

FAMILY AND CHILDREN SERVICES

JUNE 30, 2006



INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Family and Children Services

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Independent Auditors' Report

BOARD OF DIRECTORS
FAMILY AND CHILDREN SERVICES
San Jose, California

We have audited the accompanying statement of financial position of *Family and Children Services (the Agency)* as of June 30, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Agency'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 the Agency's fiscal year ended June 30, 2005 financial statements and, in our report dated August 31, 2005, 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 Family and Children Services as of June 30, 2006, 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.

Hood & Strong LLP

September 27, 2006

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Family and Children Services

Statement of Financial Position

<i>June 30,</i>	2006	2005
Assets		
Current Assets:		
Cash and cash equivalents	\$ 992,519	\$ 1,327,353
Client receivables, net of allowance for doubtful accounts of \$20,100 and \$10,100 for 2006 and 2005, respectively	68,570	31,162
Grants receivable	262,410	194,775
Contracts receivable, net of allowance for doubtful collections of \$985 for both 2006 and 2005	374,840	219,493
Other receivables	5,936	21,643
Prepaid expenses	59,960	55,254
Total current assets	1,764,235	1,849,680
Notes Receivable , net of allowance for doubtful accounts of \$10,000 for both 2006 and 2005	69,014	102,117
Long-term Investments	621,050	480,219
Property, Equipment and Improvements, net	305,895	340,472
Other Assets	49,591	34,206
Total assets	\$ 2,809,785	\$ 2,806,694
Liabilities and Net Assets		
Current Liabilities:		
Current portion of capital lease obligations	\$ 3,045	
Current maturities of long-term debt	6,437	\$ 6,806
Accounts payable	39,153	75,422
Accrued expenses	415,884	336,175
Total current liabilities	464,519	418,403
Long-Term Liabilities:		
Capital lease obligation, net of current portion	12,711	
Long-term debt, net of current maturities	246,434	252,907
Total long-term liabilities	259,145	252,907
Total liabilities	723,664	671,310
Net Assets:		
Unrestricted:		
Undesignated	817,894	924,252
Board designated	555,875	436,772
Total unrestricted	1,373,769	1,361,024
Donor restricted:		
Temporarily	668,905	730,913
Permanently	43,447	43,447
Total net assets	2,086,121	2,135,384
Total liabilities and net assets	\$ 2,809,785	\$ 2,806,694

Family and Children Services

Statement of Activities

Year Ended June 30, 2006 (with comparative totals for the year ended June 30, 2005)

	2006			2005	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support:					
Contributions	\$ 620,048			\$ 620,048	\$ 551,866
Grants and contracts		\$ 212,000		212,000	251,750
United Way support		155,639		155,639	194,549
Donated services and equipment	234,922	3,000		237,922	167,824
Peninsula Ball, net of direct benefits to attendees of approximately \$104,000 and \$103,000 for 2006 and 2005, respectively	145,686			145,686	118,800
Circle of Support, net of direct benefits to attendees of approximately \$10,000 and \$5,000 for 2006 and 2005, respectively	72,103			72,103	30,739
Total support	1,072,759	370,639		1,443,398	1,315,528
Revenue:					
Program service fees	923,334			923,334	1,004,919
County Mental Health contract	833,532			833,532	835,044
School programs	859,989			859,989	711,603
County Drug and Alcohol contract	611,528			611,528	565,483
Social Services contract	268,977			268,977	354,261
Ways to Work	104,295			104,295	91,467
DEAF contract	45,851			45,851	50,021
ECS contract	17,750			17,750	20,000
FAST contract	68,799			68,799	60,589
Counseling	34,120			34,120	46,011
Long-term investment income	40,204			40,204	34,598
In Custody contract					3,670
Miscellaneous income	23,322			23,322	17,122
Total revenue	3,831,701			3,831,701	3,794,788
Net assets released from restrictions	432,647	(432,647)			
Total support and revenue	5,337,107	(62,008)		5,275,099	5,110,316
Expenses:					
Program services					
General programs	4,803,943			4,803,943	4,673,710
Support services					
Management and general	231,107			231,107	132,754
Fundraising	289,312			289,312	292,657
Total expenses	5,324,362			5,324,362	5,099,121
Change in net assets	12,745	(62,008)		(49,263)	11,195
Net Assets - Beginning of year	1,361,024	730,913	\$ 43,447	2,135,384	2,124,189
Net Assets - End of year	\$ 1,373,769	\$ 668,905	\$ 43,447	\$ 2,086,121	\$ 2,135,384

