

SAN DIEGO COUNTY MEDICAL SOCIETY FOUNDATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2010



Leaf & Cole, LLP
Certified Public Accountants

**SAN DIEGO COUNTY MEDICAL SOCIETY FOUNDATION
FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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Independent Auditor's Report

To the Board of Directors
San Diego County Medical Society Foundation
5575 Ruffin Road, Suite 250
San Diego, California 92123

We have audited the accompanying statement of financial position of San Diego County Medical Society Foundation as of September 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from San Diego County Medical Society Foundation's 2009, financial statements and in our report dated December 18, 2009, we expressed an unqualified opinion on those financial statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego County Medical Society Foundation as of September 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of functional expense for the year ended September 30, 2010 is presented for purposes of additional analysis and is not a required part of the 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. The summarized comparative information included in the supplementary schedule of functional expenses for the year ended September 30, 2009 has been derived from San Diego County Medical Society Foundation's 2009 financial statements and in our report dated December 18, 2009, we expressed our opinion that the information was fairly stated in all material respects in relation to the financial statements as a whole.

Leaf & Cole LLP
San Diego, California
January 13, 2011

**SAN DIEGO COUNTY MEDICAL SOCIETY FOUNDATION
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2009)**

ASSETS

	<u>2010</u>	<u>2009</u>
<u>Assets:</u> (Notes 1, 2, 3, 4 and 5)		
Cash and cash equivalents	\$ 73,367	\$ 166,254
Investments	625,493	504,808
Accounts receivable	55,811	53,928
Contributions receivable	40,000	-
Notes receivable, net	41,596	48,411
Equipment, net	-	630
	-	630
TOTAL ASSETS	\$ 836,267	\$ 774,031

LIABILITIES AND NET ASSETS

<u>Liabilities:</u> (Note 1)		
Accounts payable and accrued expenses	\$ 14,283	\$ 5,921
Deferred grant revenue	191,194	312,585
Total Liabilities	205,477	318,506
<u>Commitment</u> (Note 7)		
<u>Net Assets:</u> (Notes 1 and 6)		
Unrestricted	266,777	203,699
Temporarily restricted	364,013	251,826
Total Net Assets	630,790	455,525
TOTAL LIABILITIES AND NET ASSETS	\$ 836,267	\$ 774,031

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

SAN DIEGO COUNTY MEDICAL SOCIETY FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2010</u>	<u>Total 2009</u>
<u>Support and Revenues:</u>				
Grants	\$ 603,865	\$ -	\$ 603,865	\$ 575,837
Contributions	88,731	105,000	193,731	63,769
Contract income	26,092		26,092	-
Investment income (loss)	640	20,472	21,112	(44,154)
Other income (loss)	877	-	877	(1,089)
Gain on sale of equipment	328	-	328	-
Bad debt recovery	-	-	-	20,934
Net assets released from restrictions	13,285	(13,285)	-	-
Total Support and Revenues	<u>733,818</u>	<u>112,187</u>	<u>846,005</u>	<u>615,297</u>
<u>Expenses:</u>				
Program Services	<u>622,138</u>	<u>-</u>	<u>622,138</u>	<u>584,672</u>
<u>Supporting Services:</u>				
Management and general	32,833	-	32,833	50,216
Fundraising	15,769	-	15,769	8,258
Total Supporting Services	<u>48,602</u>	<u>-</u>	<u>48,602</u>	<u>58,474</u>
Total Program and Supporting Services Expenses	<u>670,740</u>	<u>-</u>	<u>670,740</u>	<u>643,146</u>
Change in Net Assets	63,078	112,187	175,265	(27,849)
Net Assets At Beginning of Year	<u>203,699</u>	<u>251,826</u>	<u>455,525</u>	<u>483,374</u>
NET ASSETS AT END OF YEAR	<u>\$ 266,777</u>	<u>\$ 364,013</u>	<u>\$ 630,790</u>	<u>\$ 455,525</u>

