

**CHILD AND FAMILY CENTER AND  
CHILD AND FAMILY CENTER FOUNDATION**

**REPORT ON AUDIT OF  
COMBINED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**CHILD AND FAMILY CENTER AND  
CHILD AND FAMILY CENTER FOUNDATION  
(California Non-Profit Corporations)  
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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Child and Family Center and  
Child and Family Center Foundation  
(California Non-Profit Corporations)  
Santa Clarita, California

We have audited the accompanying combined financial statements of Child and Family Center and Child and Family Center Foundation (California Non-Profit Corporations), which comprise of the combined statement of financial position as of June 30, 2016, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Child and Family Center and Child and Family Center Foundation as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITORS' REPORT (Continued)

### *Report on Summarized Comparative Information*

We previously audited the Child and Family Center and Child and Family Center Foundation's 2015 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated October 1, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

The summary combined financial statements do not contain all the disclosures required by accounting principles generally accepted in the United States of America. Reading the summary combined financial statements, therefore, is not a substitute for reading the audited combined financial statements of Child and Family Center and Child and Family Center Foundation.

### *Other Matters*

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Combining Schedule of Financial Position and Combining Schedule of Activities are presented for purposes of additional analysis and are not a required part of the basic combined financial statements. The Combining Schedule of Financial Position and Combining Schedule of Activities are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Schedule of Financial Position and Combining Schedule of Activities are fairly stated, in all material respects, in relation to the basic combined financial statements as a whole.

*Voswin, Hagen + Co.*

Calabasas, California  
November 14, 2016

**CHILD AND FAMILY CENTER AND  
CHILD AND FAMILY CENTER FOUNDATION  
(California Non-Profit Corporations)  
COMBINED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,127,538	\$ 879,357
Contracts receivable	1,581,766	1,768,164
Promises to give receivable	1,365	39,642
Other receivables	40,914	34,003
Deposits and prepaid expenses	260,661	159,384
Beneficial interest in funds held by others	144,456	150,979
Property and equipment, net	<u>4,434,425</u>	<u>4,678,441</u>
 Total assets	 <u>\$ 7,591,125</u>	 <u>\$ 7,709,970</u>
 <b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 151,898	\$ 125,764
Accrued payroll and related liabilities	553,193	514,065
Unearned revenue	6,650	5,754
Line of credit payable	-	470,000
Note payable	<u>1,610,874</u>	<u>2,016,163</u>
 Total liabilities	 2,322,615	 3,131,746
 <b>COMMITMENTS AND CONTINGENCIES</b>		
 <b>NET ASSETS</b>		
Unrestricted:		
Designated	50,000	50,000
Undesignated	4,540,384	4,003,229
Temporarily restricted	658,126	504,995
Permanently restricted	<u>20,000</u>	<u>20,000</u>
	<u>5,268,510</u>	<u>4,578,224</u>
 Total liabilities and net assets	 <u>\$ 7,591,125</u>	 <u>\$ 7,709,970</u>

See accompanying auditors' report and notes to financial statements.

**CHILD AND FAMILY CENTER AND  
CHILD AND FAMILY CENTER FOUNDATION  
(California Non-Profit Corporations)  
COMBINED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
<b>REVENUE AND SUPPORT</b>					
Governmental service contracts	\$ 9,438,931	\$ -	\$ -	\$ 9,438,931	\$ 10,061,064
Contributions and grants	345,589	612,019	-	957,608	697,282
Fees for services	19,067	-	-	19,067	29,537
Fundraising events gross revenue	347,412	-	-	347,412	321,781
In-kind contributions	373,885	-	-	373,885	358,170
Interest and dividend income	5,754	-	-	5,754	4,576
Realized gain (loss) on beneficial interest in funds held by others	2,806	-	-	2,806	-
Unrealized gain (loss) on beneficial interest in funds held by others	(10,995)	-	-	(10,995)	(2,485)
Gain (loss) on fixed assets	5,500	-	-	5,500	1,100
Other income	29,890	-	-	29,890	31,120
Rental Income	67,400	-	-	67,400	67,200
Restrictions released	<u>458,888</u>	<u>(458,888)</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total revenue and support	 11,084,127	 153,131	 -	 11,237,258	 11,569,345
<b>EXPENSES</b>					
Program services	8,386,535	-	-	8,386,535	9,048,921
Support services	1,433,739	-	-	1,433,739	1,971,186
Fundraising	<u>726,698</u>	<u>-</u>	<u>-</u>	<u>726,698</u>	<u>669,075</u>
 Total expenses	 <u>10,546,972</u>	 <u>-</u>	 <u>-</u>	 <u>10,546,972</u>	 <u>11,689,182</u>
 <b>CHANGE IN NET ASSETS</b>	 537,155	 153,131	 -	 690,286	 (119,837)
 <b>NET ASSETS - beginning of year</b>	 <u>4,053,229</u>	 <u>504,995</u>	 <u>20,000</u>	 <u>4,578,224</u>	 <u>4,698,061</u>
 <b>NET ASSETS - end of year</b>	 <u>\$ 4,590,384</u>	 <u>\$ 658,126</u>	 <u>\$ 20,000</u>	 <u>\$ 5,268,510</u>	 <u>\$ 4,578,224</u>

