

MOMS Orange County
Financial Statements
Year ended June 30, 2015
(With Independent Auditors' Report Thereon)

MOMS Orange County
Financial Statements
Year ended June 30, 2015

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Board of Directors
MOMS Orange County
Santa Ana, California

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of MOMS Orange County (the "Organization"), which comprise the statements of financial position as of June 30, 2015 and the related statements of activities, and cash flows for the 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.

Auditors' 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 auditors' 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 Organization'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 MOMS Orange County as of June 30, 2015, 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.

Davis Fan LLP

November 23, 2015
Irvine, California

MOMS Orange County
Statement of Financial Position
June 30, 2015

Assets

Cash and cash equivalents (note 2)	\$ 1,173,782
Investments (note 2)	3,299,646
Grants and contracts receivable	45,000
Accounts receivable	60,527
Prepaid expenses	30,023
Property and equipment, net (note 3)	<u>2,234,806</u>
 Total assets	 <u>\$ 6,843,784</u>

Liabilities and Net Assets

Liabilities:	
Accounts payable	\$ 43,576
Accrued expenses and other liabilities	<u>252,463</u>
 Total liabilities	 <u>296,039</u>
 Net assets (note 9):	
Unrestricted	6,303,079
Temporarily restricted	<u>244,666</u>
 Total net assets	 <u>6,547,745</u>
 Total liabilities and net assets	 <u>\$ 6,843,784</u>

See accompanying notes to the financial statements.

MOMS Orange County
Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Support, revenues and gains:			
Contracts	\$ 4,650,268	-	4,650,268
Contributions	395,698	226,500	622,198
Special events, net	61,354	-	61,354
Rental income	39,000	-	39,000
Investment income, net	5,377	-	5,377
Subtotal support, revenues and gains	5,151,697	226,500	5,378,197
Net assets released from restrictions (note 8)	122,322	(122,322)	-
Total support, revenues and gains	5,274,019	104,178	5,378,197
Expenses:			
Program Services	3,454,008	-	3,454,008
Supporting Services			
Administration	200,785	-	200,785
Fund Development	401,565	-	401,565
Total expenses	4,056,358	-	4,056,358
Change in net assets	1,217,661	104,178	1,321,839
Net assets at beginning of year, as restated (note 10)	5,085,418	140,488	5,225,906
Net assets at end of year	\$ 6,303,079	244,666	6,547,745

See accompanying notes to the financial statements.

MOMS Orange County
Statement of Functional Expenses
Year Ended June 30, 2015

	<u>Supporting Services</u>			Total Supporting Services	Total Expenses
	Program Services	Administration	Fund Development		
Salaries	\$ 2,598,017	152,825	305,649	458,474	3,056,491
Benefits and insurance	413,687	24,335	48,668	73,003	486,690
Depreciation	26,316	1,548	3,096	4,644	30,960
License, permits and fees	2,857	168	336	504	3,361
Professional fees	118,071	6,945	13,891	20,836	138,907
Repairs and maintenance	35,395	2,082	4,164	6,246	41,641
Supplies	14,663	863	1,725	2,588	17,251
Postage and delivery	2,159	127	254	381	2,540
Utilities	39,789	2,341	4,681	7,022	46,811
Computer support	31,765	1,869	3,736	5,605	37,370
Training and travel	92,009	5,412	10,825	16,237	108,246
Program specific expenses	40,691	-	-	-	40,691
Marketing and public relations	25,229	1,484	2,968	4,452	29,681
Insurance expense	13,360	786	1,572	2,358	15,718
Total functional expenses after allocation	\$ 3,454,008	200,785	401,565	602,350	4,056,358

See accompanying notes to the financial statements.

MOMS Orange County
Statement of Cash Flows
Year Ended June 30, 2015

Cash flows from operating activities:	
Increase in net assets	<u>\$ 1,321,839</u>
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Depreciation expense	30,960
Unrealized (gain) on investments	(754)
(Increase) decrease in grants and contracts receivable	(45,000)
(Increase) decrease in accounts receivable	24,554
(Increase) decrease in prepaid expenses	5,174
Increase (decrease) in accounts payable	(603)
Increase (decrease) in accrued expenses and other liabilities	<u>(54,433)</u>
Total adjustments	<u>(40,102)</u>
Net cash (used for) provided by operating activities	<u>1,281,737</u>
Cash flows from investing activities:	
Purchase of investments	(4,286,000)
Sale of investments	2,648,810
Acquisition of property and equipment	<u>(7,799)</u>
Net cash provided by (used for) investing activities	<u>(1,644,989)</u>
Net increase (decrease) in cash and cash equivalents	(363,252)
Cash and cash equivalents at beginning of year	<u>1,537,034</u>
Cash and cash equivalents at end of year	<u>\$ 1,173,782</u>

There were no significant noncash financing or investing activities for the years ended June 30, 2015.

