

FAMILY & CHILDREN SERVICES

JUNE 30, 2011



INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Family & Children Services

Independent Auditors' Report and Financial Statements

Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 17

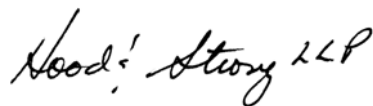
Independent Auditors' Report

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, 2011, 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, 2010 financial statements and, in our report dated October 12, 2010, 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, 2011, 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.



San Jose, California
October 11, 2011

Consultants and

Business Advisors

100 First Street

14th Floor

San Francisco

CA 94105

415.781.0793

fax 415.421.2976

10 Almaden Boulevard

Suite 250

San Jose

CA 95113

408.998.8400

fax 408.998.8485



Family & Children Services

Statement of Financial Position

<i>June 30, 2011 (with comparative totals for June 30, 2010)</i>	2011	2010
Assets		
Cash and cash equivalents	\$ 104,848	\$ 639,376
Client receivables, net of allowance for doubtful accounts of \$16,124 and \$15,074 for 2011 and 2010, respectively	15,254	43,895
Grants receivable		55,175
Contracts receivable, net of allowance for doubtful collections of \$0 and \$91,700 for 2011 and 2010, respectively	892,833	846,176
Medical contracts, including contracts settlement receivables, net of reserves of \$335,908 and \$239,638 for 2011 and 2010, respectively	332,135	709,067
Prepaid expenses and other assets	163,931	126,357
Long-term investments	306,542	573,216
Property, equipment and improvements, net	543,481	527,957
Total assets	\$ 2,359,024	\$ 3,521,219
Liabilities and Net Assets		
Line of credit	\$ 300,000	\$ 795,000
Accounts payable	145,511	207,694
Accrued expenses	359,792	583,742
Long-term debt	388,084	395,252
Total liabilities	1,193,387	1,981,688
Net Assets:		
Unrestricted	1,081,553	1,396,545
Donor restricted:		
Temporarily	26,500	85,402
Permanently	57,584	57,584
Total net assets	1,165,637	1,539,531
Total liabilities and net assets	\$ 2,359,024	\$ 3,521,219

The accompanying notes are an integral part of these statements.

Family & Children Services

Statement of Activities

Year Ended June 30, 2011 (with comparative totals for the year ended June 30, 2010)

	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support:					
Contributions	\$ 631,795			\$ 631,795	\$ 283,319
Grants		\$ 26,500		26,500	189,974
Donated services and equipment	166,495			166,495	157,859
Special events	190,337			190,337	207,934
Total support	988,627	26,500		1,015,127	839,086
Revenue:					
Program service fees	393,509			393,509	578,306
Contract revenue	5,862,457			5,862,457	5,587,603
Long-term investment income	83,326			83,326	65,143
Miscellaneous income	14,922			14,922	20,461
Total revenue	6,354,214			6,354,214	6,251,513
Net assets released from restrictions	85,402	(85,402)			
Total support and revenue	7,428,243	(58,902)		7,369,341	7,090,599
Expenses:					
Program services	6,513,739			6,513,739	5,925,299
Support services					
Development	281,277			281,277	339,145
Management and general	948,219			948,219	1,607,305
Total support services	1,229,496			1,229,496	1,946,450
Total expenses	7,743,235			7,743,235	7,871,749
Change in Net Assets	(314,992)	(58,902)		(373,894)	(781,150)
Net Assets - Beginning of year	1,396,545	85,402	\$ 57,584	1,539,531	2,320,681
Net Assets - End of year	\$ 1,081,553	\$ 26,500	\$ 57,584	\$ 1,165,637	\$ 1,539,531

The accompanying notes are an integral part of these statements.

Family and Children Services

Statement of Functional Expenses

Year Ended June 30, 2011 (with comparative totals for the year ended June 30, 2010)