See accompanying auditors' report and notes to financial statements.

**CHILD AND FAMILY CENTER AND  
CHILD AND FAMILY CENTER FOUNDATION  
(California Non-Profit Corporations)  
COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

	Program <u>Services</u>	Support <u>Services</u>	Fundraising <u>Expenses</u>	2016 Total <u>Expenses</u>	2015 Total <u>Expenses</u>
<b>Salaries and related expenses</b>					
Salaries and wages	\$ 5,199,131	\$ 894,044	\$ 154,506	\$ 6,247,681	\$ 6,996,686
Payroll taxes	489,607	80,863	14,418	584,888	667,649
Employee benefits	<u>737,514</u>	<u>122,878</u>	<u>21,716</u>	<u>882,108</u>	<u>1,055,065</u>
	6,426,252	1,097,785	190,640	7,714,677	8,719,400
<b>Other expenses</b>					
Administrative fees	29,985	6,465	-	36,450	38,195
Advertising	17,722	1,491	7,620	26,833	22,504
Auto expense	10,606	2,563	-	13,169	12,816
Bad debts	-	-	2,444	2,444	55,000
Computer expenses	138,564	31,678	3,351	173,593	160,991
Conferences and meetings	851	2,638	1,103	4,592	6,332
Contracted services	661,909	38,129	38,969	739,007	621,554
Dues and subscriptions	32,000	4,635	12,070	48,705	61,531
Education and training	110,743	25,705	1,391	137,839	49,741
Equipment rental and maintenance	1,825	150	45,949	47,924	61,204
Foster and client care	47,692	-	-	47,692	93,973
In-kind expenses, donated supplies	33,793	-	-	33,793	98,171
In-kind expenses, donations for events	-	-	340,092	340,092	259,999
Insurance	81,432	16,260	2,265	99,957	100,196
Interest expense	72,992	31,515	1,271	105,778	135,543
Legal and audit professional fees	29,080	14,855	1,854	45,789	71,987
Miscellaneous expenses	295	-	3,546	3,841	6,777
Office expenses	38,160	17,490	51,037	106,687	84,470
Outside services	33,882	-	-	33,882	-
Postage and delivery	1,611	4,045	3,239	8,895	9,088
Printing	-	-	-	-	305
Public relations	-	3,902	4,524	8,426	12,336
Rent	427	165	7	599	100,463
Rental - Venue	-	-	740	740	740
Repairs and maintenance	121,925	46,713	3,979	172,617	129,958
Supplies	35,835	-	-	35,835	20,547
Taxes and licenses	16,795	6,160	2,716	25,671	24,999
Telephone	62,536	9,725	1,678	73,939	100,923
Travel	93,299	1,665	-	94,964	128,358
Utilities	<u>51,851</u>	<u>20,544</u>	<u>908</u>	<u>73,303</u>	<u>80,010</u>
	8,152,062	1,384,278	721,393	10,257,733	11,268,111
Depreciation and amortization expense	<u>234,473</u>	<u>49,461</u>	<u>5,305</u>	<u>289,239</u>	<u>421,071</u>
	<u>\$ 8,386,535</u>	<u>\$ 1,433,739</u>	<u>\$ 726,698</u>	<u>\$ 10,546,972</u>	<u>\$ 11,689,182</u>

See accompanying auditors' report and notes to financial statements.

