

FAMILY & CHILDREN SERVICES

JUNE 30, 2009



INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Family & Children Services

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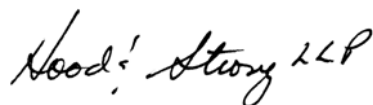
Independent Auditors' Report

BOARD OF DIRECTORS
FAMILY & CHILDREN SERVICES
Palo Alto, California

We have audited the accompanying statement of financial position of *Family & Children Services (the Agency)* as of June 30, 2009, 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, 2008 financial statements and, in our report dated October 23, 2008, 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 & Children Services as of June 30, 2009, 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.



September 24, 2009

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Family & Children Services

Statement of Financial Position

<i>June 30,</i>	2009	2008
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,067,394	\$ 958,376
Client receivables, net of allowance for doubtful accounts of \$75,000 and \$25,000 for 2009 and 2008, respectively	129,551	160,575
Grants receivable	143,107	91,427
Contracts receivable, net of allowance for doubtful collections of \$100,000 and \$24,804 for 2009 and 2008, respectively	865,734	336,063
Prepaid expenses and other current assets	68,435	80,172
Total current assets	2,274,221	1,626,613
Notes Receivable , net of allowance for doubtful accounts of \$7,587 and \$10,000 for 2009 and 2008, respectively	50,312	87,210
Long-term Investments:	350,771	1,190,494
Property, Equipment and Improvements , net	339,195	311,808
Other Assets	52,465	29,452
Total assets	\$ 3,066,964	\$ 3,245,577
Liabilities and Net Assets		
Current Liabilities:		
Current portion of capital lease obligations	\$ 4,714	\$ 4,013
Current maturities of long-term debt	12,230	10,135
Accounts payable	126,677	90,852
Accrued expenses	387,665	309,933
Total current liabilities	531,286	414,933
Long-Term Liabilities:		
Capital lease obligation, net of current portion	365	5,065
Long-term debt, net of current maturities	214,632	225,609
Total long-term liabilities	214,997	230,674
Total liabilities	746,283	645,607
Net Assets:		
Unrestricted:		
Undesignated	551,270	413,980
Board designated	1,626,551	1,999,051
Total unrestricted	2,177,821	2,413,031
Donor restricted:		
Temporarily	87,563	131,642
Permanently	55,297	55,297
Total net assets	2,320,681	2,599,970
Total liabilities and net assets	\$ 3,066,964	\$ 3,245,577

Family & Children Services

Statement of Activities

Year Ended June 30, 2009 (with comparative totals for the year ended June 30, 2008)

	2009			2008	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support:					
Contributions	\$ 381,728	\$ 2,280		\$ 384,008	\$ 613,001
Grants	253,855	4,250		258,105	188,200
United Way support		50,000		50,000	50,000
Donated services and equipment	213,420			213,420	129,228
Special events, net of direct benefits to attendees of approximately \$27,400 for 2009 and \$22,500 for 2008	132,987			132,987	82,310
Total support	981,990	56,530		1,038,520	1,062,739
Revenue:					
Program service fees	692,651			692,651	784,674
Contract revenue	4,114,538			4,114,538	3,545,323
Long-term investment income	(250,153)			(250,153)	(97,218)
Miscellaneous income	47,076			47,076	45,848
Total revenue	4,604,112			4,604,112	4,278,627
Net assets released from restrictions	100,609	(100,609)			
Total support and revenue	5,686,711	(44,079)		5,642,632	5,341,366
Expenses:					
Program services	4,379,635			4,379,635	4,609,439
Support services					
Fundraising	208,896			208,896	261,312
Management and general	1,333,390			1,333,390	1,167,726
Total support services	1,542,286			1,542,286	1,429,038
Total expenses	5,921,921			5,921,921	6,038,477
Change in Net Assets	(235,210)	(44,079)		(279,289)	(697,111)
Net Assets - Beginning of year	2,413,031	131,642	\$ 55,297	2,599,970	3,297,081
Net Assets - End of year	\$ 2,177,821	\$ 87,563	\$ 55,297	\$ 2,320,681	\$ 2,599,970

Family & Children Services

Statement of Functional Expenses

Year Ended June 30, 2009 (with comparative totals for the year ended June 30, 2008)

