FINANCIAL STATEMENTS

Annenberg Center for Health Sciences at Eisenhower
Years Ended June 30, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Annenberg Center for Health Sciences at Eisenhower

Financial Statements

Years Ended June 30, 2014 and 2013

Contents

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Report of Independent Auditors

The Board of Directors
Annenberg Center for Health Sciences at Eisenhower

We have audited the accompanying financial statements of Annenberg Center for Health Sciences at Eisenhower (the Center), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of operations and changes in net assets, and cash flows for the years 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Annenberg Center for Health Sciences at Eisenhower at June 30, 2014 and 2013, and the results of its operations, its changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

October 28, 2014

Annenberg Center for Health Sciences at Eisenhower

Balance Sheets

	June 30	
	2014	**2013**
Assets		
Current assets:		
Cash and cash equivalents	**$ 13,547**	$ 48,616
Accounts receivable	**299,886**	670,055
Due from affiliates	**3,452,616**	4,638,107
Other	**8,953**	12,986
Total current assets	**3,775,002**	5,369,764
Assets limited as to use	**5,991,392**	5,232,032
Investments	**2,798,233**	2,802,178
Property and equipment, net	**12,783**	17,609
Total assets	**$ 12,577,410**	$ 13,421,583
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 1,201,502**	$ 2,249,602
Deferred revenue	**2,303,729**	3,478,965
Total current liabilities	**3,505,231**	5,728,567
Net assets:		
Unrestricted	**6,243,514**	4,829,271
Temporarily restricted	**228,665**	263,745
Permanently restricted	**2,600,000**	2,600,000
Total net assets	**9,072,179**	7,693,016
Total liabilities and net assets	**$ 12,577,410**	$ 13,421,583

See accompanying notes.

Annenberg Center for Health Sciences at Eisenhower

Statements of Operations and Changes in Net Assets

	Year Ended June 30	
	2014	**2013**
Unrestricted net assets		
Revenue:		
Project revenue	**$ 6,169,173**	$ 4,719,145
Investment income	**747,495**	592,951
Net assets released from restrictions used for operations	**86,834**	125,506
Other	**2,441**	16
Total revenue	**7,005,943**	5,437,618
Expenses:		
Salaries and benefits	**2,425,017**	2,107,655
Purchased services and supplies	**2,645,265**	1,973,323
Depreciation	**4,826**	6,800
Other	**516,592**	510,966
Total expenses	**5,591,700**	4,598,744
Excess of revenues over expenses	**1,414,243**	838,874
Temporarily restricted net assets		
Contributions	**10,000**	20,000
Investment income	**41,754**	17,749
Net assets released from restrictions for operations	**(86,834)**	(125,506)
Decrease in temporarily restricted net assets	**(35,080)**	(87,757)
Increase in net assets	**1,379,163**	751,117
Net assets, beginning of year	**7,693,016**	6,941,899
Net assets, end of year	**$ 9,072,179**	$ 7,693,016

See accompanying notes.

Annenberg Center for Health Sciences at Eisenhower

Statements of Cash Flows

	Year Ended June 30	
	2014	**2013**
Operating activities		
Increase in net assets	**$ 1,379,163**	$ 751,117
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	**4,826**	6,800
Gain on disposal of property and equipment	**–**	2,076
Restricted contributions	**(10,000)**	(20,000)
Net unrealized gains on investments	**(333,519)**	(303,073)
Restricted investment income	**(41,754)**	(17,749)
Changes in operating assets and liabilities:		
Accounts receivable	**370,169**	(343,832)
Due from affiliates	**1,185,491**	(3,564,488)
Other assets	**4,033**	(5,467)
Investments and assets limited as to use	**(421,896)**	(152,985)
Accounts payable and accrued expenses	**(1,048,100)**	1,616,376
Deferred revenue	**(1,175,236)**	2,008,484
Net cash used in operating activities	**(86,823)**	(22,741)
Investing activities		
Purchases of property and equipment	**–**	(9,009)
Net cash used in investing activities	**–**	(9,009)
Financing activities		
Restricted contributions	**10,000**	20,000
Restricted investment income	**41,754**	17,749
Net cash provided by financing activities	**51,754**	37,749
Net (decrease) increase cash and cash equivalents	**(35,069)**	5,999
Cash and cash equivalents, beginning of year	**48,616**	42,617
Cash and cash equivalents, end of year	**$ 13,547**	$ 48,616

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Annenberg Center for Health Sciences at Eisenhower (the Center) is a 501(c)(3), not-for-profit organization focused on advancing the delivery of health care by improving the clinical performance of health care professionals through continuing professional development.