**CHILD AND FAMILY CENTER AND  
CHILD AND FAMILY CENTER FOUNDATION  
(California Non-Profit Corporations)  
COMBINED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 690,286	\$ (119,837)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Depreciation and amortization expense	289,239	421,071
Provision for bad debt	2,444	50,000
(Gain) Loss on beneficial interest held by others, net	8,189	2,485
(Gain) Loss on fixed assets	(5,500)	(1,100)
(Increase) decrease in:		
Contracts receivable	186,398	(241,068)
Promises to give receivable	35,833	(4,338)
Other receivables	(6,911)	(4,023)
Deposits and prepaid expenses	(202,554)	156,542
Increase (decrease) in:		
Accounts payable and accrued expenses	26,134	9,231
Accrued payroll and related liabilities	39,128	(177,308)
Unearned revenue	896	589
Total adjustments	<u>373,296</u>	<u>212,081</u>
Net Cash Provided (Used) by Operating Activities	1,063,582	92,244
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of fixed assets	(41,029)	-
Disposals of fixed assets	1,306	(3,094)
Reinvested funds on beneficial interest held by others	<u>(1,666)</u>	<u>(1,605)</u>
Net Cash Provided (Used) by Investing Activities	(41,389)	(4,699)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds of borrowings from line of credit	-	2,030,000
Principal payments related to line of credit payable	(470,000)	(1,560,000)
Principal payments related to note payable	<u>(405,289)</u>	<u>(383,266)</u>
Net Cash Provided (Used) by Financing Activities	<u>(875,289)</u>	<u>86,734</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	146,904	174,279
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>778,080</u>	<u>603,801</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 924,984</u>	<u>\$ 778,080</u>
<b>SUPPLEMENTAL INFORMATION:</b>		
Interest expense	<u>\$ 105,778</u>	<u>\$ 135,543</u>
<b>SUPPLEMENTAL NON-CASH INFORMATION:</b>		
In-kind contributions	<u>\$ 373,885</u>	<u>\$ 358,170</u>

See accompanying auditors' report and notes to financial statements.

**CHILD AND FAMILY CENTER AND  
CHILD AND FAMILY CENTER FOUNDATION  
(California Non-Profit Corporations)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**1. GENERAL**

*Nature of the Organizations*

Child and Family Center (the “Center”) is a nonprofit, nonsectarian, private educational and counseling center which offers a combination of educational, behavioral, and psychotherapeutic services to children and their parents. The Center operates within the Santa Clarita Valley, which is also where the majority of its clients reside. Child and Family Center Foundation (the “Foundation”) is a nonprofit corporation designed to provide charitable and educational support to the Center. The Foundation provides the support capability for the Center to expand existing programs and to develop new ones.

*Funding*

The Center is funded primarily through various ongoing contracts with the State of California and the County of Los Angeles. Each of the Center’s primary programs (Mental Health, Early Intervention, Therapeutic Preschool/Daycare, Delinquency and Gang Prevention, Family Support, Alcohol and Drugs, Family Preservation, and Wrap Around) is funded by a separate contract. These contracts are administered by the Los Angeles County Department of Children and Family Services, the Los Angeles County Department of Probation, the Los Angeles County Department of Mental Health, Los Angeles Universal Preschool, Substance Abuse Prevention and Control.

The Foundation also receives public support in the form of restricted and unrestricted donations. For the year ended June 30, 2016, these donations amounted to 7.46%, of total revenue and support.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Center and the Foundation prepare their combined financial statements in accordance with generally accepted accounting principles (GAAP) promulgated in the United States of America. The significant accounting and reporting policies used by the Center and the Foundation are described below to enhance the usefulness and understandability of the combined financial statements.

*Basis of Combination*

The accompanying combined financial statements include the combined accounts and transactions of the Center and the Foundation. The Center and the Foundation have elected to present combined financial statements. Each entity is a separate corporate entity with its own governing board, and as such, is responsible for and maintains custody of, its own financial resources. All significant affiliate and interentity accounts and transactions have been eliminated.

**CHILD AND FAMILY CENTER AND  
CHILD AND FAMILY CENTER FOUNDATION  
(California Non-Profit Corporations)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

*Combined Financial Statement Presentation*

The combined financial statements are presented based on Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. ASC Topic 958, Sections 210 and 225 requires classification of the Center and the Foundation's net assets, revenues as well as expenses based on the existence or absence of donor-imposed restrictions. The combined statement requires presentation of the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – in the combined statement of financial position and the amounts of change in each of those classes of net assets in the combined statement of activities.

