deferred revenue	-	25,000
Total liabilities	14,025	43,811
Commitments (Note 5)		
Net assets:		
Unrestricted	362,533	566,862
Temporarily restricted	1,231,724	1,140,249
Permanently restricted	1,104,452	1,054,452
Total net assets	2,698,709	2,761,563
Total liabilities and net assets	$ 2,712,734	$ 2,805,374

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2014 and 2013

(See Independent Accountant's Review Report)

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Contributions and grants	$ 33,838	$ 272,284	$ 50,000	$ 356,122	$ 88,216	$ 681,172	$ -	$ 769,388
Special events	381,110	-	-	381,110	21,288	-	-	21,288
Investment income (loss)	(9,564)	35,550	-	25,986	8,610	24,350	-	32,960
Other income	-	-	-	-	980	-	-	980
Net assets released from restrictions	216,359	(216,359)	-	-	405,622	(405,622)	-	-
Total revenues	621,743	91,475	50,000	763,218	524,716	299,900	-	824,616
EXPENSES								
Program services	342,677	-	-	342,677	543,339	-	-	543,339
Supporting services:								
General and administrative	85,140	-	-	85,140	74,791	-	-	74,791
Fundraising	134,147	-	-	134,147	134,940	-	-	134,940
Total program and supporting services	561,964	-	-	561,964	753,070	-	-	753,070
Special events	264,108	-	-	264,108	1,323	-	-	1,323
Total expenses	826,072	-	-	826,072	754,393	-	-	754,393
Change in net assets	(204,329)	91,475	50,000	(62,854)	(229,677)	299,900	-	70,223
NET ASSETS AT BEGINNING OF YEAR	566,862	1,140,249	1,054,452	2,761,563	796,539	840,349	1,054,452	2,691,340
NET ASSETS AT END OF YEAR	$ 362,533	$ 1,231,724	$ 1,104,452	$ 2,698,709	$ 566,862	$ 1,140,249	$ 1,054,452	$ 2,761,563

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

(See Independent Accountant's Review Report)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (62,854)	$ 70,223
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	1,878	1,878
Change in operating assets and liabilities:		
Accounts receivable	(53,700)	-
Prepaid expenses	(1,641)	(2,264)
Accounts payable	(4,786)	14,097
Deferred revenue	(25,000)	25,000
Net cash (used in) provided by operating activities	(146,103)	108,934
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of investments	(22,034)	(53,442)
Net cash used in investing activities	(22,034)	(53,442)
Change in cash and cash equivalents	(168,137)	55,492
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,025,133	969,641
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 856,996	$ 1,025,133

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS

SCHEDULES OF FUNCTIONAL EXPENSES

Years Ended December 31, 2014 and 2013

(See Independent Accountant's Review Report)

	2014				2013			
	Program Services	General & Administrative	Fund-Raising	Total	Program Services	General & Administrative	Fund-Raising	Total
EXPENSES								
Salaries and taxes	$ 92,321	$ 46,161	$ 92,321	$ 230,803	$ 93,762	$ 46,880	$ 93,762	$ 234,404
Indigent care	84,400	-	-	84,400	38,298	-	-	38,298
Physical therapy	39,107	-	-	39,107	35,200	-	-	35,200
U.S. nutrition education	31,181	-	-	31,181	34,490	-	-	34,490
Insurance	10,042	8,227	10,042	28,311	10,031	8,044	10,031	28,106
Clinic - programs	26,215	-	-	26,215	44,762	-	-	44,762
HIC- CURARTE building expense	25,000	-	-	25,000	250,353	-	-	250,353
U.S. education	21,504	-	-	21,504	19,879	-	-	19,879
Professional services	657	15,329	2,861	18,847	614	306	2,975	3,895
Office expense	5,813	5,267	5,813	16,893	4,462	7,458	4,462	16,382
Rent	6,281	3,141	6,281	15,703	11,235	5,616	11,235	28,086
Miscellaneous	-	1,101	10,068	11,169	63	668	12,143	12,874
Bank charges	156	4,036	6,761	10,953	190	3,941	332	4,463
Depreciation	-	1,878	-	1,878	-	1,878	-	1,878
Total expenses	$ 342,677	$ 85,140	$ 134,147	$ 561,964	$ 543,339	$ 74,791	$ 134,940	$ 753,070

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, 2014.

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 January 27, 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.

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

		Fair Value Measurements Using:		
	Total	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, 2014	$ 1,792,056	$ 1,792,056	$ -	$ -
Investments at December 31, 2013	$ 1,770,022	$ 1,770,022	$ -	$ -

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:

	2014	2013
Fixed income	$ 1,642,197	$ 1,440,608
Certificate of deposits	-	251,336
Money market sweep accounts	149,859	78,078
	$ 1,792,056	$ 1,770,022

Note 4. Property, Plant and Equipment

Property, plant and equipment consists of:

	2014	2013
Equipment	$ 14,545	$ 14,545
Less accumulated depreciation	(12,666)	(10,788)
	$ 1,879	$ 3,757

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 year ended December 31, 2014 and 2013, rent expense totaled $15,703 and $28,086 respectively.

Future minimum lease obligations are:

Years Ending December 31,		
2015	$	21,863
2016		22,439
2017		12,779
	$	57,081

Note 6. Restricted Net Assets

Restricted net assets are as follows:

		2014		2013
Temporarily restricted funds:				
HIC CURARTE / other building fund	$	457,243	$	375,893
U.S. Education / Nutrition Projects		380,590		326,829
Indigent care		129,373		177,458
Medical clinics		107,728		108,636
Accumulated endowment earnings		94,800		92,821
Physical therapy training		50,603		48,755
Other programs		8,311		7,081
Dr. Dunklee Scholarship Fund		3,076		2,776
	$	1,231,724	$	1,140,249
Permanently restricted funds:				
Langdon Endowment Fund	$	868,537	$	868,537
Nutrition Endowment Fund		132,332		82,332
DARTE Endowment PMA Trust		103,583		103,583
	$	1,104,452	$	1,054,452

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:

		2014		2013
HIC CURARTE/other building fund	$	25,000	$	250,055
Indigent care		84,400		45,298
Nutrition		33,231		44,136
Physical therapy training		39,107		35,200
Langdon/Nutrition/Surgery Center		32,713		23,454
Dr. Dunklee Scholarship Fund		-		5,838
Medical clinics		1,050		1,193
Other programs		858		448
	$	216,359	$	405,622

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 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, 2014, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2012	$ 93,414	$ 1,054,452	$ 1,147,866
Investment return:			
Investment income	24,350	-	24,350
Total investment return	24,350	-	24,350
Appropriation of assets for expenditure	(24,943)	-	(24,943)
	(593)	-	(593)
Endowment net assets, December 31, 2013	$ 92,821	$ 1,054,452	$ 1,147,273
Investment return:			
Investment income	38,884	-	38,884
Net appreciation (realized and unrealized)	(3,334)	-	(3,334)
Total investment return	35,550	-	35,550
Contributions	-	50,000	50,000
Appropriation of assets for expenditure	(33,571)	-	(33,571)
	1,979	50,000	51,979
Endowment net assets, December 31, 2014	$ 94,800	$ 1,104,452	$ 1,199,252

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.