	2009						2008	
	Community- Linked Services	Clinic- Based Services	School- Based Services	Total Programs	Fundraising	Management and General	Total	Total
Direct Expenses								
Salaries and benefits	\$ 1,582,182	\$ 798,434	\$ 771,831	\$ 3,152,447	\$ 134,130	\$ 957,588	\$ 4,244,165	\$ 4,473,565
Recruitment and contract staffing	2,198	985	12,443	15,626	150	87,010	102,786	41,706
Professional fees	533,972	31,570	19,403	584,945	16,729	64,476	666,150	550,754
Program services and supplies	84,711	15,035	23,459	123,205	11,544	15,349	150,098	109,824
Travel, training, meetings	34,522	7,829	4,500	46,851	2,379	7,157	56,387	66,941
Other direct expenses	4,212	153	137	4,502	893	26,601	31,996	147,210
Special events					29,997		29,997	13,572
In-kind expenses	127,661	34,515		162,176	6,320	2,491	170,987	129,228
Total direct expenses	2,369,458	888,521	831,773	4,089,752	202,142	1,160,672	5,452,566	5,532,800
Shared Expenses								
Office expense	47,947	22,040	15,486	85,473	2,074	112,617	200,164	204,417
Audit expense	15,886	7,631	4,252	27,769	742	6,409	34,920	35,579
Occupancy expense	60,764	21,333	16,107	98,204	1,870	17,640	117,714	139,175
Insurance	14,202	6,578	5,831	26,611	694	18,923	46,228	52,254
Miscellaneous	3,920	1,445	970	6,335	98	7,372	13,805	9,819
Total shared expenses	142,719	59,027	42,646	244,392	5,478	162,961	412,831	441,244
Total expenses before depreciation	2,512,177	947,548	874,419	4,334,144	207,620	1,323,633	5,865,397	5,974,044
Depreciation	24,392	11,166	9,933	45,491	1,276	9,757	56,524	64,433
Total expenses	\$ 2,536,569	\$ 958,714	\$ 884,352	\$ 4,379,635	\$ 208,896	\$ 1,333,390	\$ 5,921,921	\$ 6,038,477
Internal Allocations								
Business unit and regional allocation	\$ 329,330	\$ 190,457	\$ 77,137	\$ 596,924		\$ (596,924)		
IT allocation	41,283	18,785	16,870	76,938	\$ 2,240	(79,178)		
Agency management and general	352,865	154,039	132,503	639,407	17,881	(657,288)		
Total internal allocations	723,478	363,281	226,510	1,313,269	20,121	(1,333,390)		
Total expenses after internal allocations	\$ 3,260,047	\$ 1,321,995	\$ 1,110,862	\$ 5,692,904	\$ 229,017	\$ 0	\$ 5,921,921	\$ 6,038,477

The accompanying notes are an integral part of this statement.

Family & Children Services

Statement of Cash Flows

<i>Years Ended June 30,</i>	2009	2008
Cash Flows Provided by Operating Activities:		
Change in net assets	\$ (279,289)	\$ (697,111)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	56,524	64,433
Unrealized loss on long-term investments	312,333	201,710
In-kind contribution of equipment	(42,459)	
Changes in operating assets and liabilities:		
Client receivables	31,024	(78,055)
Grants receivable	(51,680)	21,484
Contracts receivable	(529,671)	1,846
Prepaid expenses and other current assets	11,737	(14,989)
Notes receivable	36,898	(453)
Other assets	(23,013)	27,050
Accounts payable	35,825	(13,261)
Accrued expenses	77,732	(127,045)
Net cash used in operating activities	(364,039)	(614,391)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(41,452)	(35,572)
Purchases of long-term investments	(26,221)	(2,279,709)
Proceeds from long-term investments	553,611	3,538,528
Net cash provided by investing activities	485,938	1,223,247
Cash Flows from Financing Activities:		
Debt payments	(8,882)	(10,543)
Proceeds from line of credit	98,650	
Repayment of line of credit	(98,650)	
Principal payments on capital lease obligation	(3,999)	(3,566)
Net cash used in financing activities	(12,881)	(14,109)
Net Change in Cash and Cash Equivalents	109,018	594,747
Cash and Cash Equivalents - Beginning of year	958,376	363,629
Cash and Cash Equivalents - End of Year	\$ 1,067,394	\$ 958,376
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 20,322	\$ 15,376

Note 1 - Description of the Organization:

Mission

The mission of Family & Children Services (the Agency) is to build strong, safe, and self-sufficient individuals, families, and communities.