*Net Assets*

The combined financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

- *Unrestricted net assets.* Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting for the nature of the Center and the Foundation, the environment in which they operate, the purposes specified in their corporate documents and their application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- *Temporarily restricted net assets.* Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Center and the Foundation's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by the Center and the Foundation, unless the donor provides more specific directions about the period of its use.
- *Permanently restricted net assets.* Permanently restricted net assets are resources whose use by the Center and the Foundation are limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time.

All revenues and net gains are reported as increases in unrestricted net assets in the combined statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses other than losses on endowment investments are reported as decreases in unrestricted net assets.

**CHILD AND FAMILY CENTER AND  
CHILD AND FAMILY CENTER FOUNDATION  
(California Non-Profit Corporations)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Cash and Cash Equivalents*

Cash and cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions of a capital or endowment nature. At year-end, and throughout the year, the Center and the Foundation's cash balances, deposited in one bank, exceeded federally insured limits. Management believes the Center and the Foundation are not exposed to any significant credit risk on cash and cash equivalents.

*Beneficial Interest in Funds Held by Others - California Community Foundation*

The Center and Foundation have the unconditional right to receive all of the cash flows from their beneficial interest in Funds Held by Others - California Community Foundation. The Foundation records its beneficial interest at the fair value using the present value of the estimated future cash. The balance at June 30, 2016 consists of mutual fund investments and money instruments stated at market value.

*Contracts and Other Receivables*

Receivables consist of contracts, employees benefits, clinical services, rental income, and a life insurance policy and are stated at the amount management expects to collect from outstanding balances. Receivables are primarily unsecured amounts due on cost reimbursement or performance contracts. Any amount that is denied for reimbursement is written off when management receives notification from the grantor agency. Management provides for probable uncollectible amounts through a provision for an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

*Promises to Give Receivable*

Promises to give receivable were recognized at the promised amount because the difference between the promised amount and the fair value of the promise is immaterial. In management's opinion, all promises to give receivable are collectible at June 30, 2016 and therefore no allowance has been established.

*Deposits and Prepaid Expenses*

Prepaid deposits, insurance, and other costs are expensed ratably over their respective terms of agreement.

**CHILD AND FAMILY CENTER AND  
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(California Non-Profit Corporations)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Accounting for Contributions*

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

*Contributed Goods and Services*

Contributions of goods received that are measurable are recorded as revenue at their estimated fair value when received. Contributions of services are recognized if the services received meet any of these criteria: (1) if they create or enhance nonfinancial assets and (2) if they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

*Contributed Property and Equipment and Services*

Contributed property and equipment are recorded at their estimated fair market value at the date of the gift.

During the year ended June 30, 2016, many individuals volunteered their time and performed a variety of tasks that assist the Center's and the Foundation's fundraising events, but these services do not meet the criteria for recognition as donated services. Therefore, contributed services are not reflected in the combined financial statements.

*Government Revenue*

Government revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. Government revenue from federal agencies is subject to independent audit required by the Uniform Guidance and review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Center and the Foundation's management believe that costs ultimately disallowed, if any, would not materially affect the financial position of the Center and the Foundation.

*Revenue Recognition*

Revenues from government agencies, program service fees, and other third-party payors for services provided under such contracts are recognized when earned by the Center and the Foundation. All gifts, bequests, and other public support are included in unrestricted net assets unless specifically restricted by the donor or the terms of the gift or grant instrument. Amounts received in excess of balances earned are recognized as liabilities in Unearned Revenue.

**CHILD AND FAMILY CENTER AND  
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NOTES TO COMBINED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Revenue Recognition*

Revenues from government agencies, program service fees, and other third-party payors for services provided under such contracts are recognized when earned by the Center and the Foundation. All gifts, bequests, and other public support are included in unrestricted net assets unless specifically restricted by the donor or the terms of the gift or grant instrument. Amounts received in excess of balances earned are recognized as liabilities in Unearned Revenue.

*Property and Equipment*

Property and equipment are stated at cost. The minimum dollar amount for capitalizing and depreciating and asset is \$5,000. Depreciation and amortization have been provided for using accelerated and straight-line methods over the estimated useful lives of the assets as follows:

Building	30 years
Automobile	5 years
Computer equipment	5 years
Furniture and equipment	5 years
Leasehold improvements	5 years

Property and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

Government-funded assets are recorded as an asset and an offsetting liability. The related assets are depreciated over their estimated useful lives and the related liability is accordingly reduced.