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

SAN DIEGO COUNTY MEDICAL SOCIETY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2009)

	<u>2010</u>	<u>2009</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ 175,265	\$ (27,849)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	558	1,263
Gain on sale of equipment	(328)	-
Realized and unrealized (gains) losses on investments	(20,685)	44,581
(Increase) Decrease in:		
Accounts receivable	(1,883)	(34,442)
Prepaid expenses	-	145
Contributions receivable	(40,000)	-
Increase (Decrease) in:		
Accounts payable and accrued expenses	8,362	(12,695)
Deferred grant revenue	(121,391)	(45,208)
Net Cash Provided by Operating Activities	<u>(102)</u>	<u>(74,205)</u>
<u>Cash Flows From Investing Activities:</u>		
Investments, net	(100,000)	140,000
Notes receivable, net	6,815	5,270
Proceeds from sale of equipment	400	-
Net Cash Used in Investing Activities	<u>(92,785)</u>	<u>145,270</u>
Change in Cash and Cash Equivalents	(92,887)	71,065
Cash and Cash Equivalents at Beginning of Year	<u>166,254</u>	<u>95,189</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 73,367</u>	<u>\$ 166,254</u>

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

SAN DIEGO COUNTY MEDICAL SOCIETY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2009)

Note 1 - Organization and Significant Accounting Policies:

Organization

The San Diego County Medical Society Foundation (the "Foundation") is a California Nonprofit Organization. The Foundation's mission is to build a healthier San Diego by addressing unmet healthcare needs for all patients and physicians through education, innovation, and service.

The Foundation's programs consist of the following initiatives:

Access to Care

The Foundation is in support of local organizations that provide direct care to the neediest of our community. By recruiting physicians who wish to donate their services, helping to connect the needy to low-cost specialty care, or providing direct financial support to these organizations, the Foundation is committed to playing an active role in solving this community-wide problem.

Medical Student Support

By expanding the original mission of the organization, the Foundation will continue to provide low-interest student loans to medical students. Additional support to the students includes:

- Project mini-grants for student-lead programs at the UCSD student-run street clinics.
- Expanded support of Student Legislative Day, where students participate with physicians from around California learning about legislative impact on healthcare policy and interacting with legislators in Sacramento.

These programs are developed to sensitize students to the needs of the San Diego community and to promote physician retention in San Diego after graduation and residency.

Retired Physicians Society

The Foundation is convening retired physicians living in the San Diego community who are interested in continuing to use their talents and skills in a voluntary capacity. At quarterly meetings, members have an opportunity to network with a variety of community organizations that would value and utilize their knowledge and wisdom. They will learn about current issues in medical practice and current public policy concerns facing our community. The goal is to provide opportunities for retired physicians to connect with, become involved with, participant in, and offer leadership to organizations that serve the healthcare needs of the underserved in our community.

Significant Accounting Policies

Method of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles and, accordingly, reflect all significant receivables, payables, and other liabilities.

SAN DIEGO COUNTY MEDICAL SOCIETY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2009)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Method of Accounting (Continued)

In June 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) was issued. The Codification is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification is effective for financials statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard did not have a material impact on the financial position and results of operations.

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

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.

Risks and Uncertainties

The Foundation invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

Fair Value Measurements

The Foundation 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 with Level 1 and 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.

SAN DIEGO COUNTY MEDICAL SOCIETY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2009)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

The Foundation's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments held at Dunham Trust Company are considered Level 2 assets and are reported at fair value based on the fair value of the underlying assets in the funds as reported by the fund manager, Dunham Trust Company, since these funds are valued monthly by the fund manager and are not traded in an active market.

Accounts Receivable

Management believes that all accounts receivable were fully collectible; therefore, no allowance for doubtful accounts was recorded as of September 30, 2010 and 2009.

Contributions

Contributions are recognized when the donor makes a promise to give to the Foundation 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.

