



**BORREGO COMMUNITY HEALTH SOCIETY, INC,
(A Nonprofit Public Benefit Corporation)**

Financial Statements and
Independent Auditors Report
For Years Ended March 31, 2015 and 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Borrego Community Health Society, Inc. (BCHS) a Nonprofit Public Benefit Corporation, which comprise the statement of financial position as of March 31, 2015, 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 2014 financial statements, and in a report dated August 26, 2014 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 BCHS, as of March 31, 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited BCHS's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 26, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Independent Auditor's Report (Cont)

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued a report dated July 31, 2015, on our consideration of BCHS internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards, in considering BCHS's internal control over financial reporting and compliance.

Kagan and Associates, CPAs
Ariel Kagan CPA, President
Santee, CA

July 31, 2015

Statement of Financial Position

BORREGO COMMUNITY HEALTH SOCIETY

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2015

(With comparative totals for March 31, 2014)

	<u>2,015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,547	\$ 4,000
Interest Receivable	<u>3,967</u>	<u>4,764</u>
Total Current Assets	<u>8,514</u>	<u>8,764</u>
Endowment Investments		
Cash and cash equivalents	365,950	313,904
Investments	<u>6,384,865</u>	<u>6,520,389</u>
Total Endowment Investments	<u>6,750,815</u>	<u>6,834,293</u>
Total Assets	<u>\$ 6,759,329</u>	<u>\$ 6,843,057</u>
Liabilities and net assets		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$	\$
Total liabilities	<u>-</u>	<u>-</u>
Net assets		
Unrealized Gain/Loss on Investments	2,016,334	2,087,639
Unrestricted Net Assets	(257,005)	(744,582)
Unrestricted Net Assets - Board Designated Restriction	2,000,000	2,500,000
Permanently Restricted Net Assets	<u>3,000,000</u>	<u>3,000,000</u>
Total net assets	<u>6,759,329</u>	<u>6,843,057</u>
Total liabilities and net assets	<u>\$ 6,759,329</u>	<u>\$ 6,843,057</u>

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

Statement of Activities and Changes in Net Assets

BORREGO COMMUNITY HEALTH SOCIETY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended March 31, 2015
(With comparative totals for the year ended March 31, 2014)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets	
	2015	2015	2015	2015	2014
Revenue and support					
Contributions	\$ 7,000	\$	\$	\$ 7,000	\$ 5,720
Realized gain/(loss)	263,197			263,197	290,196
Interest and dividends	203,672			203,672	201,351
Checking Acct. Interest	1			1	
Net assets released from restriction	-			-	-
Total revenue and support	473,870			473,870	497,267
Expenses					
Program services	311,179			311,179	356,600
General and administrative	169,822			169,822	57,786
Total expenses	481,001			481,001	414,386
Change in net assets	(7,131)			(7,131)	82,881
Net assets, beginning of year	1,755,418		3,000,000	4,755,418	4,679,387
Current Period Adjustment to Held-To-Maturity Investments	(5,292)			(5,292)	(6,850)
Net assets, end of year	\$ 1,742,995	\$ -	\$ 3,000,000	\$ 4,742,995	\$ 4,755,418

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

Statement of Functional Expenses

BORREGO COMMUNITY HEALTH SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended March 31, 2015

(With comparative totals for the year ended March 31, 2014)

	2015		2014
	<u>Program Services</u>	<u>General & Administrative</u>	<u>Total</u>
Accounting Services		15,860	12,245
Bank Charges		105	-
Contributions	101,179		76,600
Directors and officers insurance		1,444	1,350
Feasibility Study		105,350	-
Investment Expense		46,501	43,943
Office Expense			-
Operating Subsidy	210,000		280,000
Postage		42	48
Taxes, licenses and permits		130	200
Travel & Entertainment		390	-
Total functional expenses	\$ <u>311,179</u>	\$ <u>169,822</u>	\$ <u>481,001</u>
			\$ <u>414,386</u>

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

Statement of Cash Flows

BORREGO COMMUNITY HEALTH SOCIETY
STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2015
(With comparative totals for the year ended March 31, 2014)

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (7,131)	\$ 82,881
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Interest and dividends earned on investments	(203,672)	(201,351)
Loss/(Gain) on Sale of Investments	(263,197)	(290,196)
Investment fee paid out brokerage account	46,501	43,943
Foreign Tax Withholding	45	-
Net cash provided (used) by operating activities	<u>(427,454)</u>	<u>(364,723)</u>
Cash Flows From Investing Activities:		
Investment Fee Paid Out of Brokerage Account	(46,501)	(43,943)
Foreign Tax Withholding	(45)	-
Interest and dividends earned on assets	203,672	201,351
Purchase of assets	(693,397)	(686,560)
Proceeds from the sale of stock and bonds	<u>1,016,318</u>	<u>944,619</u>
Net cash provided (used) by investing activities	<u>480,047</u>	<u>415,467</u>
Cash Flows From Financing Activities:		
Net cash provided (used) by financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash	52,593	50,744
Cash and cash equivalents, beginning of year	317,904	262,296
Prior Period Adjustment		<u>4,864</u>
Cash and cash equivalents, end of year	\$ <u>370,497</u>	\$ <u>317,904</u>

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

Notes to Financial Statements

Note-1. Organization and Nature of Activities:

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.

Note-2. Significant 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.

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

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.

Notes to Financial Statements (Cont.)

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 Total Endowment Investments less the total of Board Restricted Net Assets and Total Permanently Restricted Net Assets. If the Total Endowment Investments are equal to or less than the total of Board Restricted Net Assets and Total Permanently Restricted Net Assets then the spending amount will not exceed the amount of the Total Revenue and Support less the General & Administrative Expenses.

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.

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.

Notes to Financial Statements (Cont.)

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, 2014, from which the summarized information was derived.

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, 2015 and 2014 are as follows:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Endowment:				
Common Stock	\$2,491,368	\$4,451,346	\$2,497,562	\$4,497,834
Preferred Stock Fund	-	-	85,635	86,458
Closed End Funds ETF's Equities	151,918	154,900	195,703	228,080
Closed End Mutual Fund	1,370,254	1,390,420	999,846	1,019,354
Mutual Funds	-	-	200,030	196,151
Corporate Bond Fund	354,991	388,199	453,974	492,512
Total	\$4,368,531	\$6,384,865	\$4,432,750	\$6,520,389

Notes to Financial Statements (Cont.)

The following schedule summarizes the investment return and its classification for the years ended March 31st 2015 and 2014

	2015	2014
Interest and dividends	\$203,672	\$201,351
Realized gains/(losses) on investments	263,197	290,196
Unrealized appreciation/ (depreciation) on investments	71,305	449,697
Total	\$538,174	\$941,244

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 medical services in the Borrego Valley. 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 \$2,000,000 of Unrestricted Net Assets to be spent only with the Board's discretion and approval