Family and Children Services

Statement of Functional Expenses

Year Ended June 30, 2006 (with comparative totals for the year ended June 30, 2005)

	2006															2005
	Mental Health	Counseling Program	Independent Living	Drug & Alcohol Treatment	Positive Solutions	FAST	School Services	Ways to Work	D.E.A.F.	Early Childhood Services	Total Programs	Management and General	Fundraising	Total	Total	
Functional Expenses:																
Salaries	\$ 553,796	\$ 479,874	\$ 104,035	\$ 393,720	\$ 376,106	\$ 71,308	\$ 620,241	\$ 93,475	\$ 30,772	\$ 83,334	\$ 2,806,661	\$ 579,078	\$ 138,600	\$ 3,524,339	\$ 3,400,923	
Employee benefits	81,392	72,932	17,538	57,856	59,314	9,656	91,837	17,948	3,460	15,563	427,496	66,374	18,059	511,929	488,147	
Payroll taxes	34,949	34,072	7,086	29,715	28,334	5,453	46,998	7,073	2,285	6,313	202,278	41,497	10,595	254,370	247,134	
Total salaries and related expenses	670,137	586,878	128,659	481,291	463,754	86,417	759,076	118,496	36,517	105,210	3,436,435	686,949	167,254	4,290,638	4,136,204	
Recruitment & contract staffing					75		300				375	31,610	150	32,135	44,003	
Professional fees	92,901	31,304	171	3,921	741	1,800	26,523	2,968	4,666	15,394	180,389	71,630	21,160	273,179	201,324	
Program supplies	932	5,375	29,077	153	2,895	7,546	1,099	446	2,559	1,710	51,792	1,359	196	53,347	54,018	
Travel, training, meetings	11,031	1,764	5,574	428	4,193	2,002	1,829	1,891	1,617	2,316	32,645	19,255	3,296	55,196	48,917	
Office expenses	19,429	29,910	5,153	13,720	16,561	2,553	153	3,683	1,078	2,077	94,317	41,061	34,910	170,288	208,265	
Audit expense	5,028	4,973	1,364	3,694	3,563	614	5,285	856	278	472	26,127	3,146	977	30,250	32,500	
Occupancy expense	28,530	20,263	14,178	21,164	18,272	6,891	113	8,672	1,455	4,773	124,311	15,919	3,663	143,893	139,276	
Insurance	6,729	6,762	2,002	5,080	4,905	1,073	6,977	1,182	308	648	35,666	17,888	1,171	54,725	54,524	
Miscellaneous	6,347	11,497	242	1,081	1,131	93	963	34,009	79	70	55,512	41,799	880	98,191	72,481	
Peninsula Ball													2,965	2,965	8,799	
Circle of Support													22,856	22,856	763	
Administrative allocation	134,761	134,349	38,144	100,256	96,759	18,704	117,056	23,284	6,831	12,793	682,937	(709,615)	26,678			
Total expenses before depreciation	975,825	833,075	224,564	630,788	612,849	127,693	919,374	195,487	55,388	145,463	4,720,506	221,001	286,156	5,227,663	5,001,074	
Depreciation	15,871	15,844	4,550	11,847	11,435	2,285	16,550	2,752	791	1,512	83,437	10,106	3,156	96,699	98,047	
Total expenses	\$ 991,696	\$ 848,919	\$ 229,114	\$ 642,635	\$ 624,284	\$ 129,978	\$ 935,924	\$ 198,239	\$ 56,179	\$ 146,975	\$ 4,803,943	\$ 231,107	\$ 289,312	\$ 5,324,362	\$ 5,099,121	

The accompanying notes are an integral part of this statement.