Equipment

Equipment is recorded at cost. Donations of equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Equipment totaled \$-0- and \$630, net of accumulated depreciation of \$2,524 and \$3,156 at September 30, 2010 and 2009, respectively. Equipment is depreciated using the straight-line method over the estimated useful asset lives as follows:

Computer equipment	3 years
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Depreciation aggregated \$558 and \$1,263 for the years ended September 30, 2010 and 2009, respectively.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

SAN DIEGO COUNTY MEDICAL SOCIETY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2009)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Compensated Absences

Accumulated unpaid vacation totaling \$9,799 and \$5,921 at September 30, 2010 and 2009, respectively is accrued when incurred and included in accounts payable and accrued expenses.

Grant Revenue

Grant revenue is recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. A receivable is recorded when revenue earned under a grant or contract exceeds the cash received. Deferred grant revenue is recorded when cash received under a grant or contract exceeds the revenue earned. Deferred grant revenue totaled \$191,194 and \$312,585 at September 30, 2010 and 2009, respectively.

Donated Services, Rent, Telephone and Other Support Services

The Foundation received contributed personnel services, rent, telephone and other support services totaling \$56,099 and \$39,135 which have been reflected in the financial statements as unrestricted contributions revenue and supporting services and fundraising expenses for the years ended September 30, 2010 and 2009, respectively.

Allocated Expenses

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

Income Tax Status

The Foundation is a nonprofit organization and 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. The Foundation is not a private foundation.

The Foundation uses a loss contingencies approach for evaluating uncertain tax positions and continually evaluates changes in tax law and new authoritative rulings.

**SAN DIEGO COUNTY MEDICAL SOCIETY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2009)**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Concentration of Credit Risk

The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

Comparative Totals for September 30, 2009

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended September 30, 2009, from which the summarized information was derived.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through January 13, 2011, the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy as of September 30:

	2010			Balance as of September 30, 2010
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Dunham Trust Company	\$ -	\$ 625,493	\$ -	\$ 625,493
	<u>\$ -</u>	<u>\$ 625,493</u>	<u>\$ -</u>	<u>\$ 625,493</u>

SAN DIEGO COUNTY MEDICAL SOCIETY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2009)

Note 2 - Fair Value Measurements: (Continued)

	2009			Balance as of September 30, 2009
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Dunham Trust Company	\$ -	\$ 504,808	\$ -	\$ 504,808
	<u>\$ -</u>	<u>\$ 504,808</u>	<u>\$ -</u>	<u>\$ 504,808</u>

Note 3 - Investments:

Investments are stated at fair value. The Foundation's investments totaling \$625,493 and \$504,808 at September 30, 2010 and 2009, respectively are held by Dunham Trust Company in a variety of pooled investment funds and mutual funds.

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended September 30:

	2010			2009
	Unrestricted	Temporarily Restricted	Total	
Interest and dividend income	\$ 427	\$ -	\$ 427	\$ 427
Net realized and unrealized gains and (losses) in investments	213	20,472	20,685	(44,581)
Investment Income (Loss)	<u>\$ 640</u>	<u>\$ 20,472</u>	<u>\$ 21,112</u>	<u>\$ (44,154)</u>

Note 4 - Contributions Receivable:

Contributions receivable totaling \$40,000 and \$-0- at September 30, 2010 and 2009, respectively, are due within one year. Management believes that all contributions receivable were fully collectible; therefore, no allowance for doubtful accounts was recorded as of September 30, 2010 and 2009.

SAN DIEGO COUNTY MEDICAL SOCIETY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2009)

Note 5 - Notes Receivable:

Notes receivable to medical students for student loans bear interest at 4% to 7%. Interest begins accruing from the first to occur (i) date of graduation with a degree in medicine, or an advanced graduate degree in the medical field or (ii) date the borrower ceases to be a full-time medical student (“cessation date”). Payment of principal and interest are deferred for up to twelve (12) months from graduation date or six (6) months after borrower’s cessation date.