See accompanying notes to the financial statements.

MOMS Orange County
Notes to Financial Statements
Year ended June 30, 2015

(1) Summary of Significant Accounting Policies

(a) Organization and Background

Founded in 1992, MOMS Orange County grew out of a public-private partnership created to help solve a severe prenatal care crisis in Orange County. The mission of MOMS Orange County is to help mothers and their families have healthy babies by providing health coordination, education, and access to community services. MOMS Orange County is a uniquely qualified organization that provides access to prenatal care, health screenings, infant development screenings, health education and referral services through monthly home visits and group classes.

The health of the community has improved because MOMS Orange County provides mothers with access to prenatal care, babies are born healthy and reach their developmental milestones on time, and fathers are prepared for a positive role in the family. MOMS Orange County has demonstrated through rigorous outside evaluation that its program is not only sound, but is bringing children in a highly disadvantaged population to health and developmental levels that exceed those set by the general population.

MOMS Orange County serves more than 3,700 low-income families annually and has been recognized by the Children & Families Commission of Orange County, the Orange County Health Care Agency, the California Department of Health Services, and the United States Congress for its innovative work in the community and impact on the health of women and babies in Orange County. MOMS functions as a private sector 501(c)(3) nonprofit organization.

(b) Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally in the United States of America. Net assets are categorized as unrestricted, temporarily restricted, or permanently restricted, a description of which is as follows:

Unrestricted net assets

Unrestricted net assets are net assets such as contributions, special events, fees and other forms of unrestricted revenue and expenditures related to the general operations and special events efforts of the organization that are not subject to donor-imposed restrictions.

Temporarily restricted net assets

Temporarily restricted net assets are net assets subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time. Temporarily restricted resources whose restrictions are met in the same reporting period are recorded as unrestricted.

MOMS Orange County
Notes to Financial Statements
Year ended June 30, 2015

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting, (Continued)

Permanently restricted net assets

Permanently restricted net assets are utilized to record resources received that are permanently restricted as to use by the donor or grantor. MOMS has no permanently restricted net assets at this time.

(c) Accounting Estimates

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amount of assets, liabilities, revenues, and expenses, as well as any contingent assets and liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of financial statements.

(d) Income Tax Status

The Organization is a not-for-profit organization that is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. MOMS Orange County federal Return of Organization Exempt from Income Tax (Form 990) for the last three fiscal years are subject to IRS examination. As of the date of this report, MOMS Orange County's return covering the fiscal year ended June 30, 2015 has not yet been filed.

(e) Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of ninety days or less to be cash equivalents.

MOMS Orange County
Notes to Financial Statements
Year ended June 30, 2015

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(f) Revenue, Contributions and Restrictions

The Organization receives some of its grants and revenue from government agencies, programs and through contracts. Revenue is recognized when earned. Rental income and interest income are recognized when earned.

Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by the Organization with the terms of the grants and contracts.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Grants and other contributions of cash and other assets are reported as temporarily restricted or permanently restricted support 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 net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions whose restrictions are met in the same year as the receipt of the contribution are reported as unrestricted support.

Revenue is generally recognized upon the earlier receipt of either a cash remittance or pledge. A pledge is defined as a donor's written, unconditional promise to give. Pledges are recorded as revenue and accounts receivable in accordance with accounting principles generally accepted in the United States of America. Conditional promises to give are not recorded in the financial statements until the condition on which it depends is substantially met. Unconditional promises to give, which are the multi-year sponsorship contracts, are recorded based on their estimated future cash flows, with a corresponding discount to reduce the expected cash flows to net present value.

