



**BORREGO COMMUNITY HEALTH SOCIETY, INC.**  
**Audited Financial Statements**  
**Years ended March 31, 2014 and 2013**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Borrego Community Health Society Inc.  
Borrego Springs, CA

We have audited the accompanying financial statements of Borrego Community Health Society, Inc. (a nonprofit organization), which comprise the statement of financial position as of March 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

The prior year summarized comparative information has been derived from Borrego Community Health Society Inc.'s 2013 financial statements, and in a report dated July 15, 2013 we expressed an unqualified opinion on those 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 of 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 Borrego Community Health Society, Inc, as of March 31, 2013, 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.

August 26, 2014

Kagan and Associates, CPAs  
Santee, CA

**BORREGO COMMUNITY HEALTH SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
**MARCH 31, 2014**  
(With comparative totals for March 31, 2013)

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 4,000	\$ 4,221
Interest Receivable	4,764	5,311
<b>Total Current Assets</b>	<u>8,764</u>	<u>9,532</u>
Endowment Investments		
Cash and cash equivalents	313,904	258,075
Investments	6,520,389	6,049,722
<b>Total Endowment Investments</b>	<u>6,834,293</u>	<u>6,307,797</u>
<b>Total Assets</b>	<u>\$ 6,843,057</u>	<u>\$ 6,317,329</u>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$	\$
<b>Total liabilities</b>	<u>-</u>	<u>-</u>
<b>Net assets</b>		
Unrealized Gain/Loss on Investments	2,087,639	1,637,942
Unrestricted Net Assets	(744,582)	(320,613)
Unrestricted Net Assets - Board Designated Restriction	2,500,000	
Permanently Restricted Net Assets	3,000,000	5,000,000
<b>Total net assets</b>	<u>6,843,057</u>	<u>6,317,329</u>
<b>Total liabilities and net assets</b>	<u>\$ 6,843,057</u>	<u>\$ 6,317,329</u>

The accompanying notes are an integral part of these financial statements.

**BORREGO COMMUNITY HEALTH SOCIETY**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended March 31, 2014  
(With comparative totals for the year ended March 31, 2013)

	<b>Unrestricted Net Assets 2014</b>	<b>Temporarily Net Assets 2014</b>	<b>Permanently Restricted Net Assets 2014</b>	<b>Total Net Assets 2014</b>	<b>2013</b>
<b>Revenue and support</b>					
Contributions	\$ 5,720	\$	\$	\$ 5,720	\$ 6,100
Realized gain/(loss)	290,196			290,196	44,251
Interest and dividends	201,351			201,351	198,745
Net assets released from restriction				-	-
<b>Total revenue and support</b>	<b>497,267</b>	<b>-</b>	<b>-</b>	<b>497,267</b>	<b>249,096</b>
<b>Expenses</b>					
Program services	356,600			356,600	291,000
General and administrative	57,786			57,786	52,393
<b>Total expenses</b>	<b>414,386</b>	<b>-</b>	<b>-</b>	<b>414,386</b>	<b>343,393</b>
<b>Change in net assets</b>	<b>82,881</b>	<b>-</b>	<b>-</b>	<b>82,881</b>	<b>(94,297)</b>
<b>Net assets, beginning of year</b>	<b>(320,613)</b>		<b>5,000,000</b>	<b>4,679,387</b>	<b>4,765,561</b>
Current Period Adjustment to Held-To-Maturity Investments	(6,850)			(6,850)	8,123
Designation of Unrestricted Net Assets as Board Designated	(500,000)				
<b>Undesignated/Unrestricted Net assets, end of year</b>	<b>(744,582)</b>				
Designation of Unrestricted Net Assets as Board Designated	500,000				
Transfer to create Board Designated Unrestricted Net Assets	2,000,000		(2,000,000)	-	
<b>Net assets, end of year</b>	<b>1,755,418</b>		<b>3,000,000</b>	<b>\$ 4,755,418</b>	<b>\$ 4,679,387</b>

The accompanying notes are an integral part of these financial statements.

**BORREGO COMMUNITY HEALTH SOCIETY**

**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended March 31, 2014

(With comparative totals for the year ended March 31, 2013)

	<b>2014</b>			<b>2013</b>
	<b>Program Services</b>	<b>General and Administrative</b>	<b>Total</b>	<b>Total</b>
Accounting Services		12,245	<b>12,245</b>	11,390
Contributions	76,600		<b>76,600</b>	11,000
Directors and officers insurance		1,350	<b>1,350</b>	1,350
Investment Expense		43,943	<b>43,943</b>	39,489
Operating Subsidy	280,000		<b>280,000</b>	280,000
Postage		48	<b>48</b>	59
Taxes, licenses and permits		200	<b>200</b>	105
<b>Total functional expenses</b>	<b>\$ 356,600</b>	<b>\$ 57,786</b>	<b>\$ 414,386</b>	<b>\$ 343,393</b>

The accompanying notes are an integral part of these financial statements.

