

FAMILY & CHILDREN SERVICES

JUNE 30, 2008



INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Family & Children Services

Table of Contents

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, 2008, 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, 2007 financial statements and, in our report dated December 6, 2007, 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, 2008, 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

October 23, 2008

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Family & Children Services

Statement of Financial Position

<i>June 30,</i>	2008	2007
Assets		
Current Assets:		
Cash and cash equivalents	\$ 958,376	\$ 363,629
Client receivables, net of allowance for doubtful accounts of \$25,000 and \$82,042 for 2008 and 2007, respectively	160,575	82,520
Grants receivable	91,427	112,911
Contracts receivable, net of allowance for doubtful collections of \$0 and \$985 for 2008 and 2007, respectively	336,063	337,909
Prepaid expenses and other current assets	80,172	65,183
Total current assets	1,626,613	962,152
Notes Receivable , net of allowance for doubtful accounts of \$10,000 for both 2008 and 2007	87,210	86,757
Long-term Investments	1,190,494	2,651,023
Property, Equipment and Improvements , net	311,808	340,669
Other Assets	29,452	56,502
Total assets	\$ 3,245,577	\$ 4,097,103
Liabilities and Net Assets		
Current Liabilities:		
Current portion of capital lease obligations	\$ 4,013	\$ 3,496
Current maturities of long-term debt	10,135	6,584
Accounts payable	90,852	104,113
Accrued expenses	309,933	436,978
Total current liabilities	414,933	551,171
Long-Term Liabilities:		
Capital lease obligation, net of current portion	5,065	9,148
Long-term debt, net of current maturities	225,609	239,703
Total long-term liabilities	230,674	248,851
Total liabilities	645,607	800,022
Net Assets:		
Unrestricted:		
Undesignated	413,980	462,420
Board designated	1,999,051	2,666,935
Total unrestricted	2,413,031	3,129,355
Donor restricted:		
Temporarily	131,642	119,029
Permanently	55,297	48,697
Total net assets	2,599,970	3,297,081
Total liabilities and net assets	\$ 3,245,577	\$ 4,097,103

Family & Children Services

Statement of Activities

Year Ended June 30, 2008 (with comparative totals for the year ended June 30, 2007)

	2008				2007
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support:					
Contributions	\$ 586,465	\$ 19,936	\$ 6,600	\$ 613,001	\$ 539,008
Grants	1,000	187,200		188,200	126,980
United Way support		50,000		50,000	50,000
Donated services and equipment	129,228			129,228	205,824
Special events, net of direct benefits to attendees of approximately \$22,500 for 2008 and \$10,000 for 2007	76,460	5,850		82,310	53,384
Total support	793,153	262,986	6,600	1,062,739	975,196
Revenue:					
Program service fees	784,674			784,674	910,007
Contract revenue	3,545,323			3,545,323	2,915,145
Long-term investment income:					
Common stock					1,730,431
Other	(97,218)			(97,218)	136,250
Miscellaneous income	45,848			45,848	5,257
Total revenue	4,278,627			4,278,627	5,697,090
Net assets released from restrictions	250,373	(250,373)			
Total support and revenue	5,322,153	12,613	6,600	5,341,366	6,672,286
Expenses:					
Program services	4,567,751			4,567,751	4,153,737
Support services					
Fundraising	261,312			261,312	293,094
Outreach/New services development	41,688			41,688	
Management and general	1,167,726			1,167,726	1,014,495
Total support services	1,470,726			1,470,726	1,307,589
Total expenses	6,038,477			6,038,477	5,461,326
Change in Net Assets	(716,324)	12,613	6,600	(697,111)	1,210,960
Net Assets - Beginning of year	3,129,355	119,029	\$ 48,697	3,297,081	2,086,121
Net Assets - End of year	\$ 2,413,031	\$ 131,642	\$ 55,297	\$ 2,599,970	\$ 3,297,081

Family & Children Services

Statement of Functional Expenses

Year Ended June 30, 2008 (with comparative totals for the year ended June 30, 2007)