*Income Taxes*

The Center and the Foundation are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California income taxes under section 23701(d) of the California Revenue and Taxation Code. The IRS classified the Center and the Foundation as one that is not a private foundation within the meaning of section 509(a) of the Code because it is an organization described in section(s) 509(a)(1) and 170(b)(1)(A)(vi). The Center and the Foundation have adopted Financial Accounting Standards Board Accounting Standards Codification (ASC) Section 740-10, which clarifies the accounting for uncertainty in income taxes. ASC Section 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Section 740-10 requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the year ended June 30, 2016, the Center and the Foundation had no material unrecognized tax benefits, tax penalties or interest.

The Center and the Foundation's Forms 990, *Return of Organization Exempt from Income Tax*, for each of the three years ended June 30, 2015, 2014, and 2013, are subject to examination by the IRS, generally for 3 years after they were filed.

**CHILD AND FAMILY CENTER AND  
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(California Non-Profit Corporations)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Use of Estimates*

The preparation of the combined financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Center and the Foundation's management evaluate the estimates and assumptions based upon historical experience and various other factors and circumstances. The Center and the Foundation's management believe that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

*Expense Recognition and Allocation*

The cost of providing the Center and the Foundation's programs and other activities are summarized on a functional basis in the combined statement of activities and combined statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Center and the Foundation.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Center and the Foundation generally do not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and management and general expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

*Advertising Expenses*

The Center expenses advertising costs as incurred. For the year ended June 30, 2016, advertising expenses amounted to \$26,833.

*Reclassifications*

Certain amounts in the 2015 comparative totals have been reclassified to conform with the 2016 reporting format.

*Comparative Totals*

The combined financial statements include certain prior-year summarized comparative information. Such information does not include 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 Center and the Foundation's combined financial statements for the year ended June 30, 2015, from which the summarized information was derived.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Fair Value Measurements*

The Center and the Foundation report their fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal or most advantageous market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- *Level 1* - Quoted prices for identical assets or liabilities in active markets to which the Center and the Foundation have access at the measurement date.
- *Level 2* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets in markets that are not active;
  - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
  - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- *Level 3* - Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

The carrying amounts of cash and cash equivalents and accounts receivable approximate fair value because of the terms and relatively short maturity of these financial instruments. The mutual funds are valued at Level 2 inputs and are part of the beneficial interest in funds held by others, which represent the net asset value of shares held by the Foundation at year end.

The carrying amounts of liabilities, approximate fair value because of the relatively short maturity of these financial instruments.

When available, the Center and the Foundation measure fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

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**3. RECEIVABLES**

Receivables at June 30, 2016 consisted of the following:

Contracts receivables	\$ 1,910,716
Less : Allowance for contracts receivables	(328,950)
Other receivables	<u>40,914</u>
Total	<u>\$ 1,622,680</u>

Contracts receivable are all due within one year and primarily consist of amounts due from the Los Angeles County Department of Mental Health (the “DMH”).

As of June 30, 2016, the Center was unable to specifically determine the amount of funds that would be reimbursed to it from the DMH for services already provided to clients over the contractual amount. However, management believes the current reserve for uncollectible receivables of \$328,950 represents a reasonable estimate at this time.

**4. PROMISES TO GIVE RECEIVABLE**

Promises to give receivable include promises to make payments at a future date and are recorded at their net realizable value. No allowance is deemed necessary. Promises to give were recognized at the promised amount because the difference between the promised amount and the fair value of the promise is immaterial. Total of promises to give at June 30, 2016 was \$1,365:

**5. BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS**

The Center and the Foundation entered into an agreement with California Community Foundation (the “Foundation”), whereby the Foundation held a board designated endowment fund (the “Fund”) for the Center to be used for various purposes. The Center and the Foundation are named as the beneficiary of the Fund and receives income earned on the Fund. The Foundation has the discretion to distribute the Fund and any future earnings for broad charitable uses and purposes of the Center. At June 30, 2016, the Center and the Foundation had a beneficial interest in the Fund and is stated at fair value as a Level 2 classification. The Fund’s fair market value at June 30, 2016 was of \$144,456. The composition is as follows using Level 2 inputs:

Beginning balance	\$ 150,979
Dividends and interest reinvested	2,820
Realized gain/(loss) included in changes in net assets	2,806
Unrealized gain/(loss) included in changes in net assets	(10,995)
Less - Investment Fees	<u>(1,154)</u>
Total	<u>\$ 144,456</u>

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**6. PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2016 consisted of the following:

Automobile	\$ 76,266
Building	6,463,569
Furniture and fixtures	909,293
Land	503,347
Computers and equipment	1,154,105
Signage	<u>19,157</u>
	9,125,737
Less accumulated depreciation and amortization	<u>(4,691,312)</u>
Net, property and equipment	<u>\$ 4,434,425</u>

Depreciation expense for the year ended June 30, 2016 was \$285,046, which is included as part of depreciation and amortization expense.