	2011										2010	
	Substance Abuse	Mental Health	Independent Living	Deaf	School Services	Counseling	Positive Solutions	Total Programs	Development	Management and General	Total	Total
Direct Expenses												
Salaries and benefits	\$ 969,954	\$ 1,603,615	\$ 494,305	\$ 90,504	\$ 656,185	\$ 194,076	\$ 323,517	\$ 4,332,156	\$ 144,771	\$ 894,455	\$ 5,371,382	\$ 5,388,949
Recruitment and contract staffing	36	56	12,277	35	9,273	2,027	175	23,879		1,645	25,524	70,004
Professional fees	63,733	537,937	188,225	15,060	69,997	28,150	20,288	923,390	8,186	1,605	933,181	764,051
Program services and supplies	4,583	34,312	113,147	31,313	16,683	2,016	31,101	233,155	20,290	4,085	257,530	281,656
Travel, training, meetings	4,480	25,232	25,699	7,995	10,088	1,729	4,828	80,051	5,901	1,168	87,120	110,358
Other direct expenses	11,369	19,886	17,579	1,867	7,180	1,937	3,151	62,969	1,812	4,533	69,314	374,245
In-kind expenses - interns	3,321	75,978	28,922	14,772	1,742	19,288		144,023			144,023	114,193
In-kind expenses - other		350	2,256	3,098	100			5,804	13,784	2,885	22,473	41,166
Circle of support expenses									27,334		27,334	27,416
Expenses - other events			18,816					18,816	30,786		49,602	44,743
Total direct expenses	1,057,476	2,297,366	901,226	164,644	771,248	249,223	383,060	5,824,243	252,864	910,376	6,987,483	7,216,781
Shared Expenses												
Office expense	53,094	68,500	15,418	4,480	16,068	16,645	24,048	198,253	10,833	50,672	259,758	232,500
Audit expense	21,086	34,530	12,679	2,382	12,839	4,126	6,143	93,785	2,043	(456)	95,372	34,650
Occupancy expense	46,331	87,840	28,973	2,008	5,781	18,544	24,941	214,418	9,637	24,634	248,689	254,875
Insurance	4,223	7,036	6,772	510	2,808	805	1,217	23,371	415	4,874	28,660	38,529
Other expense	10,467	23,863	6,089	1,285	6,118	2,164	3,080	53,066	1,133	313	54,512	23,474
Depreciation	13,820	22,612	8,429	1,654	8,161	2,705	4,290	61,671	1,429	5,661	68,761	70,940
Business unit and regional allocation	21,782	15,606		927	334	5,806	477	44,932	2,923	(47,855)		
Total shared expenses	170,803	259,987	78,360	13,246	52,109	50,795	64,196	689,496	28,413	37,843	755,752	654,969
Total expenses	\$ 1,228,279	\$ 2,557,353	\$ 979,586	\$ 177,890	\$ 823,357	\$ 300,018	\$ 447,256	\$ 6,513,739	\$ 281,277	\$ 948,219	\$ 7,743,235	\$ 7,871,749

The accompanying notes are an integral part of these statements.

Family & Children Services

Statement of Cash Flows

Year Ended June 30, 2011

(with comparative totals for the year ended June 30, 2010)

	2011	2010
Cash Flows Provided by Operating Activities:		
Change in net assets	\$ (373,894)	\$ (781,150)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	68,761	70,940
Unrealized gain on long-term investments	(62,557)	(40,547)
In-kind contribution of equipment	(62,522)	(51,265)
Changes in operating assets and liabilities:		
Client receivables	28,641	85,656
Grants receivable	55,175	87,932
Contracts receivable	(46,657)	(433,829)
Medical contracts receivable	376,932	(255,680)
Notes receivable		50,312
Prepaid expenses and other assets	(37,574)	(5,457)
Accounts payable	(62,183)	81,017
Accrued expenses	(223,950)	190,998
Net cash used in operating activities	(339,828)	(1,001,073)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(21,763)	(208,437)
Proceeds (purchases) of long-term investments	329,231	(14,262)
Net cash provided by (used in) investing activities	307,468	(222,699)
Cash Flows from Financing Activities:		
Proceeds from debt		168,390
Repayment of long-term debt	(7,168)	
Proceeds from line of credit	2,172,543	1,150,000
Repayment of line of credit	(2,667,543)	(355,000)
Net cash (used in) provided by financing activities	(502,168)	963,390
Net Change in Cash and Cash Equivalents	(534,528)	(260,382)
Cash and Cash Equivalents - Beginning of year	639,376	899,758
Cash and Cash Equivalents - End of year	\$ 104,848	\$ 639,376
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 67,260	\$ 41,128

The accompanying notes are an integral part of these statements.

Family & Children Services

Notes to Financial Statements

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.

Since 1948, the Agency has provided counseling, caring, and support to children, youth, and adults in Silicon Valley, particularly those who might not otherwise be able to afford care.