**BORREGO COMMUNITY HEALTH SOCIETY**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended March 31, 2014  
(With comparative totals for the year ended March 31, 2013)

	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 82,884	\$ (94,297)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Interest and dividends earned on investments	(201,351)	(198,745)
Loss/(Gain) on Sale of Investments	(290,196)	(44,251)
Investment fee paid out brokerage account	43,943	39,489
(Increase)/Decrease in operating assets		
Interest receivable	547	1,421
<b>Net cash provided (used) by operating activities</b>	<b>(364,173)</b>	<b>(296,383)</b>
<b>Cash flows from investing activities:</b>		
Purchase of assets	(686,560)	(505,256)
Proceeds from the sale of stock and bonds	849,161	606,097
<b>Net cash provided (used) by investing activities</b>	<b>162,601</b>	<b>100,841</b>
<b>Cash flows from financing activities:</b>		
Interest and dividends earned on assets	201,351	198,745
<b>Net cash provided (used) by financing activities</b>	<b>201,351</b>	<b>198,745</b>
<b>Net increase (decrease) in cash</b>	<b>(221)</b>	<b>3,203</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>4,221</b>	<b>1,018</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 4,000</b>	<b>\$ 4,221</b>

The accompanying notes are an integral part of these financial statements.

**BORREGO COMMUNITY HEALTH SOCIETY, INC.**

Notes to Financial Statements  
For the Years Ended March 31, 2014 and 2013

**Note 1. Organization:**

Borrego Community Health Society Inc. (the Society), was incorporated in May 1994 as a not-for-profit corporation for the purpose of operating a community foundation that gives financial support to charitable programs. The Society's primary function is to provide support to the Borrego Medical Center through the establishment of an endowment fund.

**Note 2. Accounting Policies:**

Accounting Method. The Society's accounting records are maintained on the accrual basis in accordance with U. S. generally accepted accounting principles, whereby all income is recognized when earned and expenses are recognized when incurred. Some items have been reclassified for purposes of overall comparability and consistency of presentation.

Financial Statements The Society reports information regarding its financial position and activities following U.S. generally accepted accounting principles. These standards require recording three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions.

Net Asset Classifications Unrestricted net assets are all resources over which the Board of Directors and management have discretion to use in carrying on unrestricted activities of the Society in accordance with its by-laws. Temporarily or permanently restricted net assets are expendable only for purposes specified by the donor or grantor and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions which are received and expended during the year are included in unrestricted net assets at the Society's fiscal year-end.

**BORREGO COMMUNITY HEALTH SOCIETY, INC.**

Notes to Financial Statements (Continued)  
For the Years Ended March 31, 2014 and 2013

**Note 2. Accounting Policies (Continued):**

In August 2008, the Financial Accounting Standards Board issued FAS117, which provides guidance on net asset classification of donor-restricted endowment funds for a not-for-profit organization. The Board of Directors adopted FAS117 effective March 31, 2009. Per FAS117-1, the Society's net asset classifications are subject to the Uniform Prudent Management of Institutional Funds Act of 2006.

The Board has determined the majority of the Society's net assets meet the definition of endowment funds under UPMIFA. The Society is governed subject to the governing documents for the Society and most contributions are received subject to the terms of the Governing Document.

Under the terms of the Governing Documents, the Board of Directors has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the board in its sole discretion shall determine. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible affect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

As a result of the ability to distribute corpus, the Board of Directors has determined that all contributions received subject to the Governing Document, and subject to UPMIFA, are classified as temporarily restricted until appropriated at which time the appropriation is reclassified to unrestricted net assets. Contributions that are subject to other gift instruments may be recorded as permanently restricted, temporarily restricted or unrestricted, depending on the specific terms of the agreement.

Generally, if the corpus of a contribution will at some future time become available for spending it is recorded as temporarily restricted, if the corpus never becomes available for spending it will be reported as permanently restricted. In addition, contributions that are promised to be given in a future period are presented as temporarily restricted until payments are due.

## **BORREGO COMMUNITY HEALTH SOCIETY, INC.**

Notes to Financial Statements (Continued)  
For the Years Ended March 31, 2014 and 2013

### **Note 2. Accounting Policies (Continued):**

Endowment Investment and Spending Policies The Society 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. The Society's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to have an annual rate of return that will cover the future year's expenditures on program services and administrative costs.