Strategic Business Units

1. Community-Linked Services

Markets

The primary market of Community-Linked Services is clients with high severity behavioral, economic, and legal health needs. Clients tend to be mentally ill, have a dual diagnosis of substance abuse addiction and mental illness, be low-income, have insurance through the government (e.g., Medi-Cal) or no insurance, be referred through the county (i.e., Social Services Agency, Department of Family and Children Services, courts), and be at risk of homelessness. Youth in the foster care system also fall into this market. The main funding source for these client services is government contracts.

The secondary market is clients with medium severity behavioral, economic and legal health needs. Clients tend to be at risk of losing employment, dropping out of school, or losing child custody. The primary sources of funding are private payment (insurance or client payment), foundation grants, and prevention dollars.

Community-Linked Services primary focus is on behavioral health services (i.e., mental health and substance abuse treatment). Its secondary focus is on economic health (i.e., Ways to Work Family Loan Program and educational and supportive services for youth exiting foster care). For all of these services, the unit is dependent upon county contracts.

Programs Portfolio

Behavioral Health

- Medi-Cal Mental Health (psychiatric, therapy, case management)
- Substance abuse treatment
- Specialized services: South East Asian Services, Deaf & Hard of Hearing, and Dual Diagnosis (courts)
- Prevention (Positive Solutions)
- Intern training

Economic Health

- Ways to Work Family Loan Program
- Youth in foster care (Independent Living Program)

2. Clinic-Based Services

Markets

The primary consumers of Clinic-Based Services are individuals and families who are low on the severity scale. The typical client has low severity of behavioral, economic and legal needs. Issues that lead the client to treatment center on relationship issues, work problems, driving under the influence (DUI) convictions, parenting issues, grief, and major loss. Clients are typically employed, functioning well, and stable. The primary funding sources are insurance, self-payment, foundation grants, donations, and Employee Assistance Program contracts.

The secondary market is made up of clients who have a medium severity of behavioral, economic and legal needs. The typical client in this market is at risk of losing his or her job, dropping out of school, or losing child custody. Primary funding sources are insurance, self-payment, foundation grants, prevention dollars, and donations.

Program Portfolio

Behavioral Health

- Family violence and abuse prevention (Positive Solutions: domestic violence offender, child abuse treatment, parenting without violence, and anger management groups)
- Mental health counseling for children, youth, adults, and families. Services are one-to-one, family, or group.
- Workplace counseling, consultations, crisis debriefing, etc. (Employee Assistance Program)
- Specialized services: Counseling for individuals with HIV/AIDS; and psychiatric services
- Intern training

Economic and legal health

- Referrals to outside services

3. School-Based Services

Markets

The market for School-Based Services centers on children, youth, and transition age youth from birth through age 25 participating in academic settings, as well as their parents and guardians and school personnel. The academic settings include public, private, adult, and nontraditional academic environments.

Currently the primary markets for School-Based Services are students in special day programs (emotionally disturbed children and youth), students in traditional academic environments, and children at childcare sites. Students in the special day programs tend to have attention deficit disorder (ADD) or attention deficit hyper-activity disorder (ADHD) or to be on the autistic spectrum, most often with Asperger's syndrome. Students in the public and private schools tend to seek counseling due to gang issues, self-harming behavior, depression, and stress. Currently services are provided through contracts with schools, at no cost to students or their families. Donations subsidize services that are not fully funded through contracts.

Services for children at childcare sites address early childhood mental health issues, the prevention of child abuse and neglect, and education for parents, guardians, and childcare professionals. Parents pay no fees for services. These services are currently heavily subsidized through grants and donations.

