Financial Report

foundation for the children of the californias

December 31, 2011

WRR
WEST RHODE & ROBERTS

Contents

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 statement of financial position as of December 31, 2011, and the related statements of activities and cash flows for the year 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 review 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 review, 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
July 21, 2015

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FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS

STATEMENT OF FINANCIAL POSITION

December 31, 2011

(See Independent Accountant's Review Report)

ASSETS	
Cash	$ 1,174,657
Prepaid expenses	2,908
Investments	922,995
Total assets	$ 2,100,560
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable and accrued expenses	$ 27,392
Total liabilities	27,392
Net assets:	
Unrestricted:	
Board designated for program activities	141,471
Other	165,584
	307,055
Temporarily restricted	711,661
Permanently restricted	1,054,452
Total net assets	2,073,168
Total liabilities and net assets	$ 2,100,560

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS

STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

(See Independent Accountant's Review Report)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING SUPPORT AND REVENUE				
Contributions and grants	$ 286,453	$ 1,374,565	$ 10,000	$ 1,671,018
Special events	192,455	-	-	192,455
Interest and other investment income	(18,758)	5,527	-	(13,231)
Net assets released from restrictions	2,719,482	(2,719,482)	-	-
Total support and revenue	3,179,632	(1,339,390)	10,000	1,850,242
EXPENSES				
Program services	3,380,309	-	-	3,380,309
General and administrative	56,654	-	-	56,654
Fundraising	137,095	-	-	137,095
Total program and supporting services	3,574,058	-	-	3,574,058
Special events	227,320	-	-	227,320
Total expenses	3,801,378	-	-	3,801,378
Change in net assets	(621,746)	(1,339,390)	10,000	(1,951,136)
NET ASSETS AT BEGINNING OF YEAR	928,801	1,901,051	1,194,452	4,024,304
Reclassification of donor restrictions	-	150,000	(150,000)	-
NET ASSETS AT END OF YEAR	$ 307,055	$ 711,661	$ 1,054,452	$ 2,073,168

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS

STATEMENT OF CASH FLOWS

Year Ended December 31, 2011

(See Independent Accountant's Review Report)

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (1,951,136)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Net unrealized loss on investments	52,110
Change in operating assets and liabilities:	
Prepaids	17
Accounts payable	(1,327)
Net cash used in operating activities	(1,900,336)
CASH FLOWS FROM INVESTING ACTIVITIES	
Net sales of investments	56,820
Net cash provided by investing activities	56,820
Change in cash and cash equivalents	(1,843,516)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,018,173
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,174,657

FOUNDATION FOR THE CHILDREN OF THE CALIFORNIAS

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2011

(See Independent Accountant's Review Report)

	Program Services	General & Administrative	Fund-Raising	2011 Total
EXPENSES				
DARTE preventative maintenance	$ 65,600	$ -	$ -	$ 65,600
Clinic - cleft lip & palate	29,280	-	-	29,280
Clinic - eye & dentistry	2,396	-	-	2,396
Clinic - medical equipment	8,300	-	-	8,300
Clinic - Dunklee scholarship	1,500	-	-	1,500
Clinic - Miscellaneous	2,675	-	-	2,675
HIC -CURARTE building expense	3,038,261	-	-	3,038,261
Indigent care	85,000	-	-	85,000
Physical therapy	38,400	-	-	38,400
U.S. education	21,132	-	-	21,132
U.S. nutrition education	33,037	-	-	33,037
Professional fees	-	13,800	64,400	78,200
Telemedicine	3,677	-	-	3,677
Bank charges	410	10,232	5,395	16,037
Campaign Appeal	-	-	16,627	16,627
Copier lease expense	1,980	989	1,980	4,949
Insurance	5,174	5,331	5,174	15,679
Meeting/seminar expenses	-	4,136	-	4,136
Rent	8,815	4,408	8,815	22,038
Office expense	2,620	1,314	2,620	6,554
Salaries and taxes	31,382	15,691	31,382	78,455
Miscellaneous	670	753	702	2,125
Total expenses	$ 3,380,309	$ 56,654	$ 137,095	$ 3,574,058

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.

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.

Note 2. Fair Value Measurements

Due to the short-term nature of cash equivalents, receivables, prepaid expense, accounts payable and deferred income, 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 CSE 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 at December 31, 2011, Using:			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	$ 922,995	$ 922,995	$ -	$ -

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, 2011:

Fixed income securities	$ 853,977
Mutual funds	43,560
Money market funds	25,458
	$ 922,995

Note 4. 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, 2013. For the year ended December 31, 2011, rent expense totaled $26,987 for the copier and office space.

Future minimum lease obligations are:

Years ending December 31,	
2012	$ 24,761
2013	24,627
2014	18,277
	$ 67,665

Note 5. 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.

The following is a detail of restricted net assets:

Temporarily restricted funds	
US Education / Nutrition projects	$ 313,054
Medical clinics	193,104
DARTE - preventive maintenance	91,826
Physical therapy training	65,355
Indigent care	30,667
Telemedicine	6,323
Dr. Dunklee Scholarship Fund	5,248
DARTE Donor Wall	4,485
Nutrition	1,599
	$ 711,661
Permanently restricted funds	
Langdon Endowment Fund	$ 868,537
DARTE Endowment PMA Trust	103,583
Nutrition Endowment Fund	82,332
	$ 1,054,452

During the year ended December 31, 2011, the Foundation reclassified prior year designation from permanently restricted to temporarily restricted for needed preventive building maintenance due to a change in the donor's designation. This resulted in a transfer of $150,000 from permanently restricted to temporarily restricted for DARTE.

Note 6. 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:

HIC CURARTE/other building construction	$ 2,399,631
Indigent care	134,728
DARTE - preventive maintenance	65,790
Nutrition	43,281
Physical therapy training	38,400
Medical clinics	32,475
Telemedicine	3,677
Dr. Dunklee Scholarship Fund	1,500
	$ 2,719,482

Note 7. 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 up to 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, 2011, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 58,368	$ 1,194,452	$ 1,252,820
Investment return:			
Investment income	23,108	-	23,108
Net depreciation (Realized and unrealized)	(17,581)	-	(17,581)
Total investment return	5,527	-	5,527
Reclassification of donor restriction	150,000	(150,000)	-
Appropriation of assets for expenditure	(120,470)	-	(120,470)
Contributions	-	10,000	10,000
	35,057	(140,000)	(104,943)
Endowment net assets, end of year	$ 93,425	$ 1,054,452	$ 1,147,877

Note 8. 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 9. 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 July 21, 2015, which is the date the financial statements are available for issuance, and concluded that no events should be disclosed.