**7. ACCRUED VACATION**

Accrued vacation benefits are accrued on a monthly basis. Full-time employees accrue vacation time based upon years of service to the Center and the Foundation as follows:

<u>Years Employed</u>	<u>Annualized Accrual</u>
1 – 3 years	10 days
4 – 8 years	15 days
9 – 15 years	20 days
15 + years	25 days

Total accrued vacation at June 30, 2016, was \$222,202. Accrued donated vacation at June 30, 2016 was \$13,504.

**8. LINE OF CREDIT PAYABLE**

The Center has a \$1,200,000 line of credit agreement expiring February 7, 2017 bearing a variable rate above the bank's Reference Rate (5.5% at June 30, 2016). The line of credit is collateralized by accounts receivable of the Center and other property as defined. As of June 30, 2016, the outstanding balance owed on the credit line was \$0. For the year ended June 30, 2016, interest cost amounted to \$3,170.

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**9. NOTE PAYABLE**

The Center has a loan payable with All Points Funding maturing November 2019. The loan is secured by the Center's land and building. The loan is payable in monthly installments of \$42,325, with interest payable monthly at 5.60% per annum. The balance owed at June 30, 2016 was \$1,610,874. For the year ended June 30, 2016, interest cost amounted to \$102,608. The Center capitalized the interest cost on the building expansion loan which is included in depreciation and amortization expense for the year ended June 30, 2016 amortization expense was \$4,194.

Future minimum payments on the loan payable at June 30, are as follows:

2017	\$ 428,577
2018	453,203
2019	479,243
2020	<u>249,851</u>
Total	<u>\$ 1,610,874</u>

In connection with this loan payable, the Center has agreed, among other things, to meet the debt service coverage ratio. As of June 30, 2016, the Center was compliance with its debt covenants.

**10. CONTINGENCY**

The Center and the Foundation are involved in certain litigation, arising from operations, the ultimate outcome of which is not susceptible to reasonable estimation. Management believes that any potential settlements will be compensated from existing insurance coverage.

**11. OPERATING LEASE COMMITMENTS**

The Center and the Foundation entered into various equipment lease agreements with various companies. The leases expire at various terms. For the year ended June 30, 2016, equipment rental expense was \$4,386.

Minimum equipment lease payments under the lease at June 30, are as follows:

2017	\$ 2,636
2018	2,636
2019	2,636
2020	<u>2,416</u>
Total	<u>\$ 10,324</u>

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**12. EMPLOYEE 401(K) RETIREMENT PLAN AND DEFERRED COMPENSATION ARRANGEMENT**

The Center has adopted a 401(k) plan for all employees meeting the minimum requirements of 21 years of age. Participants may elect to defer from 1% to 15% of their compensation per pay period. The Center will match 100% of the employee contributions, not to exceed 3% of the employees' compensation. For the year ended June 30, 2016, estimated pension expense was \$64,001.

**13. POST RETIREMENT BENEFIT**

During the year ending June 30, 2006, the Board of Directors approved and the Center purchased two annuities for two of their key employees at \$225,000 each. The Child and Family Center is the owner of the policy which provides annuity payments post retirement for the life time of the retiree. It is the intention of the past and present Board of Directors to continue the allocations of the retirement plans to the two key employees until death. The annuity is deemed to be an insurance contract that transfers 100% of the risk to the insurance company. As such, the total annuity payment of \$450,000 was properly expensed during 2005-2006 fiscal year. The original investments may decrease over the lifetime of the annuity when payments exceed the lifetime income amount.

**14. RELATED PARTIES**

During the year the Center and Foundation paid for janitorial, plumbing, catering and document destruction services various related parties, which management has indicated are at favorable terms and in compliance with the Center and Foundation's procurement policies. The total purchases amounted to approximately \$90,497.

