

**DESERT HEALTHCARE FOUNDATION**  
**PALM SPRINGS, CALIFORNIA**  
**INDEPENDENT AUDITOR'S REPORT AND**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**DESERT HEALTHCARE FOUNDATION**

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**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Board of Directors  
of the Desert Healthcare Foundation  
Palm Springs, California

We have audited the accompanying financial statements of Desert Healthcare Foundation (Foundation), a not-for-profit organization and a component unit of the Desert Healthcare District, which comprise the statement of financial position, as of June 30, 2019 and the related statements of activities, functional expenses, and cash flows for the fiscal 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 Desert Healthcare Foundation as of June 30, 2019 and the changes in its net assets, functional expenses, and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting Principle*

As discussed in Note 1 to the financial statements, effective July 1, 2018, the Foundation adopted the Financial Accounting Standards Board (FASB) issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2019, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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 the Foundation's internal control over financial reporting and compliance.

## **Report on Comparative Summarized Information**

We have previously audited the Foundation's 2018 financial statements, and our report dated October 1, 2018 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Culver City, California  
October 1, 2019

**DESERT HEALTHCARE FOUNDATION**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2019**

**WITH COMPARATIVE TOTALS FOR JUNE 30, 2018**

	Totals	
	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and investments	\$ 945,995	\$ 3,447,997
Grants receivable	1,000,000	1,030,829
Prepaid expenses	3,500	3,540
Accrued interest and dividend receivable	17,732	13,787
	<u>1,967,227</u>	<u>4,496,153</u>
<b>OTHER ASSETS</b>		
Contributions receivable - charitable remainder trusts	189,239	188,929
Investments	5,853,791	2,499,286
Total other assets	<u>6,043,030</u>	<u>2,688,215</u>
<b>TOTAL ASSETS</b>	<u>\$ 8,010,257</u>	<u>\$ 7,184,368</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued payroll	\$ 70,955	\$ 83,980
Grants payable - current	3,384,450	3,621,167
Total current liabilities	<u>3,455,405</u>	<u>3,705,147</u>
Long-term liabilities:		
Grants payable - long-term	2,260,000	1,200,000
Total long-term liabilities	<u>2,260,000</u>	<u>1,200,000</u>
Total liabilities	<u>5,715,405</u>	<u>4,905,147</u>
<b>NET POSITION</b>		
Without donor restrictions	2,096,517	2,090,292
With donor restrictions	198,335	188,929
Total net position	<u>2,294,852</u>	<u>2,279,221</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 8,010,257</u>	<u>\$ 7,184,368</u>

The accompanying notes are an integral part of these financial statements

**DESERT HEALTHCARE FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2019	2018
<b>REVENUES AND GAINS</b>				
Contributions	\$ 21,652	\$ 9,096	\$ 30,748	\$ 226,403
Grants and bequests	1,266,188	-	1,266,188	5,339,347
Interest and dividends	115,058	-	115,058	65,341
Investment gains (losses)	386,648	-	386,648	(49,499)
Change in value - charitable trusts	-	310	310	3,506
Total revenues and gains	1,789,546	9,406	1,798,952	5,585,098
<b>EXPENSES</b>				
Grants and social services	1,536,658	-	1,536,658	5,314,610
Management and general	246,663	-	246,663	286,762
Total expenses	1,783,321	-	1,783,321	5,601,372
<b>CHANGE IN NET POSITION</b>	6,225	9,406	15,631	(16,274)
<b>NET POSITION, BEGINNING OF FISCAL YEAR</b>	2,090,292	188,929	2,279,221	2,295,495
<b>NET POSITION, END OF FISCAL YEAR</b>	\$ 2,096,517	\$ 198,335	\$ 2,294,852	\$ 2,279,221

The accompanying notes are an integral part of these financial statements

**DESERT HEALTHCARE FOUNDATION**

**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Grants and Services	Management and General	Totals	
			2019	2018
Grants and social services	\$ 1,536,658	\$ -	\$ 1,536,658	\$ 5,314,610
Management and general expenses	-	246,663	246,663	286,762
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 1,536,658</b>	<b>\$ 246,663</b>	<b>\$ 1,783,321</b>	<b>\$ 5,601,372</b>