We help children and adults cope effectively with depression, addiction, and chronic mental or physical illness. We aid families in overcoming domestic violence and child abuse, teaching them how to build safe, healthy relationships. We counsel and assist our community's veterans, LGBTQ youth, and young people aged 16-21 as they emerge from the foster care system into independence.

Our Clients

The Agency serves children, teens, and adults living in Silicon Valley. To ensure culturally-competent support for our diverse community, our services are provided by staff members who are fluent in the culture and language of multiple communities. Services are available in more than five languages, including English, Spanish, Vietnamese, and American Sign Language (ASL). Clients are predominantly low-income to very low-income.

To increase access to care, the Agency brings our services to locations convenient to where clients live, work, or attend school. Our programs are offered in dozens of locations throughout Santa Clara County and in southern San Mateo County, including group homes, schools, childcare sites, health clinics, and the Agency's facilities in Palo Alto and San Jose.

Our Programs & Services

1. Substance Abuse Treatment Services

The Agency is the largest provider of outpatient drug and alcohol treatment for adults in Santa Clara County. Through one-to-one and group treatment, adults learn about the biochemistry of addiction, family dynamics, feelings and emotions, and relapse, and receive support on the journey of recovery.

Family & Children Services

Notes to Financial Statements

2. Mental Health Programs

The Agency's Mental Health Programs address the needs of clients with high severity behavioral health needs. Through counseling and case management services, our clinicians assist children, youth, and adults coping with mental illness (e.g., bipolar disorder, severe depression, schizophrenia) who also may have a dual diagnosis (substance abuse addiction and mental illness) and be at risk of homelessness. Clients are low- to very-low income.

In addition to general mental health care, our specialized mental health services include:

- Mental health care for children and adults who are *Deaf or Hard-of-Hearing* and their family members (available in English, Spanish, and American Sign Language/ASL);
- Culturally- and linguistically-appropriate care for adults with severe mental illness who are monolingual in *Cambodian or Vietnamese*;
- Individuals with mental illness with open cases in the *Mental Health Court*; and
- Youth 18-21 years old who have emancipated from *foster care* and have a diagnosis of mental illness.

The Agency operates the award-winning *LGBTQ Youth Space*, which serves youth 16-25 years old who identify as lesbian, gay, bisexual, transgender, or questioning (LGBTQ) and allies. This award-winning program, which provides mental health care, youth development activities, and a drop-in center, is offered in collaboration with the Billy DeFrank LGBT Center.

The Agency's highly-regarded Clinical Intern Training Program trains interns seeking licensure in the fields of Marriage and Family Therapy, Psychology, and Social Work.

3. Independent Living Program (Foster Youth Services)

The Agency assists current and former foster youth in transitioning from foster care into independence. Through intensive case management, life skills training programs, and support services, we serve youth 16-21 years old who are emerging from the foster care system throughout Santa Clara County. The Agency is the sole provider of Independent Living Program (ILP) services in Santa Clara County. During the 2010-2011 fiscal year, ILP operated a residential shelter for emancipated youth.

Family & Children Services

Notes to Financial Statements

All ILP services are designed to address four core themes necessary to achieve current and long-term self-sufficiency and stability:

- Permanency: Providing guidance and support so that youth will build lifelong connections with family and supportive adults;
- Education: Encouraging graduation from high school or completion of an equivalency certification and creating pathways to continuing education (four-year college, community college, vocational training program);
- Employment: Linking youth with opportunities to gain work experience and build skills, in order to prepare youth for and place them in (at least) living wage employment and careers; and
- Youth Development: Providing training, guidance, support, and referrals to ensure youth have the opportunity to develop critical thinking skills, resiliency, and positive social-emotional development and to feel valued and empowered.

4. Deaf & Hard-of-Hearing Program

The Agency is the primary provider of mental health and family support services for the Deaf & Hard-of-Hearing community in Santa Clara County. In addition to mental health care (*please see Mental Health Programs*), we provide referrals, home visits, and counseling for families with a parent or child who is Deaf or Hard-of-Hearing. These services are designed to support the healthy development of young children.

Through our *Deaf Families with Children Program*, families with children of school-age participated in educational workshops for parents, after-school activities and field trips for children, and family activities, including an annual camping trip. This program reduced isolation, created circles of support, and strengthened families.

