

CHILD AND FAMILY CENTER
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2017

VASIN, HEYN & COMPANY

ABOVE THE BRIGHT LINE

AN ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS | AUDITORS AND ADVISERS

CHILD AND FAMILY CENTER
(A California Non-Profit Corporation)
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AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS | AUDITORS AND ADVISERS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Child and Family Center (A California Non-Profit Corporation), which comprise of the statement of financial position as of June 30, 2017, and the related 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 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 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 financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

INDEPENDENT AUDITORS' REPORT (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Child and Family Center as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We previously audited the Child and Family Center's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Vosin, Hryn + Co.

Calabasas, California
November 20, 2017

CHILD AND FAMILY CENTER
(A California Non-Profit Corporations)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 773,748	\$ 1,127,538
Contracts receivable, net of allowance	1,101,958	1,581,766
Promises to give receivable	-	1,365
Other receivables	52,678	40,914
Deposits and prepaid expenses	170,020	260,661
Beneficial interest in funds held by others	162,726	144,456
Property and equipment, net	<u>4,403,012</u>	<u>4,434,425</u>
Total assets	<u>\$ 6,664,142</u>	<u>\$ 7,591,125</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 112,436	\$ 151,898
Accrued payroll and related liabilities	691,057	553,193
Unearned revenue	-	6,650
Note payable	<u>1,182,297</u>	<u>1,610,874</u>
Total liabilities	1,985,790	2,322,615
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted:		
Designated	50,000	50,000
Undesignated	4,600,431	4,540,384
Temporarily restricted	7,921	658,126
Permanently restricted	<u>20,000</u>	<u>20,000</u>
	<u>4,678,352</u>	<u>5,268,510</u>
Total liabilities and net assets	<u>\$ 6,664,142</u>	<u>\$ 7,591,125</u>

See accompanying auditors' report and notes to financial statements.

CHILD AND FAMILY CENTER
(A California Non-Profit Corporation)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
REVENUE AND SUPPORT					
Governmental service contracts	\$ 9,651,384	\$ -	\$ -	\$ 9,651,384	\$ 9,438,931
Contributions and grants	201,496	55,000	-	256,496	957,608
Contract settlements	55,553	-	-	55,553	-
Fees for services	3,554	-	-	3,554	19,067
Fundraising events gross revenue	285,107	-	-	285,107	347,412
Gain (loss) on fixed assets	(133)	-	-	(133)	5,500
In-kind contributions	271,537	-	-	271,537	373,885
Interest and dividend income	5,324	-	-	5,324	5,754
Other income	26,959	-	-	26,959	29,890
Rental Income	78,115	-	-	78,115	67,400
Realized gain (loss) on beneficial interest in funds held by others	5,588	-	-	5,588	2,806
Unrealized gain (loss) on beneficial interest in funds held by others	11,088	-	-	11,088	(10,995)
Restrictions released	705,205	(705,205)	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue and support	11,300,777	(650,205)	-	10,650,572	11,237,258
EXPENSES					
Program services	9,138,665	-	-	9,138,665	8,386,535
Support services	1,596,242	-	-	1,596,242	1,433,739
Fundraising	505,823	-	-	505,823	726,698
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	11,240,730	-	-	11,240,730	10,546,972
CHANGE IN NET ASSETS	60,047	(650,205)	-	(590,158)	690,286
NET ASSETS - beginning of year	<u>4,590,384</u>	<u>658,126</u>	<u>20,000</u>	<u>5,268,510</u>	<u>4,578,224</u>
NET ASSETS - end of year	<u>\$ 4,650,431</u>	<u>\$ 7,921</u>	<u>\$ 20,000</u>	<u>\$ 4,678,352</u>	<u>\$ 5,268,510</u>

See accompanying auditors' report and notes to financial statements.