Program Portfolio

Services include:

- On-campus mental health services for students (public and private K-12 schools)
- On-campus services for families:
 - Family and Schools Together (FAST) Program: 8-week programs for at-risk children and their families, provided on-campus, in close partnership with the school.
 - Child care center-based mental health services for children and education for parents and guardians (Early Childhood Services)
- On-campus consultation services for child care professionals and K-12 teachers, at sites where we have contracts serving children or youth
- Training of child care providers at child care sites (Early Childhood Services)

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. Board designated net assets consist of capital reserves, operating reserves and related accumulated income.

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.

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.

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 Investments

Long-term investments consist of a fund invested in The Investment Fund for Foundations (TIFF) Multi-Asset Fund in the amount of \$350,771 and in fiscal year 2008, certain investments in money market funds.

The Agency's long-term investments are recorded at fair value as determined by quoted market prices of the underlying investments. Earnings of the investments, including realized and unrealized gains and losses are recorded in the Statement of Activities.

f. 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.

g. 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 temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are released 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, such as donated professional services and intern time, at the fair value of those services, only if the services create or enhance non-financial assets or require specialized skills that would otherwise need to be purchased.

Contract and grant revenues are primarily on a cost reimbursement basis and are recognized in the period the related costs and services are rendered.

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

h. Fundraising Costs

Fundraising costs are expensed as incurred.

i. 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.

j. Allocation of Expenses

Direct costs are charged directly to the applicable programs or services. Shared costs and agency overhead are allocated to programs and services based on worked time by program.

k. 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.

l. Fair Value of Financial Instruments

The Agency adopted Financial Accounting Standard Board Statement No. 157 *Fair Value Measurements* (FAS 157) at the beginning of the 2009 fiscal year. FAS 157 applies to all financial assets and liabilities that are being measured and reported on a fair value basis and requires such assets and liabilities to be classified and disclosed in one of the following three categories to enable readers of the financial statements to assess the inputs used to develop those measurement:

Level 1 Quoted market prices unadjusted in active markets for identical assets or liabilities.

Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data.

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, 2008, from which the summarized information was derived.

n. Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentations. These reclassifications have no effect on net assets or change in net assets.

o. New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) — interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and provides guidance on the recognition, de-recognition and measurement of benefits related to an entity's uncertain tax position. In December 2008, a FASB Staff Position deferred the effective date for exempt organizations, permitting adoption for years beginning after December 15, 2008. The Agency has elected to defer the application of FIN 48. The Agency presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred. Management does not expect that the adoption of FIN 48 will have an effect on its financial statements.

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.

Note 4 - Long-term Investments:

The long-term invested funds consist principally of the Agency's permanently restricted endowment (Note 9), Board designated reserves, and certain accumulated earnings from these funds.

Long-term invested funds consist of money market fund and investments in TIFF Multi-Asset Fund (TIFF). TIFF is a diversified fund that includes a variety of asset classes – US and international stocks, bonds and Treasury Inflation Protected Securities, commodities and natural resources, REITs, and absolute return strategies. The fund has historically equal-weighted US and international securities, thus approximating the weighting of actual global stock market capitalizations.

The Agency's investment holdings are reported at fair market value. The change in the value of these holding is reported in the Statement of Activities. Below is the activity of long-term investment holdings for the years ended June 30, 2009 and 2008:

	2009	2008
Balance, beginning of year	\$ 1,190,494	\$ 920,592
Interest and dividends	26,221	52,556
Realized gain	27,375	14,439
Unrealized loss	(312,333)	(201,710)
Investment management and support fees	(1,910)	(19,845)
<u>Net long-term investment loss</u>	<u>(260,647)</u>	<u>(154,560)</u>
<u>Net investment activity</u>	<u>(579,076)</u>	<u>424,462</u>
<u>Balance, end of year</u>	<u>\$ 350,771</u>	<u>\$1,190,494</u>

As of June 30, 2009, the long-term investments consist entirely of investments in TIFF. These investments have been classified as level 2 measurements.