Family and Children Services

Statement of Cash Flows

<i>Years Ended June 30,</i>	2006	2005
Cash Flows Provided by Operating Activities:		
Change in net assets	\$ (49,263)	\$ 11,195
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	96,699	98,047
Unrealized gain on long-term investments	(13,891)	(5,233)
Gain on disposal of equipment	(500)	
Changes in operating assets and liabilities:		
Client receivables	(37,408)	8,557
Grants receivable	(67,635)	73,299
Contracts receivable	(155,347)	6,961
Other receivables	15,707	20,076
Prepaid expenses	(4,706)	7,678
Notes receivable	33,103	23,691
Other assets	(15,385)	(15,469)
Accounts payable	(36,269)	16,019
Accrued expenses	79,709	(4,900)
Net cash (used in) provided by operating activities	(155,186)	239,921
Cash Flows from Investing Activities:		
Purchases of property and equipment	(43,322)	(63,550)
Proceeds from sale of equipment	500	
Purchases of long-term investments	(126,940)	(29,365)
Net cash used in investing activities	(169,762)	(92,915)
Cash Flows from Financing Activities:		
Debt payments	(6,842)	(8,004)
Principal payments on capital lease obligation	(3,044)	
Net cash used in financing activities	(9,886)	(8,004)
Net (Decrease) Increase in Cash and Cash Equivalents	(334,834)	139,002
Cash and Cash Equivalents - Beginning of year	1,327,353	1,188,351
Cash and Cash Equivalents - End of Year	\$ 992,519	\$ 1,327,353
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 18,909	\$ 14,172
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Equipment acquired through a capital lease	\$ 18,800	

Note 1 - Description of the Organization

Family and Children Services (the Agency) is a not for profit, public benefit organization incorporated in the State of California. The Agency addresses the social-emotional and self-sufficiency needs of families and youth in Santa Clara and San Mateo Counties. The purpose of the programs and services of the Agency is to build strong, safe and self-sufficient individuals, families and communities. Specifically, the Agency's services are designed to:

- Maintain and provide behavioral, mental health and social services for children and families in need with the goal of fostering maximum mental and emotional health and helping maintain self-sufficiency.
- Maintain and provide prevention, education, outreach and consultation services regarding mental health and social skills in collaboration with schools, public and private organizations, the business community and other entities.
- Engage in the training and education of the general public and the professional health care community regarding behavioral, mental health and social service issues.

The following summarizes the different programs and supporting services of the Agency:

Mental Health MediCal Programs

Program Purpose, Goals and Outcomes Desired:

Treat and ameliorate the mental health symptoms and dysfunction of children and adolescents, and their families, in the least intrusive manner for Santa Clara County residents.

1. To provide culturally proficient outpatient and collaborative services to Santa Clara County adults and children with diagnosed serious mental illness and who cannot be sufficiently treated by a primary physician. The Agency also serves San Mateo County children and their families who are diagnosed with a serious mental health problem.
2. Decrease psychiatric symptoms or impairments in level of functioning.
3. Assist clients to maintain the highest level of functioning in the community.
4. Help clients achieve a sense of power and ability to positively influence their own lives.

Counseling, Center for Changing Families, Employee Assistance Program

Program Purpose, Goals and Outcomes Desired:

Counseling:

1. To help individuals, couples and families improve their level of functioning or regain a level of functioning that has been negatively impacted by a life crisis.
2. To strengthen families in our community.
3. To provide comprehensive mental health services to those infected with and affected by HIV/AIDS.
4. To improve the quality of lives, increase coping skills and reduce emotional distress of managing a chronic illness.

Center for Changing Families:

1. To help couples and families who are experiencing separation, divorce and/or remarriage successfully cope with these transitions and regain a healthy level of functioning for family members.

Employee Assistance Program:

1. To help individuals, couples and families improve their level of functioning or regain a level of functioning that has been negatively impacted by a life crisis.
2. To support employees and management within the organizations served by the Agency.
3. To provide crisis management services as necessary.

Independent Living Program

Program Purpose, Goals and Outcomes Desired:

1. To prepare foster care youth, aged 16 to 21 years, for the transition from foster care to living responsibly and finding hope for happiness, health and stability in the adult world.
2. Coach foster care youth, aged 16 to 21 years, in competencies such as employment, daily living skills, survival skills, choices and consequences, social and interpersonal skills, education, and computer knowledge, parenting, family life.
3. Coach foster care youth, aged 16 to 21 years, to set and monitor short and long-term goals to achieve lifelong productivity in society.
4. Coach foster care youth, aged 16 to 21 years, to live responsibly and cope with everyday challenges related to life outside the foster care system.

Drug & Alcohol Treatment Program

Program Purpose, Goals and Outcomes Desired:

1. To increase substance-abusing clients' ability to develop effective coping skills leading to the reduction of and/or abstinence from drug/alcohol use.
2. To increase clients' ability to recognize, identify, and understand problems related to substance abuse.
3. To increase clients' engagement in recovery and application of effective relapse prevention skills.
4. To break the behavioral cycle of compulsive psychoactive drug abuse.