Affiliates of the Center include Eisenhower Medical Center (EMC), Eisenhower Health Services and Barbara Sinatra Children's Center at Eisenhower.

Use of Estimates

The preparation of the Center's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less when purchased are considered to be cash equivalents.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Center's Board of Directors (the Board) for future capital improvements or specific operating purposes over which the Board retains control and may, at its discretion, subsequently use for other purposes. Assets limited as to use are stated at fair value in the accompanying balance sheets.

Investments

All debt securities and marketable equity securities have been measured at fair value based upon quoted market prices and are held for trading. Realized gains and losses and the change in net unrealized gains and losses, and interest and dividends, on marketable securities are reported as investment income unless the income or loss is restricted by donor or law.

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset (from 3 to 15 years) and is computed using the straight-line method.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Center has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Center in perpetuity.

Performance Indicator

The Center considers its performance indicator to be the excess of revenue over expenses.

Revenue Recognition

The Center recognizes revenue based on the grant revenue recognition model. Progress toward completion is measured on a contract-by-contract basis. Revenue is recognized as costs are incurred. The contract price includes any estimated amounts for contract incentives, change orders and claims only when realization is probable. Estimates used for recording revenue and earnings are adjusted to reflect revisions in contract value and future estimated costs. In the period in which it is determined that a loss will be incurred on a contract, the entire amount of the estimated loss is charged to operations.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Center are reported at fair value at the date the promise is received. The gifts are reported as either temporarily 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 as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same fiscal year as received are reported as unrestricted contributions in the accompanying financial statements.

1. Summary of Significant Accounting Policies (continued)

Long-Lived Assets

The Center accounts for the impairment and disposition of long-lived assets in accordance with Accounting Standards Codification (ASC) 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*. In accordance with ASC 360, long-lived assets to be held are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Center determined that no assets were impaired at June 30, 2014.

Concentration of Credit Risk

Financial instruments which potentially subject the Center to concentrations of credit risk consist primarily of cash and cash equivalents, investments and accounts receivable. The investment portfolio is managed by the Center within the guidelines established by the Board which, as a matter of policy, limit the amounts which may be invested in any one issue.

Self-Insurance

EMC provides certain benefits to the Center's employees and others under health and other insurance programs. EMC and the Center are self-insured for workers' compensation claims up to $1,000,000 and general liability claims up to $1,000,000 per occurrence. Individual claims over these amounts are covered by insurance on a claims-made basis. General liability risks in excess of $1,000,000 per occurrence are reinsured with major independent insurance companies. Accruals for uninsured claims and claims incurred but not reported are estimated based upon claims experience. Claims expense is allocated by EMC to the Center through intercompany accounts. Expenses recorded for these programs by the Center totaled approximately $13,000 in 2014 and 2013.

Income Taxes

The Center is exempt from federal and state income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3) and applicable California provisions.

1. Summary of Significant Accounting Policies (continued)

ASC 740, *Income Taxes*, clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, disclosure, and transition. The guidance is applicable to pass-through entities and tax-exempt organizations. No significant tax liability for tax benefits, interest or penalties was accrued at June 30, 2014 or 2013.

2. Related-Party Transactions

The Center assists its affiliates by providing important services they need to support their missions. These services include continuing educational support to affiliates and health care professionals, conference service and project management support and videoconferencing capabilities. Revenue from affiliates, included in project revenue in the statements of operations and changes in net assets, amounted to approximately $303,000 in 2014 and $218,000 in 2013.

EMC performs general accounting and other functions on behalf of the Center. Amounts received by, and disbursed from, EMC on the Center’s behalf are reflected in due from affiliates on the balance sheet. Transactions with affiliates amounted to approximately $148,000 in 2014 and $148,000 in 2013, and are included in purchased services and supplies in the statements of operations and changes in net assets.