The accompanying notes are an integral part of these financial statements

**DESERT HEALTHCARE FOUNDATION**

**STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net position	\$ 15,631	\$ (16,274)
Adjustments to reconcile increase (decrease) in net position to net cash provided by operating activities:		
Unrealized (gains) losses on investments	(386,648)	49,499
Increase (decrease) in operating assets:		
Grants receivable	30,829	(1,016,352)
Other current assets	40	(1,040)
Charitable trusts	(310)	86,723
Accrued interest and dividends	(3,945)	(2,255)
Increase (decrease) in operating liabilities:		
Accounts payable	(13,025)	67,668
Deferred grant income	-	(2,000,000)
Grants payable	<u>823,283</u>	<u>4,403,875</u>
Net cash provided by operating activities	<u>465,855</u>	<u>1,571,844</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investment activity	<u>(2,967,857)</u>	<u>(141,410)</u>
Net cash used by investing activities	<u>(2,967,857)</u>	<u>(141,410)</u>
Net increase (decrease) in cash and investments	(2,502,002)	1,430,434
<b>Cash and investments, beginning of fiscal year</b>	<u>3,447,997</u>	<u>2,017,563</u>
<b>Cash and investments, end of fiscal year</b>	<u>\$ 945,995</u>	<u>\$ 3,447,997</u>
<b>RECONCILIATION TO STATEMENT OF NET POSITION</b>		
Cash and investments	<u>\$ 945,995</u>	<u>\$ 3,447,997</u>
Total cash and investments	<u>\$ 945,995</u>	<u>\$ 3,447,997</u>

The accompanying notes are an integral part of these financial statements



# DESERT HEALTHCARE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

Desert Healthcare Foundation (Foundation), a not-for-profit organization, is a health and welfare organization created to identify the health care needs of the Desert Healthcare District (District) and to work toward treating those needs through various programs and services. The Foundation is a component unit of the District due to the nature and significance of their relationship with the District. The Foundation operates primarily in the Coachella Valley area of Southern California and, as such, is subject to market conditions, which could affect charitable giving and the realization of recorded asset values at various times.

#### Basis of Accounting

The Foundation uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

#### Financial Statement Presentation

The financial statements of the Foundation have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018. In addition, the Foundation is required to present a statement of cash flows and a statement of functional expenses.

#### Revenue Recognition

Under the provisions of the Guide, net position and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net positions of the Foundation and changes therein are classified as follows:

Net position without donor restrictions: Net position that is not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. The Foundation's board may designate assets without restrictions for specific operational purposes from time to time.

Net position with donor restrictions: Net position subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Foundation has net position with donor restrictions of \$198,335 at June 30, 2019.

#### Donated Facilities and Services

The District has provided to the Foundation the use of its office facilities at no charge. For the fiscal year ended June 30, 2019 the District allocated to the Foundation \$212,016 related to personnel charges. The value of the on-site facilities is not reflected in these statements, as they do not meet the criteria for recognition.

**DESERT HEALTHCARE FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Contributions**

Unconditional contributions are recognized when pledged and recorded as net position without donor restrictions or net position with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net position with donor restrictions are reclassified to net position without donor restrictions and reported in the statement of activities as net position released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net position without donor restriction support.

**Cash and Cash Equivalents**

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Investments**

Investments are stated at fair value. Realized and unrealized gains and losses on investments are recognized as changes in net assets in the periods in which they occur.

**Income Taxes**

The Foundation is a not-for-profit organization that is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), and from California franchise taxes under related state tax regulations and classified by the Internal Revenue Service as other than a private foundation. The Foundation may be subject to tax on income from any unrelated business operations. The Foundation does not currently have any unrelated business operations. The federal and State income tax returns for the fiscal years ended June 30, 2018, 2017 and 2016 (IRS) and 2018, 2017, 2016 and 2015 (FTB) are open to audit by the applicable taxing authorities.

**Memorandum Totals**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the prior year, from which the summarized information was derived.

# **DESERT HEALTHCARE FOUNDATION**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **New Accounting Pronouncement**

On August 18, 2016, Financial Accounting Standards Board (FASB) issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. See Notes 4, 6, and 7 for further details.

### **2. FAIR VALUE MEASUREMENTS**

The Foundation applies Generally Accepted Accounting Principles (US GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

At June 30, 2019, all investments are measured at fair value on a recurring basis and were valued at Level 1 inputs (quoted prices in active markets for identical assets). Fair value for investments at June 30, 2019 was \$5,853,791. (See Note 3)

### **3. CASH AND INVESTMENTS**

#### **Demand Deposits**

The carrying amounts, at June 30, 2019, of the Foundation's cash deposits were \$810,427 and money market funds were \$135,568. Bank balances were \$810,427 at June 30, 2019. Occasionally, the Foundation's cash balance in banks exceeds the Federal Deposit Insurance Corporation's insurance limits.