To satisfy its long-term rate-of-return objectives, the Society 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 parameters.

Spending Policy The spending amount shall not exceed the current Total Endowment Investments less the Total Permanently Restricted Endowment Funds. If the Total Endowment Investments is equal to or less than the Total Permanently Restricted Endowment Funds, the spending amount shall not exceed the amount of the Net Investment Income.

At the Board of Trustees discretion, board approved distributions may be made on any basis as justified by grant submissions from qualified non-profit organizations. This Policy shall be filed with the corporate records, which include Articles of Incorporation and amended Bylaws.

This Policy was adopted by the Society Board of Trustees at its meeting of date February 3, 2014 and shall remain in effect until such time that it may be modified or eliminated by the Society Board of Trustees.

Fair Value Measurements The Society has adopted the fair value standards for financial assets and liabilities that are required to be measured at fair value on a recurring basis. The Fair Value Measurement standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). These standards do not change existing guidance as to whether or not an instrument is carried at fair value. The Society's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments – The Society's funds are considered Level 1 assets and are reported at fair value based on the fair value of the underlying assets in the funds as reported by UBS.

**BORREGO COMMUNITY HEALTH SOCIETY, INC.**

Notes to Financial Statements (Continued)  
For the Years Ended March 31, 2014 and 2013

**Note 2. Accounting Policies (Continued):**

Contributions Contributions are recognized when the donor makes a promise to give to the Society that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any, on the contributions.

Estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures as of year-end and the amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation Property and equipment with an acquisition value exceeding \$400 are capitalized and carried at cost for financial statement purposes. Donated property is capitalized at its estimated fair market value at the time of donation. On the accompanying financial statements, depreciation is recorded on equipment over the useful lives, using straight line methods as provided by the Internal Revenue Service.

Functional Expenses Expenses by function have been allocated by program and supporting services classifications on the basis of internal records and estimates made by the Society's management.

Income Tax Status The Society is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. Accordingly, no provision for income taxes is included in the accompanying financial statements.

Summarized Prior Year Information The financial statements include certain prior-year summarized information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended March 31, 2012, from which the summarized information was derived.

**BORREGO COMMUNITY HEALTH SOCIETY, INC.**

Notes to Financial Statements (Continued)  
For the Years Ended March 31, 2014 and 2013

**Note 2. Accounting Policies (Continued):**

Cash and Cash Equivalents For purposes of the Statement of Cash Flows, the Society considers all highly liquid investments purchased with initial maturity of three months or less to be cash equivalents.

**Note 3. Concentration of Credit Risk:**

The Society maintains cash balances at a brokerage firm which is not federally insured but which is insured through the Securities Investor Protection Corporation (SIPC).

**Note 4. Investments:**

Investments as of March 31, 2014 and 2013 are as follows:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Endowment:				
Common Stock	\$ 2,497,562	\$ 4,497,834	\$ 2,748,121	\$ 4,259,973
Preferred Stock Fund	85,635	86,458	146,984	150,590
Closed End Mutual Fund	1,195,549	1,247,434	856,951	933,600
Mutual Funds	200,030	196,151		
Certificate of Deposit			100,030	100,246
Corporate Bond Fund	453,974	492,512	559,694	605,313
	<u>\$ 4,432,750</u>	<u>\$ 6,520,389</u>	<u>\$ 4,411,780</u>	<u>\$ 6,049,722</u>

The following schedule summarizes the investment return and its classification for the years ended March 31<sup>st</sup>:

	2014	2013
Interest and dividends	\$ 201,351	\$ 198,745
Realized gains/(losses) on investments	290,196	44,251
Unrealized appreciation/ (depreciation) on investments	449,697	555,578
	<u>\$ 941,244</u>	<u>\$ 798,574</u>

**BORREGO COMMUNITY HEALTH SOCIETY, INC.**

Notes to Financial Statements (Continued)  
For the Years Ended March 31, 2014 and 2013

**Note 5. Restricted Net Assets:**

Permanently restricted net assets consists primarily of endowment fund investments to be held indefinitely, the income from which is expendable to support the Borrego Medical Center. The Board has determined that \$3,000,000 should be classified as permanently restricted net assets which are net assets permanently restricted by the donor or in absence of explicit donor requirements is the amount that must be retained in permanently restricted net assets in accordance with state law.

Further, the Board designated \$2,500,000 of Unrestricted Net Assets to be spent only with the Board's discretion and approval.