5. School-Based Services

Our School-Based Services foster the healthy social and emotional development of children, youth, and transition age (16-25 years old) youth. Programs are delivered in academic settings throughout Silicon Valley, including public and private K-12 schools, school health clinics, and after-school programs. Services are free to students and their families. The Agency has partnered with schools to support students for more than 20 years.

Students served through our *on-campus counseling services* are often referred to or seek counseling due to self-harming behavior, depression, stress, anxiety, gang issues, or issues at home or with peers.

Family & Children Services

Notes to Financial Statements

Our specialized services include on-site mental health care and case management for students in *special day programs*. Students have attention deficit disorder (ADD), attention deficit hyper-activity disorder (ADHD), an assessment on the autistic spectrum, or other emotional health conditions that affect learning and classroom behavior.

Our family support program, Families and Schools Together (FAST), targets at-risk elementary school children and their family members. FAST utilizes a nationally-recognized, evidence-based model. Families participate in a 9-week program that is designed to build networks of support, strengthen family relationships, and improve communication, while safeguarding against substance abuse, family violence, and gang involvement. Following completion of the 9-week program, families are invited to participate in up to two years after-care services.

6. Counseling Services

The Agency has provided Counseling Services for children, youth, and adults in Silicon Valley for more than 60 years. We provide professional counseling to assist individuals and families with short- and long-term emotional health needs, such as depression, anxiety, stress, parenting, loss, mental illness, divorce, separation, and suicidal feelings. We accept private insurance and offer a donation-supported sliding fee scale based on client income.

Through our *Employee Assistance Program (EAP)*, we provide counseling services, work/life educational presentations at workplaces, crisis and trauma services, and consultations.

Through our *Military Services Initiative*, we provide one-to-one, couples, and family counseling at our offices and in the community for veterans, service members, and their family members.

The Agency's highly-regarded Clinical Intern Training Program trains interns seeking licensure in the fields of Marriage and Family Therapy, Psychology, and Social Work.

7. Positive Solutions (family violence and abuse prevention)

Through the Positive Solutions Program's psycho-educational groups, parenting education workshops, and outreach and education activities, we strive to end the cycle of domestic violence and child abuse and neglect, and to help families build healthy relationships. Prevention activities focus on teaching nurturing parenting skills. The Agency has more than 15 years of experience supporting parents and partners in learning healthy relationship strategies.

Family & Children Services

Notes to Financial Statements

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.

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's receivables are from various contracts, client services and grants commitments. The Agency distinguishes certain medical related contracts as a separate class of receivables due to its unique billing and settlement process, which can take more than a year to finalize. An allowance is set to reflect the Agency's expectation on final settlement. All other client and contract receivables are subject to an allowance for doubtful collection based on the aging experience and other circumstances. It is the Agency's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

Family & Children Services

Notes to Financial Statements

e. Long-term Investments

Long-term investments consist of a fund invested in The Investment Fund for Foundations Multi-Asset Fund (TIFF) and certain investments in mutual 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. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the same year in which the contributions are recognized.

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.

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.

h. Fundraising Costs

Fundraising costs are expensed as incurred.

Family & Children Services

Notes to Financial Statements

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.

The Agency follows Financial Accounting Standards Board (FASB) ASC Topic 740 *Income Taxes* to account for uncertain tax positions. Management has concluded that that Agency has taken no uncertain tax positions that would require adjustment to the financial statements to comply with provisions of this guidance.

The Agency is generally no longer subject to income tax examinations by federal and state tax authorities for years prior to 2007.

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 time worked 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 accounts for all its financial instruments which are required to be measured at fair value on a recurring basis according to FASB ASC Topic 820, Fair Value Measurements and Disclosures (ASC 820). This standard requires the Agency to classify its financial assets and liabilities based on a valuation method using three levels:

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.

Family & Children Services

Notes to Financial Statements

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, 2010, from which the summarized information was derived.

n. Reclassifications

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

o. Subsequent Events

The Agency has evaluated subsequent events through October 11, 2011, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

Note 3 - Long-term Investments:

Long-term invested funds consist of certain mutual funds and investments in 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 per share price of the fund is based on the net asset value of the underlying assets. The Agency can redeem its shares at any time at fair value.