Positive Solutions

Program Purpose, Goals and Outcomes Desired:

1. To promote healthy and safe relationships in families and the community.
2. To decrease family violence.
3. To teach positive and healthy responses to disagreement.
4. To teach the impact of family violence on all family members and the community.
5. To teach positive and effective parenting techniques and decrease child abuse.
6. To provide for the safety of victims.

Families and Schools Together (FAST)

Program Purpose, Goals and Outcomes Desired:

FAST is a school-based, collaborative, family-focused program designed to increase the self-esteem and improve the school performance of at-risk elementary school children by supporting the natural strength of the family unit. Specific goals are:

1. Prevent at-risk children from experiencing school failure.
2. Enhance family bonding and functioning.
3. Prevent alcohol and other drug abuse by the child and family.
4. Reduce the stress that parents and children experience from daily life situations.

School Services

Program Purpose, Goals and Outcomes Desired:

1. To provide a continuum of counseling, education, and/or staff and parent training services, on-site, that helps children and their families improve their level of functioning or regain a level of functioning that has been negatively impacted by a life crisis.
2. To support teachers and school personnel within the schools served by the Agency.
3. To serve the special needs of children who are deaf or hard of hearing, their families and their teachers.

Ways to Work

Program Purpose, Goals and Outcomes Desired:

1. To assist low-income parents by providing personal loans which enable them to maintain meaningful employment and/or stay on track with educational goals as they work toward greater economic self-sufficiency.
2. Decrease commute time to parent's work/school and children's daycare/school.
3. Decrease time taken off from work due to transportation, childcare or other household issues.
4. Increase parents' ability to access and create new career opportunities and increase monthly gross income.
5. Reduce use of public assistance.
6. Improve parental opportunity to re-establish credit.
7. Improve parents' ability to plan for expenses and begin to implement strategies to save money.

D.E.A.F.

Program Purpose, Goals and Outcomes Desired:

1. To prevent child abuse in families with a deaf or hard of hearing member.
2. To improve the level of functioning so that a deaf or hard of hearing child is able to remain in school.
3. To help parents improve their parenting skills and family communication in families with a deaf or hard of hearing member.

Early Childhood Services (ECS)

Program Purpose, Goals and Outcomes Desired:

1. To provide a continuum of counseling, education, and/or staff and parent training services, on-site, that helps children and their families improve their level of functioning or regain a level of functioning that has been negatively impacted by a life crisis.
2. To support childcare personnel within the childcare agencies that are served by the Agency.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The Agency maintains its records on the accrual basis of accounting.

b. Description of Net Assets

Unrestricted Net Assets - the portion of net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations. These net assets are intended for use by management and the Board of Directors for general operations or may be designated by the Board to be used for other purposes. Any assets designated by the Board may be redesignated at the Board's election. For the year ended June 30, 2006, the Board designated net assets of \$555,875 consisted of endowment, capital reserves, operating reserves and related accumulated income. The Agency has elected to report as an increase in unrestricted net assets any temporarily restricted revenue or support received in the same period in which the restrictions have been met.

Temporarily Restricted Net Assets - the portion of net assets which use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Agency. The Ways to Work loan funds are considered temporarily restricted net assets. These funds are reduced by actual loan write offs when they are deemed to be uncollectible.

Permanently Restricted Net Assets - the portion of net assets which use is permanently limited by donor-imposed stipulations that neither expire by passage of time nor can be removed by actions of the Agency.

c. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash and cash equivalents include general operating cash accounts, money market funds, and highly liquid investments with maturities of three months or less.

Cash and cash equivalents include approximately \$132,000 and \$276,000 at June 30, 2006 and 2005, respectively, which is limited to use for the Ways to Work Program.

d. Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. The Agency provides for losses on receivables using the allowance method. The allowance is based on experience and other circumstances. It is the Agency's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

e. Long-term Investment

The long-term investments consist of funds held by the Community Foundation Silicon Valley (CFSV) on the Agency's behalf and are recorded at estimated fair value, based on the fair value, as determined by quoted market prices, of the underlying investments. Earnings of the investment, including realized and unrealized gains and losses are recorded in the Statement of Activities.

f. Non-Marketable Securities

The Agency holds shares of stock in a private company. These shares were received in a prior year as a donation and are valued at \$-0-, until they become marketable.

g. Property, Equipment and Improvements

Property, equipment and improvements are recorded at cost of acquisition or construction or, if donated, at the fair market value of the asset at the date of donation. Depreciation is computed using the straight-line method with lives ranging from 3 to 33 years.

h. Revenue Recognition

Contributions are recorded at their fair value and are recognized as revenue when the donor makes an unconditional promise to give to the Agency. 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 and reported in the Statement of Activities as net assets released from restrictions.