**DESERT HEALTHCARE FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**3. CASH AND INVESTMENTS (CONTINUED)**

Investments

At June 30, 2019, investments consisted of the following:

	Cost	Fair Value	Unrealized Gain (Loss)
Corporate bonds	\$ 1,357,323	\$ 1,410,937	\$ 53,614
U.S. Government agencies	408,238	418,965	10,727
U.S. Treasury notes	839,963	867,003	27,040
Mutual funds	1,197,432	1,204,392	6,960
Marketable securities	1,570,080	1,952,494	382,414
Total Investments	<u>\$ 5,373,036</u>	<u>\$ 5,853,791</u>	<u>\$ 480,755</u>

**4. LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019.

	2019	2018
Financial assets:		
Cash and investments	\$ 6,799,786	\$ 5,947,283
Grants receivable	1,000,000	1,030,829
Accrued interest and dividend receivable	17,732	13,787
Contributions receivable - CRT	189,239	188,929
Total financial assets	<u>8,006,757</u>	<u>7,180,828</u>
Less financial assets held to meet donor-imposed restrictions:		
Purpose-restricted net assets (Note 6)	(5,644,450)	(4,821,167)
Interest in charitable remainder trust (Note 5)	(189,239)	(188,929)
Donor-restricted funds (Note 6)	(9,096)	-
Amount available for general expenditures within one year	<u>\$ 2,163,972</u>	<u>\$ 2,170,732</u>

The above table reflects donor-restricted and board-designated funds as unavailable because it is the Foundation's intention to invest resources for the long-term support of the organization. However, in the case of need, the Board of Directors could appropriate resources from the purpose-restricted funds available for general use. As part of the Foundation's liquidity management plan, they invest cash in excess of daily requirements in short-term investments (Note 3).

**5. SPLIT INTEREST AGREEMENTS**

Charitable Remainder Trusts

The Foundation was named beneficiary to two additional charitable remainder unitrusts (whose trustees are someone other than the Foundation), all of which are recorded at fair value. The general terms of the two trusts are as follows:

Trust 4 (dated October 3, 1989): The lesser of the trust income or 8% of the net fair market value of trust assets is to be distributed to the life beneficiary annually. Upon the death of the life beneficiary, 50% of the principal and income not required to have been distributed to the life beneficiary shall become the property of the Foundation, to be used for cancer treatment, or for general purposes if a cure for cancer has been found. At December 31, 2018, which is the most current information available, the estimated present value of future cash flows was \$126,022.

**DESERT HEALTHCARE FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**5. SPLIT INTEREST AGREEMENTS (CONTINUED)**

Trust 7 (dated May 17, 1990): 8.5% of the net fair market value of trust assets is to be distributed to the life beneficiary annually. Upon the death of the life beneficiary, all of the principal and income not required to have been distributed to the life beneficiary shall become the property of the Foundation, to be used for general purposes. The estimated present value of future cash flows at June 30, 2019 was \$63,217.

**6. GRANTS AND SERVICES PAYABLE**

Grants and services provided by the Foundation consisted of the following for the fiscal years ended June 30:

	<u>2019</u>	<u>2018</u>
Grant for Health Portal	\$ 131,898	\$ 195,888
Grant for Swim Lessons	70,573	53,904
California Endowment and School District	64,817	189,375
West Valley Homelessness Initiative	2,125,712	1,382,000
Avery Trust - Pulmonary	1,000,000	1,000,000
Behavioral Health Initiative Collective Fund	1,985,200	2,000,000
Galilee Center - Emergency	41,250	-
East Valley Grant Funding	<u>225,000</u>	<u>-</u>
Total Grants Payable	<u>\$ 5,644,450</u>	<u>\$ 4,821,167</u>

**7. NET POSITION – WITH DONOR RESTRICTIONS**

Donor restricted net position consist for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Summer Homeless Survival Fund	\$ 9,096	\$ -
Charitable Remainder Trust	<u>126,022</u>	<u>122,540</u>
	<u>135,118</u>	<u>122,540</u>
Subject to the passage of time:		
Charitable Remainder Trust	<u>63,217</u>	<u>66,389</u>
	<u>63,217</u>	<u>66,389</u>
Net Position - with donor restrictions	<u>\$ 198,335</u>	<u>\$ 188,929</u>

**8. RELATED PARTY TRANSACTIONS**

The Foundation and the Desert Healthcare District are related parties. The Foundation is organized to provide health and welfare assistance to Coachella Valley residents in need. The District donates funds (\$1,136,000) to the Foundation, to help fulfill their purpose. The District also provides the Foundation with office space and personnel (\$212,016).

**9. SUBSEQUENT EVENTS**

The Foundation evaluated all potential subsequent events as of October 1, 2019 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after June 30, 2019 or as of October 1 2019 that require disclosure to the financial statements.