	2008							2007	
	Community- Linked Services	Clinic- Based Services	School- Based Services	Total Programs	Fundraising	Outreach / New Services Development	Management and General	Total	Total
Direct Expenses									
Salaries and benefits	\$ 1,599,126	\$ 1,044,613	\$ 874,512	\$ 3,518,251	\$ 171,108	\$ 31,550	\$ 752,656	\$ 4,473,565	\$ 4,052,663
Recruitment and contract staffing	1,425	290	1,763	3,478			38,228	41,706	29,047
Professional fees	335,548	35,441	20,625	391,614	28,215	598	130,327	550,754	270,004
Program services and supplies	43,737	3,884	12,581	60,202	28,104	7,413	14,105	109,824	85,686
Travel, training, meetings	31,225	7,003	9,150	47,378	7,195	682	11,686	66,941	50,023
Other direct expenses	67,227	31,842	395	99,464	1,638	20	46,088	147,210	362,626
Special events					13,572			13,572	14,333
In-kind expenses	88,995	37,320	1,615	127,930	1,148	150		129,228	198,174
Total direct expenses	2,167,283	1,160,393	920,641	4,248,317	250,980	40,413	993,090	5,532,800	5,062,556
Shared Expenses									
Office expense	43,693	22,759	16,745	83,197	2,941	347	117,932	204,417	118,866
Audit expense	13,990	8,951	5,318	28,259	1,214	104	6,002	35,579	29,700
Occupancy expense	72,829	22,335	23,757	118,921	2,556	327	17,371	139,175	136,725
Insurance	14,864	8,906	7,895	31,665	1,221	142	19,226	52,254	52,637
Miscellaneous	4,426	2,185	1,890	8,501	308	69	941	9,819	11,431
Total shared expenses	149,802	65,136	55,605	270,543	8,240	989	161,472	441,244	349,359
Total expenses before depreciation	2,317,085	1,225,529	976,246	4,518,860	259,220	41,402	1,154,562	5,974,044	5,411,915
Depreciation	22,941	13,558	12,392	48,891	2,092	286	13,164	64,433	49,411
Total expenses	\$ 2,340,026	\$ 1,239,087	\$ 988,638	\$ 4,567,751	\$ 261,312	\$ 41,688	\$ 1,167,726	\$ 6,038,477	\$ 5,461,326
Internal Allocations									
Business unit and regional allocation	\$ 92,646	\$ 91,788	\$ 82,027	\$ 266,461			\$ (266,461)		
IT allocation	49,572	30,629	23,902	104,103	\$ 4,573	\$ 445	(109,121)		
Agency management and general	314,992	188,628	161,491	665,111	28,085	3,698	(696,894)		
Total internal allocations	457,210	311,045	267,420	1,035,675	32,658	4,143	(1,072,476)		
Total expenses after internal allocations	\$ 2,797,236	\$ 1,550,132	\$ 1,256,058	\$ 5,603,426	\$ 293,970	\$ 45,831	\$ 95,250	\$ 6,038,477	\$ 5,461,326

The accompanying notes are an integral part of this statement.

Family & Children Services

Statement of Cash Flows

<i>Years Ended June 30,</i>	2008	2007
Cash Flows Provided by Operating Activities:		
Change in net assets	\$ (697,111)	\$ 1,210,960
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	64,433	49,411
Unrealized loss (gain) on long-term investments	201,710	(1,848,201)
Changes in operating assets and liabilities:		
Client receivables	(78,055)	(13,950)
Grants receivable	21,484	149,499
Contracts receivable	1,846	36,931
Prepaid expenses and other assets	(14,989)	713
Notes receivable	(453)	(17,743)
Other assets	27,050	(6,911)
Accounts payable	(13,261)	64,960
Accrued expenses	(127,045)	21,094
Net cash used in operating activities	(614,391)	(353,237)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(35,572)	(84,184)
Purchases of long-term investments	(2,279,709)	(181,773)
Proceeds from long-term investments	3,538,528	
Net cash provided by (used in) investing activities	1,223,247	(265,957)
Cash Flows from Financing Activities:		
Debt payments	(10,543)	(6,584)
Principal payments on capital lease obligation	(3,566)	(3,112)
Net cash used in financing activities	(14,109)	(9,696)
Net Change in Cash and Cash Equivalents	594,747	(628,890)
Cash and Cash Equivalents - Beginning of year	363,629	992,519
Cash and Cash Equivalents - End of Year	\$ 958,376	\$ 363,629
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 15,376	\$ 21,227

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 endowment, 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 funds invested in The Investment Fund for Foundations (TIFF) Multi-Asset Fund, \$936,101 and the Ivy Asset Strategy Fund, \$254,393.

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. 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, 2007, from which the summarized information was derived.

m. 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.

n. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, Fair Value Measurements (SFAS No. 157), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except for nonfinancial assets and nonfinancial liabilities of which the effective date has been delayed for one year.

The Agency is currently evaluating the impact SFAS No. 157 will have on its financial statements, but does not believe that its adoption of SFAS No. 157 will have a material impact on its financial position and changes in net assets.

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 - 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:

In March 2008, the Board of Directors approved a change in the agency's long-term investment strategy. Holdings in Silicon Valley Community Foundation and Agency share of Managed Funds held in Oppenheimer & Co. were exchanged for holdings in The Investment Fund for Foundations (TIFF) Multi-Asset Fund and the Ivy Asset Strategy Fund.