EMC held cash and cash equivalents on behalf of the Center in the amount of $3,453,000 and $4,638,000 as of June 30, 2014 and 2013, respectively.

The Center received a restricted cash contribution from the Medical Center Auxiliary for program services performed in the amount of $10,000 and $20,000 in 2014 and 2013 respectively.

3. Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Center utilizes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Pricing is based on observable inputs such as quoted prices in active markets. Financial assets and liabilities in Level 1 include listed equities and mutual funds.

Level 2 – Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets in this category include U.S. Government Securities.

Level 3 – Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including, but not limited to, private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates. The Center does not currently hold any financial assets or liabilities that would be included in this category.

3. Fair Value Measurements (continued)

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are identified in the tables below. Where more than one technique is noted, individual assets or liabilities were valued using one or more of the noted techniques. The valuation techniques are as follows:

(a) *Market approach*. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

(b) *Cost approach*. Amount that would be required to replace the service capacity of an asset (replacement cost).

(c) *Income approach*. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

The following table provides the composition of certain investment assets as of June 30, 2014. Only assets measured at fair value are shown in the three-tier fair value hierarchy.

	June 30 2014	Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, c)
Current assets:					
Cash and cash equivalents	$ 13,547	$ 13,547	$ –	$ –	a
Assets limited as to use:					
Cash and cash equivalents	$ 2,436,280	$ 2,436,280	$ –	$ –	a
Equity	3,474,765	3,474,765	–	–	a
Real estate (REIT)	77,828	77,828	–	–	a
Interest receivable	2,519	2,519	–	–	a
	$ 5,991,392	$ 5,991,392	$ –	$ –	
Investments:					
Cash and cash equivalents	$ 130,345	$ 130,345	$ –	$ –	a
U.S. Government securities	2,473,699	–	2,473,699	–	a
Equity	189,800	189,800	–	–	a
Real estate (REIT)	4,251	4,251	–	–	a
Interest receivable	138	138	–	–	a
	$ 2,798,233	$ 324,534	$ 2,473,699	$ –	

3. Fair Value Measurements (continued)

The following table provides the composition of certain investment assets as of June 30, 2013. Only assets measured at fair value are shown in the three-tier fair value hierarchy.

	June 30 2013	Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, c)
Current assets:					
Cash and cash equivalents	$ 48,616	$ 48,616	$ –	$ –	a
Assets limited as to use:					
Cash and cash equivalents	$ 2,153,645	$ 2,153,645	$ –	$ –	a
Equity	3,007,058	3,007,058	–	–	a
Real estate (REIT)	68,343	68,343	–	–	a
Interest receivable	2,986	2,986	–	–	a
	$ 5,232,032	$ 5,232,032	$ –	$ –	
Investments:					
Cash and cash equivalents	$ 128,362	$ 128,362	$ –	$ –	a
Equity	183,486	183,486	–	–	a
U.S. Government Securities	2,482,862	–	2,482,862	–	a
Real estate (REIT)	4,170	4,170	–	–	a
Interest receivable	3,298	3,298	–	–	a
	$ 2,802,178	$ 319,316	$ 2,482,862	$ –	

4. Investment Income

Marketable securities are pooled on a cost basis with EMC subscribing to, or disposing of, units based on a percentage of the allocated portfolio.

Unrestricted investment income is comprised of the following for the years ended June 30:

	2014	**2013**
Unrestricted investment income:		
Interest income	**$ 47,305**	$ 55,568
Realized gains on investments, net	**366,671**	234,310
Change in net unrealized gains on investments	**333,519**	303,073
	$ 747,495	$ 592,951

5. Endowments

The Center's endowments consist of two individual funds established for a variety of purposes. The Center's endowments only include donor-restricted endowment funds. Net assets associated with the endowment funds are classified and reported based on the existence of donor-imposed restrictions.

On September 30, 2008, California Senate Bill No. 1329 was signed into law which enacted the Universal Prudent Management of Institutional Funds Act (UPMIFA) for California. California also adopted one of the "optional" provisions of the act, creating a rebuttable presumption of imprudence for spending more than 7% of the value of an endowment fund in one year (based on a three-year rolling average). The Board has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence described by UPMIFA. In accordance with UPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Center and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Center, and (7) the investment policies of the Center.