Family & Children Services

Notes to Financial Statements

Note 5 - Property, Equipment and Improvements:

Property, equipment and improvements and accumulated depreciation and amortization consist of the following at June 30, 2009 and 2008:

	2009	2008
Land	\$ 92,568	\$ 92,568
Buildings and improvements	363,167	363,167
Leasehold improvements	648,953	589,321
Furniture, fixtures and equipment	1,135,323	1,111,044
	<hr/>	<hr/>
	2,240,011	2,156,100
Less: accumulated depreciation	(1,900,816)	(1,844,292)
	<hr/>	<hr/>
	\$ 339,195	\$ 311,808

Note 6 - Long-term Debt:

The Agency entered into a \$300,000 commercial loan on December 22, 1998 with Borel Bank and Trust. This note is a variable rate loan at prime plus .25% (3.50% and 5.25% as of June 30, 2009 and 2008, 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 3.5% and a monthly payment of \$1,665, are as follows:

Year ending June 30,	
2010	\$ 12,230
2011	12,665
2012	13,116
2013	13,582
2014	175,269
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	\$ 226,862

The Agency has a \$100,000 unsecured line of credit with Wells Fargo Bank. Borrowings under the line of credit bear interest at prime plus 2%.

Family & Children Services

Notes to Financial Statements

Note 7 - Commitments and Contingencies:

Leases

The Agency leases facilities and equipment under operating leases expiring in various years through 2014. Minimum annual lease payments required on these leases are as follows:

Year Ending June 30,	
2010	\$ 69,168
2011	76,863
2012	87,166
2013	21,838
2014	4,467
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	\$255,035

Rent expense charged to operations for the years ended June 30, 2009 and 2008 was \$28,189 and \$39,742, 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.

Note 8 - Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of the following at June 30, 2009 and 2008:

	2009	2008
United Way – for the next fiscal year	\$ 50,000	\$ 50,000
School Services	8,868	22,502
Independent Living Program	3,963	14,519
Counseling	800	900
Early Childhood Services		12,739
Positive Solutions		14,842
Other restricted purposes	23,932	16,140
	<hr/>	<hr/>
	\$ 87,563	\$ 131,642

Family & Children Services

Notes to Financial Statements

During the year ended June 30, 2009, temporarily restricted net assets were released from restrictions as follows:

Purpose or Time Restriction Met

United Way - time restriction	\$ 50,000
Counseling	100
Early Childhood Services	12,739
School Services	7,382
Independent Living Program	12,557
Positive Solutions	17,831
	<hr/>
	\$ 100,609

Note 9 - Permanently Restricted Net Assets:

The Agency's permanently restricted net assets consist of endowment gifts accepted with the donor stipulation that the principal be maintained intact in perpetuity. Certain income from the assets can be used to support the Agency's general activities and is generally appropriated for expenditure in the year it is earned.

In 2008, the Entity implemented new FASB Staff Position FAS 117-1 "Endowments of Not-for-Profit Organizations – Net Assets Classification of Funds Subject to Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (FAS 117-1) which was effective for fiscal years ending after December 15, 2008. The state of California adopted a version of the Uniform Prudent Management of Institutional Funds Act which is applicable to funds established on or after January 1, 2009 and funds established prior to January 1, 2009 only with respect to actions taken after January 1, 2009. The adoption of the new FASB Staff Position FAS 117-1 and California's enactment of UPMIFA have no impact on the total or classification of net assets of the Agency.

Permanently restricted funds are invested with the Agency's other temporarily restricted and board designated funds according to the Agency's investment policies.

Note 10 - 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 expense incurred for the amount due to Alliance totaled \$4,000 and \$7,695 for the years ended June 30, 2009 and 2008.

Note 11 - 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 equal the lesser of 65% of contributions made by each eligible participant during the plan year or 3% of eligible employee compensation received during the plan year. In addition, the Agency makes an additional contribution to the Plan equal to 3% of each eligible participant's compensation. During the years ended June 30, 2009 and 2008, employer contributions amounted to \$101,301 and \$130,517, respectively.

Note 12 - 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. Note 5 discusses how the investments are held.

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

Note 13 - Subsequent Events:

The Agency has reviewed the results of operations for the period of time from its fiscal year ended June 30, 2009 through the date of the independent auditors' report and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements. However, for purposes of disclosure, the Agency has signed a memorandum of understanding to work towards taking ownership of the Sobrato House in San Jose. At this time, the Agency is in very early negotiations for the transfer of the property. It is planned to be used for the Agency's Independent Living Program for foster children ages 16 to 21.