Notes receivable consist of the following at September 30:

	<u>2010</u>	<u>2009</u>
Principal	\$ 44,817	\$ 53,083
Interest receivable	1,261	1,097
Less: Allowance for uncollectible	(4,482)	(5,769)
Notes Receivable, Net	<u>\$ 41,596</u>	<u>\$ 48,411</u>

Management has established an allowance for uncollectible notes receivable based on historical experience and management’s evaluation of outstanding notes receivable. The allowance for uncollectible notes receivable totaled \$4,482 and \$5,769 at September 30, 2010 and 2009, respectively.

Note 6 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes at September 30:

	<u>2010</u>	<u>2009</u>
Amper	\$ 188,444	\$ 174,481
Project Access	108,916	9,640
Simon/Hertzka	66,653	63,705
Asthma education	-	4,000
Total Temporarily Restricted Net Assets	<u>\$ 364,013</u>	<u>\$ 251,826</u>

Net assets in the amount of \$13,285 were released from donor restrictions for the year ended September 30, 2010, by incurring expenses satisfying the purpose or time restrictions specified by donors.

Note 7 - Operating Lease Commitment:

The Foundation reimburses the San Diego County Medical Society for rent for shared space according to the agreement on shared costs. Rent expense consisted of the following for the years ended September 30:

	<u>2010</u>	<u>2009</u>
Rent paid	\$ 26,684	\$ 17,300
Rent received in-kind	24,000	15,235
Total Occupancy Expense	<u>\$ 50,684</u>	<u>\$ 32,535</u>

**SAN DIEGO COUNTY MEDICAL SOCIETY FOUNDATION
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2009)**

	<u>Supporting Services</u>				2010 <u>Total</u>	2009 <u>Total</u>
	<u>Program</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total Supporting Services</u>		
<u>Personnel Costs:</u>						
Salaries	\$ 296,920	\$ 6,554	\$ 6,554	\$ 13,108	\$ 310,028	\$ 244,650
Employee benefits and payroll tax	66,971	1,483	1,483	2,966	69,937	47,447
Total Personnel Costs	<u>363,891</u>	<u>8,037</u>	<u>8,037</u>	<u>16,074</u>	<u>379,965</u>	<u>292,097</u>
<u>Other Expenses:</u>						
Outside services and consulting	65,605	2,000	1,613	3,613	69,218	112,697
Office expenses	55,516	378	4,183	4,561	60,077	35,373
Occupancy	46,878	116	3,690	3,806	50,684	32,821
Technology	18,471	-	(510)	(510)	17,961	13,657
Medical services	17,894	-	-	-	17,894	53,884
Professional fees	4,135	112	9,797	9,909	14,044	7,050
Travel	7,541	2,831	148	2,979	10,520	7,693
Webhost	9,171	-	-	-	9,171	35,636
Supplies	7,482	293	1,032	1,325	8,807	13,221
Printing	4,982	387	3,031	3,418	8,400	2,359
Meetings and conferences	5,576	69	805	874	6,450	10,561
Employee training and other	3,884	1,140	381	1,521	5,405	8,394
Miscellaneous	3,735	-	79	79	3,814	400
Postage	3,009	31	177	208	3,217	1,811
Insurance	1,898	-	-	-	1,898	262
Grants/scholarships	1,050	-	-	-	1,050	9,450
Bad debt expense	812	-	-	-	812	-
Dues and subscriptions	-	375	370	745	745	4,134
Depreciation	558	-	-	-	558	1,263
Recruitment	50	-	-	-	50	383
Total Other Expenses	<u>258,247</u>	<u>7,732</u>	<u>24,796</u>	<u>32,528</u>	<u>290,775</u>	<u>351,049</u>
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	<u>\$ 622,138</u>	<u>\$ 15,769</u>	<u>\$ 32,833</u>	<u>\$ 48,602</u>	<u>\$ 670,740</u>	<u>\$ 643,146</u>