(g) Fair Value Measurements

MOMS Orange County reports required types of financial instruments in accordance with fair value accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. In addition, MOMS Orange County reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting

MOMS Orange County
Notes to Financial Statements
Year ended June 30, 2015

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(g) Fair Value Measurements, (Continued)

purposes when the criteria for using this method are met. Fair value measurement standards also require MOMS Orange County to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Level 2 also includes practical expedient investments with notice periods for redemption of 90 days or less.
- Level 3 - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 also includes principal expedient investments with notice periods for redemption of more than 90 days.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

MOMS Orange County
Notes to Financial Statements
Year ended June 30, 2015

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(h) Property and Equipment

Property and equipment accounts are stated at cost less accumulated depreciation. Betterments and major improvements are added to the respective asset's cost while ordinary repairs that do not extend useful lives are expensed as incurred. When an asset is sold or otherwise disposed of the cost of the asset and the related accumulated depreciation is removed from the accounts and any resulting gain or loss is included in the statement of activities.

Depreciation and amortization of property and equipment are provided on the straight-line method over the estimated useful lives ranging from three to thirty-nine years.

(i) Grants and Contracts Receivable

Grants and contracts receivable are the amounts due from grantors and funding agencies that were not received as of June 30, 2015. No allowance for uncollectible accounts has been provided since management believes all receivables are collectible.

(i) Donated Services and Materials

Donated materials and other noncash contributions are recorded at their estimated fair market value at date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis of deriving their value. MOMS Orange County received donated services from a substantial number of volunteers who donated their time to the Organization's program and fundraising activities. All volunteer services of MOMS Orange County did not meet the above criteria.

(k) Functional Allocation of Expenses

The costs of providing the Organization's program and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated between the program and supporting services benefited.

(n) Subsequent Events

In accordance with ASC 855, subsequent events have been evaluated by management of the Organization through November 23, 2015 which is the date the financial statements were available to be issued.

MOMS Orange County
Notes to Financial Statements
Year ended June 30, 2015

(Continued)

(2) Cash, Cash Equivalents and Investments

Cash and investments held by the Organization are reported in the accompanying financial statements as follows at June 30, 2015:

Cash and cash equivalents	\$ 1,173,782
Investments	<u>3,299,646</u>
Total cash and investments	<u>\$ 4,473,428</u>

Investment income consists of the following for the year ended June 30, 2015:

Interest and dividend income	\$ 11,132
Net unrealized gains (losses)	754
Less: management fees	<u>(6,509)</u>
Investment income (loss), net	<u>\$ 5,377</u>

Fair values of assets measured on a recurring basis at June 30, 2015 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Common Fund (OCCF)	\$ 293,027	-	-	293,027
Certificates of Deposit	3,006,619	-	3,006,619	-
Total	<u>\$ 3,299,646</u>	<u>-</u>	<u>3,006,619</u>	<u>293,027</u>

The Organization entered into an agreement with Orange County Community Foundation to hold, manage, invest and reinvest funds on behalf of MOMS.

The table below presents information about recurring fair value measurements that use significant unobservable inputs (Level 3 measurements):

Fair value at the beginning of the year	\$ 261,702
Contributions	36,000
Interest and dividends	5,170
Investment fees	(5,096)
Change in fair value	<u>(4,749)</u>
Fair Value at the end of the year	<u>\$ 293,027</u>

MOMS Orange County
Notes to Financial Statements
Year ended June 30, 2015

(Continued)

(3) Property and Equipment

Property and equipment consist of the following at June 30, 2015:

Land	\$ 1,425,000
Building	677,538
Building improvements	320,526
Furniture and fixtures	105,497
Office equipment	<u>137,994</u>
 Total property and equipment	 2,666,555
 Less: Accumulated depreciation	 <u>(431,749)</u>
 Total property and equipment, net	 <u>\$ 2,234,806</u>

Depreciation expense amounted to \$30,960 for the year ended June 30, 2015.

(4) Lease Commitments

The Organization leases office equipment under various non-cancellable leases with payments ranging from \$38 to \$2,206 per month. The leases expire in May 2018. The lease expense was \$28,618 for year ending June 30, 2015. Future minimum payments under these leases are as follows for the year ending June 30, 2015:

Future minimum lease payments required by the capital lease obligation are as follows:

<u>Year ending June 30</u>	<u>Principal</u>
2016	\$ 26,472
2017	26,472
2018	<u>6,618</u>
 Total payments	 <u>\$ 59,562</u>

(5) Concentrations of Credit Risk

Grants require the fulfillment of certain conditions as set forth in the agreement. Failure to fulfill the conditions could result in the return of the funds to grantors. Although that is a possibility, the Board deems the contingency remote and has determined by accepting the grants and their terms that the Corporation's objectives satisfy the provisions of the grants.