Non-cash donations are recorded at the fair value of the gift at the date of the donation.

The Agency records contribution revenue and a related expense for certain donated services, at the fair value of those services, only if the services create or enhance non-financial assets or require specialized skills that would need to be purchased, if not donated. Such services related to donated professional services (intern time) for the years ended June 30, 2006 and 2005.

Contracts and grants are primarily based on a cost reimbursement nature. Revenues from such contracts and grants are recognized in the period the related costs and services are rendered.

Program services fees are recognized in the period the services are rendered.

i. Fundraising Costs

Fundraising costs are expensed as incurred.

Family and Children Services

Notes to Financial Statements

j. Income Taxes

The Agency has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. In addition, the Agency has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

k. Allocation of Expenses

Direct costs are charged directly to the applicable programs or services. Indirect costs, related to more than one function, are allocated to programs and services by management based on estimates of time and other factors.

l. 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 amounts and disclosures. Accordingly, actual results could differ from those estimates.

m. Prior Year Information

The financial statements include certain prior year summarized comparative information in total but not in 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 Agency's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

n. Reclassifications

Certain amounts in the 2005 financial statements have been classified to conform to the 2006 presentation. There is no effect on changes in net assets for the year ended June 30, 2005.

Note 3 - Client Receivables:

For certain contracts, the Agency is required to set client fees on a sliding scale based on a determination of the ability to pay. In the event that a client may have access to other resources, such as insurance, the full fee portion is billed to the third party payer. If the amount billed to the third party payer is subsequently determined to be uncollectible, either in whole or in part, the unpaid balance is written off.

Family and Children Services

Notes to Financial Statements

Note 4 - Notes Receivable:

The Agency operates a low-interest loan program for low-income families under its Ways to Work Program. This program allows families to apply for loans for special expenses that interfere with their ability to work or continue job training.

Note 5 - Long-term Investments:

The Agency's long-term investments, which are managed by the Community Foundation Silicon Valley (CFSV), consist of the permanently restricted endowment (Note 10), certain Board designated net assets and accumulated earnings from these funds.

CSFV holds, manages and invests these funds, as part of a pooled investment fund, on behalf of the Agency. The fund is comprised of approximately 30% fixed income investments and approximately 70% equity investments. The investments are subject to market risk and thus fluctuate in value. CSFV charges investment fees of 0.60% to 0.70% of the market value of the fund, plus fees that help support the operations of CFSV.

The Agency's Board has established guidelines for withdrawing funds from board designated reserves, which it may change from time to time; currently, each year, 5% of the fair market value of the reserves may be transferred out of cumulative earnings to the Agency's operating accounts to be used for general operating purposes. The Agency elected not to make any transfers out of the fund in either fiscal 2006 or 2005. When the Agency does request withdrawals of its funds, CSFV must accept the request before any withdrawals can be made.

The Agency's beneficial interest in the pooled fund is reported at fair market value. The change in the beneficial interest is reported in the Statement of Activities.

Below is the allocation to the Agency for the years ended June 30, 2006 and 2005:

	2006	2005
Balance, beginning of year	\$ 480,219	\$ 445,621
Interest and dividends	15,755	11,561
Realized gain	18,288	24,083
Unrealized gain	13,891	5,233
Investment management and CFSV support fees	(7,730)	(6,279)
Net long-term investment income	40,204	34,598
Purchase of investments	100,627	
Balance, end of year	\$ 621,050	\$ 480,219

Family and Children Services

Notes to Financial Statements

Note 6 - Property, Equipment and Improvements:

Property, equipment and improvements and accumulated depreciation and amortization consist of the following and June 30, 2006 and 2005:

	2006	2005
Land	\$ 92,568	\$ 92,568
Buildings and improvements	307,790	307,790
Leasehold improvements	644,698	630,758
Furniture, fixtures and equipment	991,287	943,104
	<hr/> 2,036,343	<hr/> 1,974,220
Less: accumulated depreciation	(1,730,448)	(1,633,748)
	<hr/> \$ 305,895	<hr/> \$ 340,472

Note 7 - Long-Term Debt:

The Agency entered into a \$300,000 consumer loan on December 22, 1998 with Borel Bank and Trust. This note is a variable rate loan at prime plus .25% (8.50% and 6.50% as of June 30, 2006 and 2005, respectively) and is secured by the real property at Julian Street in San Jose. The maturity date of the note is December 22, 2013, at which time all remaining principal and interest balances become due.