Endowment Spending and Investment Policies

The Center's endowment funds are invested according to EMC's investment policy and are predominantly held by a common custodian. The Center's return objectives related to its endowments are to maintain or enhance the purchasing power of the endowment over a five-year cycle. The Center's risk tolerances are moderate to aggressive, as measured by no more than 125% of the volatility of the Russell 1000 Index (Equities) and Merrill Lynch 1-3 Year Treasury Index (Fixed). The Center targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk

5. Endowments (continued)

constraints. The Center's spending policy is to annually appropriate for distribution no more than 7% per year of each endowment fund's average fair value (based on a three-year rolling average).

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2012	$ 95,925	$ 2,600,000	$ 2,695,925
Investment return:			
Investment income	18,193	–	18,193
Net appreciation (realized and unrealized)	(444)	–	(444)
Total investment return	17,749	–	17,749
Endowment net assets, June 30, 2013	113,674	2,600,000	2,713,674
Investment return:			
Investment income	**31,189**	**–**	**31,189**
Net appreciation (realized and unrealized)	**10,565**	**–**	**10,565**
Total investment return	**41,754**	**–**	**41,754**
Endowment net assets, June 30, 2014	**$ 155,428**	**$ 2,600,000**	**$ 2,755,428**

The Center's endowments are all donor-restricted endowment funds. There are no funds that are board-designated endowments.

6. Property and Equipment

Property and equipment consists of the following at June 30:

	2014	2013
Equipment and furnishings	**$ 184,929**	$ 259,147
Less accumulated depreciation	**(172,146)**	(241,538)
	$ 12,783	$ 17,609

7. Temporarily and Permanently Restricted Net Assets

Restrictions

All temporarily restricted net assets at June 30, 2014 and 2013, are available to support operations of the Center.

All investment income from permanently restricted net assets is restricted for the health care education programs.

Net Assets Released From Restrictions

Net assets were released from donor restrictions in 2014 and 2013 by incurring expenses satisfying the restricted purposes. Net assets released from restrictions used for health care education programs were approximately $87,000 in 2014 and $126,000 in 2013.

8. Pension Plan

The Center's employees are provided pension benefits under EMC's noncontributory defined benefit pension plan (the Pension Plan) covering eligible employees (for full-time employees hired before July 1, 2006, who have attained age 21 and who have completed one full year of service). Contributions to the Pension Plan by the Center are actuarially determined. Pension Plan expense allocated to the Center amounted to approximately $85,000 in 2014 and $75,000 in 2013. On December 31, 2011, the pension plan was frozen. For those employees who qualified for a pension on that date the amount they will receive will be a fixed amount no longer adjusted for years of service nor inflation.

Effective July 1, 2006, new employees of the Center are no longer eligible to participate in the Pension Plan and instead are eligible to participate in a defined contribution plan (the Contribution Plan). The Contribution Plan includes five-year vesting (20% vesting per year) and the Center matches each dollar an employee contributes up to 5% of the employee's base pay. The Contribution Plan match expense totaled approximately $80,000 in 2014 and $69,000 in 2013.

9. Leases

Future minimum lease payments, by the year and in the aggregate, required under noncancelable operating leases with initial or remaining lease terms in excess of one year consist of the following at June 30, 2014:

2015	$ 2,793
Total minimum lease payments	$ 2,793

Rental expense for all operating leases, including month-to-month leases, amounted to approximately $137,000 in 2014 and $123,000 in 2013.

10. Functional Expenses

The Center provides continuing professional development educational courses for health care professionals which it conducts regionally, nationally and internationally. Expenses related to providing these services are as follows for the years ended June 30:

	2014	**2013**
Health care services (program services)	**$ 4,957,883**	$ 3,999,186
Management and general	**633,817**	599,558
	$ 5,591,700	$ 4,598,744

11. Subsequent Events

The Center has evaluated subsequent events occurring between the end of the most recent fiscal year ended June 30, 2014, and October 28, 2014, the date the financial statements were available to be issued.

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About EY

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