Family & Children Services

Notes to Financial Statements

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, 2011 and 2010:

	2011	2010
Balance, beginning of year	\$ 573,216	\$ 508,073
Interest and dividends	8,489	14,262
Realized and unrealized gain	74,837	50,881
Net long-term investment gain	83,326	65,143
Redemptions	(350,000)	
Balance, end of year	\$ 306,542	\$ 573,216

As of June 30, 2011, the long-term investments consist of \$123,566 of investments in TIFP and \$182,976 in mutual funds. The TIFP investments have been classified as level 2 measurements and the mutual funds as level 1 measurements.

Note 4 - Property, Equipment and Improvements:

Property, equipment and improvements and accumulated depreciation and amortization consist of the following at June 30, 2011 and 2010:

	2011	2010
Land	\$ 92,568	\$ 92,568
Buildings and improvements	484,815	484,815
Leasehold improvements	642,772	552,795
Furniture, fixtures and equipment	1,363,727	1,369,535
	2,583,882	2,499,713
Less: accumulated depreciation	(2,040,401)	(1,971,756)
	\$ 543,481	\$ 527,957

Family & Children Services

Notes to Financial Statements

Note 5 - Long-term Debt:

The Agency refinanced its mortgage with Borel Bank and Trust with a \$400,000 commercial loan on October 26, 2009. This note has a fixed initial rate of 6% for the first five years and a variable rate at prime plus 1% for the remaining term. The note is secured by the real property at Cambridge Avenue in Palo Alto. The maturity date of the note is October 26, 2024, at which time all remaining principal and interest balances become due.

Maturities of long-term debt, assuming an interest rate of 6% and a monthly payment of \$2,577, are as follows:

Year ending June 30,	
2012	\$ 7,680
2013	8,152
2014	8,653
2015	9,185
2016	9,755
Thereafter	344,659
	<hr/>
	\$ 388,804

The Agency has a \$1,100,000 line of credit with Borel Bank and Trust secured by the real property at Cambridge Avenue in Palo Alto. The maturity date of the line of credit is October 26, 2012. Borrowings under the line of credit bear interest at prime (3.25% at June 30, 2011) plus 1%, with a floor and cap rate of 6% and 12% respectively.

Interest expense for the Agency was \$67,260 and \$41,128 for the year ending June 30, 2011 and 2010, respectively.

Note 6 - 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,	
2012	\$ 132,705
2013	24,983
2014	4,020
	<hr/>
	\$ 161,708

Family & Children Services

Notes to Financial Statements

Rent expense charged to operations for the years ended June 30, 2011 and 2010 was \$105,942 and \$130,242, respectively.

The Agency entered into a memorandum of understanding in August, 2009 to work towards taking ownership of the Sobrato House in San Jose for use to support the Agency's Independent Living Program for foster children ages 16 to 21. In the interim, while negotiation for the transfer of the property is underway, the Agency has a month-to-month lease agreement on the Sobrato House with a monthly lease of one dollar per month and full responsibility on facilities related costs. In the second half of fiscal year 2011, it was decided that the Agency would not move forward with the proposed transfer of ownership.

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 7 - Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of the following at June 30, 2011 and 2010:

	2011	2010
Independent Living Program	\$ 15,000	
Counseling	11,500	
United Way		\$ 50,000
School Services		6,644
Early Childhood Services		3,500
Other restricted purposes		25,258
	<hr/>	<hr/>
	\$ 26,500	\$ 85,402

During the year ended June 30, 2011, temporarily restricted net assets were released from restrictions as follows:

Purpose or Time Restriction Met

United Way	\$ 50,000
School Services	6,644
Early Childhood Services	3,500
Other restricted purposes	25,258
	<hr/>
	\$ 85,402

Family & Children Services

Notes to Financial Statements

Note 8 - 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.

Permanently restricted funds are invested with the Agency's other temporarily restricted and board designated funds according to the Agency's investment policies and in accordance with the state of California's enacted version of the Uniform Prudent Management of Institutional Funds Act.

Note 9 - 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 \$2,000 and \$9,085 for the years ended June 30, 2011 and 2010, respectively.

Note 10 - Retirement Plan:

The Agency provides a tax-sheltered annuity retirement plan under Section 403(b) of the Internal Revenue Code to all eligible 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 are dollar for dollar up to 4% of eligible employee compensation received during the plan year. During the years ended June 30, 2011 and 2010, employer contributions amounted to \$104,969 and \$145,105, respectively.

Note 11 - 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 3 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.