Maturities of long-term debt, assuming an interest rate of 8.50% and a monthly payment of \$2,280, are as follows:

Year ending June 30,	
2007	\$ 6,437
2008	6,940
2009	7,600
2010	8,260
2011	8,978
Thereafter	214,656
	<hr/> \$ 252,871

The Agency has a \$100,000 unsecured line of credit with Wells Fargo bank. There was no outstanding balance as of June 30, 2006.

Family and Children Services

Notes to Financial Statements

Note 8 - Commitments and Contingencies:

Leases

The Agency leases equipment and its Campbell office under operating leases expiring in various years through 2009.

Minimum annual lease payments required on the above leases are as follows:

Year Ending June 30,	
2007	\$ 48,029
2008	14,104
2009	7,521
	<hr/>
	\$ 69,654

The Agency also leases equipment under a capital lease agreement through 2011.

Minimum annual payments on the capital lease are as follows:

Year Ending June 30,	
2007	\$ 5,076
2008	5,076
2009	5,076
2010	5,076
2011	1,269
	<hr/>
	21,573
Amount representing interest	(5,817)
	<hr/>
	\$ 15,756

Rent expense charged to operations for the years ended June 30, 2006 and 2005 was \$62,521 and \$63,828, respectively.

Grants and Contracts

The Agency has received funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under the terms of the grants, it is believed that any required reimbursement would not be material.

Family and Children Services

Notes to Financial Statements

Note 9 - Temporarily Restricted Net Assets:

Temporarily restricted net assets, as discussed in Note 2b, consist of the following at June 30, 2006 and 2005:

	2006	2005
United Way – for the next fiscal year	\$ 155,640	\$ 194,549
Ways to Work	377,571	439,842
Independent Living Program	11,010	26,063
Counseling	58,167	33,561
School Services	30,833	19,150
Positive Solutions	11,000	
Early Childhood Services	24,684	11,818
Other restricted purposes		5,930
	<hr/>	
	\$ 668,905	\$ 730,913

During the year ended June 30, 2006, temporarily restricted net assets were released from restriction as follows:

Purpose or Time Restriction Met

United Way - time restriction	\$ 194,549
Ways to Work	62,271
Independent Living Program	33,553
Families and Schools Together	2,500
Counseling	50,394
School Services	31,317
Positive Solutions	1,000
Early Childhood Services	51,135
Other restricted purposes	5,928
	<hr/>
	\$ 432,647

Note 10 - Permanently Restricted Net Assets:

The Agency's permanently restricted net assets of \$43,447 consist of the Slonaker Endowment gift accepted with the donor stipulation that the principal be maintained intact in perpetuity. The income from the assets can be used to support the Agency's general activities.

Note 11 - Payments to National Organization:

The Agency makes payments to Alliance for Children and Families (Alliance) based on the Agency's annual budget and personnel cost. Alliance provides consultation and professional services, support to local agencies, and is a network that follows national accreditation. The payments to Alliance totaled \$7,296 and \$7,125 for the years ended June 30, 2006 and 2005.

Note 12 - Retirement Plan:

The Agency provides a tax-sheltered annuity retirement plan under Section 403(b) of the Internal Revenue Code to all eligible salaried and regular employees. Employees are covered by the plan after meeting the plan's service requirement. Eligible employees may also make voluntary contributions to the plan. Employer matching contributions to the plan were equal to 65% of the basic employee contributions made by each participant during the plan year, subject to limitations. In addition, the Agency will make an additional contribution to the Plan equal to 3% of all participants' compensation. During the years ended June 30, 2006 and 2005, employer contributions amounted to \$91,313 and \$94,462, respectively.

Note 13 - Concentration of Credit Risk:

The Agency has defined its financial instruments which are potentially subject to credit risk as cash, receivables and its long-term investments.

From time to time, the Agency will have cash deposits in excess of federally insured limits. Client receivables are due from various individuals and insurance companies which mitigate the risk associated therein. An allowance for doubtful accounts is also maintained. Grants receivable are also due from various parties. Contract receivables are due from various governmental agencies. The funds held by the CFSV are subject to market and credit risk.

Significant funding for operations comes from various government sources and is, therefore, susceptible to governmental budgetary constraints and limitations.