**15. FUNDRAISING EVENTS**

The Center and the Foundation conduct various special events and fundraising activities during the year. The revenue and expenses from fund development activities for the year ended June 30, 2016 were as follows:

	<u>Revenue</u>	<u>Expenses</u>	<u>Net Revenue</u>
Century Bike Ride	\$ 40,932	\$ (15,765)	\$ 25,167
Kid Expo	40,677	(16,275)	24,402
Others	13,608	(3,667)	9,941
Taste of the Town	<u>252,195</u>	<u>(85,846)</u>	<u>166,349</u>
Fundraising Events, Net	<u>\$ 347,412</u>	<u>\$ (121,553)</u>	<u>\$ 225,859</u>

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**16. RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2016, consist of amounts restricted by donor-imposed stipulations; the activity for the year ended is as follows:

Grant	Balance 6/30/15	Income	Expenditures	Balance 6/30/16
Habitat for Humanity	\$ 4,995	\$ -	\$ (4,995)	\$ -
Los Angeles County – M. Antonovich	-	100,000	(1,466)	98,534
The Ahmanson Foundation	-	100,000	(97,796)	2,204
Women Helping Youth	-	12,019	-	12,019
The Henry Mayo Newhall Foundation	-	25,000	-	25,000
Scholarships – Foster Foundation Grant	<u>500,000</u>	<u>375,000</u>	<u>(354,631)</u>	<u>520,369</u>
	<u>\$ 504,995</u>	<u>\$ 612,019</u>	<u>\$ (458,888)</u>	<u>\$ 658,126</u>

Permanently restricted net assets at June 30, 2016 consisted of one endowment fund totaling \$20,000. Earnings from the fund may be used by the Center and the Foundation for child abuse treatment services. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

*Endowment Fund*

The Center and the Foundation follow the provisions of ASC 958 Section 205-45, *Reporting Endowment Funds*. These provisions provide guidance on the net asset classification of donor-restricted endowment funds for a non-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also required disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

*Interpretation of Relevant Law*

The Board of Directors of the Center and the Foundation have interpreted State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted permanent endowment funds unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Center and the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to all donor-restricted permanent endowments, (b) the original value of any subsequent gifts to donor-restricted permanent endowments, and (c) the original value of accumulations to donor-restricted permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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**16. RESTRICTED NET ASSETS - Continued**

In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the Center and the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Center and the Foundation
- The investment policy of the Center and the Foundation

The net asset composition of the endowment as of June 30, 2016, is as follows:

Type-of Endowment Fund	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted funds:		
Permanent endowment	\$ 20,000	\$ 20,000
Total	<u>\$ 20,000</u>	<u>\$ 20,000</u>

The changes in endowment net assets for the year ended June 30, 2016, are as follows:

	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2015	\$ 20,000	\$ 20,000
Investment return:		
Investment income	-	-
Net gains (realized and unrealized)	-	-
Total investment return	-	-
Endowment net assets, June 30, 2016	<u>\$ 20,000</u>	<u>\$ 20,000</u>

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA is \$20,000 at June 30, 2016.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Center and the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets, when applicable. There were no such deficiencies as of June 30, 2016.

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**17. CONCENTRATION RISK**

The Center and the Foundation maintain their cash balances in three financial institutions located in Santa Clarita, California. The balances are insured by the Federal Deposit Insurance Corporation up to federal limits as defined. At times, cash balances are in excess of the insured limit.

The majority of the Center and the Foundation's contributions and grants are received from corporations, foundations, and individuals located in the greater Santa Clarita metropolitan area and from agencies of the state of California. As such, the Center and the Foundation's ability to generate resources via contributions and grants are dependent upon the economic health of that area and of the state of California. An economic downturn could cause a decrease in contributions and grants that coincides with an increase in demand for the Center and the Foundation's services.

The Center and the Foundation's investments in the Beneficial Interest in Funds Held by Others - California Community Foundation are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to the Center and the Foundation's combined financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the combined financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

**18. SUBSEQUENT EVENTS**

The Center and the Foundation have evaluated events subsequent to June 30, 2016, to assess the need for potential recognition or disclosure in the combined financial statements. Such events were evaluated through November 14, 2016, the date the combined financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the combined financial statements would be required. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the combined financial statements.