The long-term invested funds consist principally of the Agency's permanently restricted endowment (Note 10), Board designated reserves, and certain accumulated earnings from these funds.

The TIFF Multi-Asset Fund 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 Ivy Asset Strategy fund is a global balanced mutual fund. The Ivy fund has a 5 star Morningstar rating for three years, a 4 star Morningstar rating for 10 years and overall, and a “1” rating for Bear Market Decile Rank. The expense ratio for the Institutional class shares is 0.89%.

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 (excluding donated securities, liquidated in September 2007) for the years ended June 30, 2008 and 2007:

	2008	2007
Balance, beginning of year	\$ 920,592	\$ 621,050
Interest and dividends	52,556	17,176
Realized gain	14,439	47,928
Unrealized (loss) gain	(201,710)	63,849
Investment management and support fees	(19,845)	(11,185)
	<hr/>	<hr/>
Net long-term investment (loss) income	(154,560)	117,768
Net investment activity	424,462	181,774
	<hr/>	<hr/>
Balance, end of year	\$ 1,190,494	\$ 920,592

Family & Children Services

Notes to Financial Statements

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the Agency's investments have incurred a significant decline in fair value since June 30, 2008.

Note 6 - Property, Equipment and Improvements:

Property, equipment and improvements and accumulated depreciation and amortization consist of the following at June 30, 2008 and 2007:

	2008	2007
Land	\$ 92,568	\$ 92,568
Buildings and improvements	363,167	363,167
Leasehold improvements	589,321	589,321
Furniture, fixtures and equipment	1,111,044	1,075,472
	<hr/>	<hr/>
	2,156,100	2,120,528
Less: accumulated depreciation	(1,844,292)	(1,779,859)
	<hr/>	<hr/>
	\$ 311,808	\$ 340,669

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% (5.25% and 8.25% as of June 30, 2008 and 2007, 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.

Family & Children Services

Notes to Financial Statements

Maturities of long-term debt, assuming an interest rate of 5.25% and a monthly payment of \$1,873, are as follows:

Year ending June 30,	
2009	\$ 10,223
2010	10,722
2011	11,352
2012	11,962
2013	12,512
Thereafter	178,973
	<hr/>
	\$ 235,744

The Agency has a \$100,000 unsecured line of credit with Wells Fargo Bank. There was no outstanding balance as of June 30, 2008.

Note 8 - Commitments and Contingencies:

Leases

The Agency leases equipment under operating leases expiring in various years through 2012. Minimum annual lease payments required on these leases are as follows:

Year Ending June 30,	
2009	\$ 7,821
2010	7,821
2011	5,268
2012	2,787
	<hr/>
	\$ 23,697

Family & Children Services

Notes to Financial Statements

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,		
2009	\$	5,076
2010		5,076
2011		846
		<hr/>
		10,998
Amount representing interest	(1,920)
		<hr/>
	\$	9,078

Rent expense charged to operations for the years ended June 30, 2008 and 2007 was \$39,742 and \$36,520 respectively. In May 2008, the agency terminated the leasing of office space in Campbell, California, moving all operations into the agency's owned buildings in San Jose and Palo Alto.

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 9 - Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of the following at June 30, 2008 and 2007:

	2008	2007
United Way – for the next fiscal year	\$ 50,000	\$ 50,000
Early Childhood Services	12,739	16,500
Independent Living Program	14,519	15,530
Positive Solutions	14,842	14,000
School Services	22,502	7,252
Counseling	900	2,500
Ways to Work		1,500
FAST		1,117
Other restricted purposes	16,140	10,630
<hr/>		
	\$ 131,642	\$ 119,029

Family & Children Services

Notes to Financial Statements

During the year ended June 30, 2008, temporarily restricted net assets were released from restrictions as follows:

Purpose or Time Restriction Met

United Way - time restriction	\$ 50,000
Counseling	97,100
Early Childhood Services	31,861
Ways to Work	1,500
School Services	6,450
Independent Living Program	29,011
Positive Solutions	17,658
Families and Schools Together	3,917
Other restricted purposes	12,876
	<hr/>
	\$ 250,373

Note 10 - 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.

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 \$7,695 and \$7,505 for the years ended June 30, 2008 and 2007.

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 equal the lesser of 65% of contributions made by each eligible participant during the plan year or 2.27% 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, 2008 and 2007, employer contributions amounted to \$ 130,517 and \$174,880, 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. Note 5 discusses how the investments are held and the market risk realized subsequent to year-end.

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