MOMS Orange County

Notes to Financial Statements

Year ended June 30, 2015

(Continued)

(6) Retirement Plan

The Organization has an Internal Revenue Code 403(b) retirement plan for all eligible employees. All employees are eligible to participate in the plan. Generally, employees can defer a portion of their salary into the plan, not to exceed Federal and State limitations. The plan is a non-contributory plan.

(7) Endowment Composition and Changes in Endowment Net Assets

General Board Policy on Administration of Endowment Funds

The Board of Directors of MOMS Orange County has interpreted the California Uniform Prudent Management of Institutional Funds Acts (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment and the maintenance of the original purchasing power of donor-directed gifts and board-directed contributions over time, while safeguarding funds during market fluctuations and providing stability and liquidity for annual distributions. As a result of this interpretation, donor-directed gifts are classified as permanently restricted net assets; however restrictions on the use of permanently endowed funds are not accepted.

Investment Policy for Endowment Funds

MOMS Orange County has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to program supported by its endowment assets while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in the Orange County Community Foundation. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Return Objectives and Risk Parameter

The primary investment objective of MOMS Orange County is to obtain a return (income and capital appreciation), over time, that will provide funding for MOMS Orange County programs and activities, with due consideration for the preservation of capital. Long-term growth is more important than short-term results.

The return objective for MOMS Orange County, measured over a full market cycle of 5-7 years shall be the return of a custom index made up of 17% Russell 1000 Value Index, 15% Russel 1000 Growth Index, 8% Russell 2000 Value Index, 20% MSCI EAFE Before Tax Index 5% MSCI Emerging Markets Index, 5% NCRIF Property Index, 5% S&P 500, 22% Barclays Capital Aggregate (formerly Lehman Brothers Aggregate Bond Index) and 3% 90 day Treasury Bills.

MOMS Orange County
Notes to Financial Statements
Year ended June 30, 2015

(Continued)

(7) Endowment Composition and Changes in Endowment Net Assets, (Continued)

Return Objectives and Risk Parameter, (Continued)

Risk shall be carefully controlled by investing in broadly diversified investment strategies and by investing in several different asset classes (such as large cap growth and value equities, small cap value equities, international equities, emerging markets, fixed income instruments, real estate, private equity and cash equivalents). It is expected that the level of risk as measured by the annualized standard deviation of quarterly returns shall be less than that of the custom index made up of the indexes referred to above.

Spending Policy for Endowment Funds

MOMS Orange County considered the long-term expected return on its investment assets the nature and duration of the endowment fund which must be maintained in perpetuity, and the possible effects of inflation. The policy is consistent with MOMS Orange County objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return. The payout policy of endowment funds is approved annually by the Board of Governors of the Orange County Community Foundation. The payout rate policy is 5% based on the 12 quarter rolling average. Disbursements from principal of endowed funds will be allowed.

Endowment Net Assets Composition by Type of Fund

	<u>Unrestricted</u>
Board designated endowment funds	<u>\$ 293,027</u>
Changes in the Endowment balance for the year ended June 30, 2015 was as follows:	
	<u>Unrestricted</u>
Endowment net assets at July 1, 2014	\$ 261,702
Contributions	36,000
Investment earnings	5,170
Unrealized loss	(4,749)
Investment fees	<u>(5,096)</u>
Endowment net assets at June 30, 2015	<u>\$ 293,027</u>

MOMS Orange County
Notes to Financial Statements
Year ended June 30, 2015

(Continued)

(8) Net Assets Released from Restrictions

Expiration of program restrictions:	
Maternal child health coordination	\$ 95,836
Health education	19,711
Other	6,775
Total net assets released from restriction	<u>\$ 122,322</u>

(9) Net Assets

Net assets consisted of the following at June 30, 2015:

Unrestricted net assets:	
Investment in property and equipment,	\$ 2,234,806
Board designated endowment	293,027
Undesignated, available for operations	<u>3,775,246</u>
Total unrestricted net assets	<u>6,303,079</u>
Temporarily restricted net assets:	
Program restrictions:	
Maternal child health coordination	174,652
Health education	30,289
Other	24,725
Time restrictions	<u>15,000</u>
Total temporarily restricted net assets	<u>244,666</u>
Total net assets	<u>\$ 6,547,745</u>

(10) Prior Period Adjustment

During the fiscal year ended June 30, 2015, the following adjustments were made to beginning net assets.

Net Assets at beginning of year, as previously reported	\$ 5,064,031
Adjustment to record revenue reported as deferred income in prior year	<u>161,875</u>
Total unrestricted net assets	<u>\$ 5,225,906</u>