**SUPPLEMENTARY INFORMATION**

**CHILD AND FAMILY CENTER AND  
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COMBINING SCHEDULE OF FINANCIAL POSITION  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Center</u>	<u>Foundation</u>	<u>Eliminating Entries</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 891,520	\$ 236,018	\$ -	\$ 1,127,538
Contracts receivable	1,581,766	-	-	1,581,766
Promises to give	-	1,365	-	1,365
Other receivables	39,414	1,500	-	40,914
Interfund receivable	209,164	-	(209,164)	-
Deposits and prepaid expenses	257,661	3,000	-	260,661
Beneficial interest in funds held by others	-	144,456	-	144,456
Property and equipment, net	<u>4,434,148</u>	<u>277</u>	<u>-</u>	<u>4,434,425</u>
 Total assets	 <u>\$ 7,413,673</u>	 <u>\$ 386,616</u>	 <u>\$ (209,164)</u>	 <u>\$ 7,591,125</u>
 <b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 148,277	\$ 3,621	\$ -	\$ 151,898
Accrued payroll and related liabilities	543,551	9,642	-	553,193
Unearned revenue	-	6,650	-	6,650
Interfund payable	-	209,164	(209,164)	-
Note payable	<u>1,610,874</u>	<u>-</u>	<u>-</u>	<u>1,610,874</u>
 Total liabilities	 2,302,702	 229,077	 (209,164)	 2,322,615
 <b>COMMITMENTS AND CONTINGENCIES</b>				
<b>NET ASSETS</b>				
Unrestricted				
Designated	-	50,000	-	50,000
Undesignated	4,452,845	87,539	-	4,540,384
Temporarily restricted	658,126	-	-	658,126
Permanently restricted	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>20,000</u>
	<u>5,110,971</u>	<u>157,539</u>	<u>-</u>	<u>5,268,510</u>
 Total liabilities and net assets	 <u>\$ 7,413,673</u>	 <u>\$ 386,616</u>	 <u>\$ (209,164)</u>	 <u>\$ 7,591,125</u>

**CHILD AND FAMILY CENTER AND  
CHILD AND FAMILY CENTER FOUNDATION  
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COMBINING SCHEDULE OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Center</u>	<u>Foundation</u>	<u>Eliminating Entries</u>	<u>Total</u>
<b>UNRESTRICTED NET ASSETS</b>				
<b>Revenue</b>				
Governmental service contracts	\$ 9,438,931	\$ -	\$ -	\$ 9,438,931
Contributions and grants	243,635	957,608	(855,654)	345,589
Fees for services	19,067	-	-	19,067
Fundraising gross revenue	-	347,412	-	347,412
In-kind contributions	33,793	373,885	(33,793)	373,885
Interest and dividend income	2,846	2,908	-	5,754
Realized gain (loss) on beneficial interest in funds held by others	-	2,806	-	2,806
Unrealized gain (loss) on beneficial interest in funds held by others	-	(10,995)	-	(10,995)
Gain (loss) on fixed asset	5,500	-	-	5,500
Other income	29,890	-	-	29,890
Rental Income	67,400	-	-	67,400
Restrictions released	458,888	-	-	458,888
Total revenue and support	<u>10,299,950</u>	<u>1,673,624</u>	<u>(889,447)</u>	<u>11,084,127</u>
<b>Expenses</b>				
Program services	8,386,535	-	-	8,386,535
Contributions to Center	-	889,447	(889,447)	-
Support services	1,433,739	-	-	1,433,739
Fundraising	-	726,698	-	726,698
	<u>9,820,274</u>	<u>1,616,145</u>	<u>(889,447)</u>	<u>10,546,972</u>
Change in unrestricted net assets	479,676	57,479	-	537,155
<b>TEMPORARILY RESTRICTED NET ASSETS</b>				
Temporarily restricted support	612,019	-	-	612,019
Restrictions released	(458,888)	-	-	(458,888)
Change in temporarily restricted net assets	<u>153,131</u>	<u>-</u>	<u>-</u>	<u>153,131</u>
<b>CHANGE IN NET ASSETS</b>	632,807	57,479	-	690,286
<b>NET ASSETS - beginning of year</b>	<u>4,478,164</u>	<u>100,060</u>	<u>-</u>	<u>4,578,224</u>
<b>NET ASSETS - end of year</b>	<u>\$ 5,110,971</u>	<u>\$ 157,539</u>	<u>\$ -</u>	<u>\$ 5,268,510</u>