CHILD AND FAMILY CENTER
(A California Non-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	Program <u>Services</u>	Support <u>Services</u>	Fundraising <u>Expenses</u>	2017 Total <u>Expenses</u>	2016 Total <u>Expenses</u>
Salaries and related expenses					
Salaries and wages	\$ 5,376,123	\$ 937,681	\$ 110,369	\$ 6,424,173	\$ 6,247,681
Payroll taxes	470,811	79,247	9,547	559,605	584,888
Employee benefits	<u>804,036</u>	<u>134,189</u>	<u>16,314</u>	<u>954,539</u>	<u>882,108</u>
	6,650,970	1,151,117	136,230	7,938,317	7,714,677
Other expenses					
Administrative fees	29,526	7,349	638	37,513	36,450
Advertising	6,163	1,834	5,000	12,997	26,833
Auto expense	10,104	2,191	78	12,373	13,169
Bad debts	460,957	-	-	460,957	2,444
Computer expenses	76,614	14,377	4,509	95,500	173,593
Conferences and meetings	387	3,014	204	3,605	4,592
Contracted services	758,480	56,999	33,138	848,617	739,007
Dues and subscriptions	110,697	17,686	9,714	138,097	48,705
Education and training	75,856	34,663	6,369	116,888	137,839
Equipment rental and maintenance	2,493	351	41,322	44,166	47,924
Facilities maintenance expense	53,921	38,489	726	93,136	599
Foster and client care	41,937	-	915	42,852	47,692
In-kind expenses, donated supplies	54,693	-	-	54,693	33,793
In-kind expenses, donations for events	-	-	216,844	216,844	340,092
Insurance	76,067	17,166	1,492	94,725	99,957
Interest expense	45,922	36,390	617	82,929	105,778
Legal and audit professional fees	24,894	29,783	518	55,195	45,789
Miscellaneous expenses	-	-	-	-	3,841
Office expenses	31,581	8,358	36,786	76,725	106,687
Outside services	62,814	-	1,336	64,150	33,882
Postage and delivery	2,612	2,703	587	5,902	8,895
Public relations	-	7,090	1,880	8,970	8,426
Rental venue expense	-	-	660	660	740
Repairs and maintenance	99,231	67,301	2,396	168,928	172,617
Supplies	14,782	-	-	14,782	35,835
Taxes and licenses	13,545	9,669	1,240	24,454	25,671
Telephone	57,254	8,033	1,189	66,476	73,939
Travel	85,727	1,766	496	87,989	94,964
Utilities	<u>40,483</u>	<u>28,903</u>	<u>546</u>	<u>69,932</u>	<u>73,303</u>
	8,887,710	1,545,232	505,430	10,938,372	10,257,733
Depreciation and amortization expense	<u>250,955</u>	<u>51,010</u>	<u>393</u>	<u>302,358</u>	<u>289,239</u>
Total Expenses	<u>\$ 9,138,665</u>	<u>\$ 1,596,242</u>	<u>\$ 505,823</u>	<u>\$ 11,240,730</u>	<u>\$ 10,546,972</u>

See accompanying auditors' report and notes to financial statements.

CHILD AND FAMILY CENTER
(A California Non-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (590,158)	\$ 690,286
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Depreciation expense	298,164	285,045
Amortization expense, included in deposits and prepaid expenses	4,194	4,194
Provision for bad debt	460,957	2,444
(Gain) Loss on beneficial interest held by others, net	(16,676)	8,189
(Gain) Loss on fixed assets	133	(5,500)
(Increase) decrease in:		
Contracts receivable, net of allowance	18,851	186,398
Promises to give receivable	1,365	35,833
Other receivables	(11,764)	(6,911)
Deposits and prepaid expenses	86,447	(101,277)
Increase (decrease) in:		
Accounts payable and accrued expenses	(39,462)	26,134
Accrued payroll and related liabilities	137,864	39,128
Unearned revenue	(6,650)	896
Total adjustments	<u>933,423</u>	<u>474,573</u>
Net Cash Provided (Used) by Operating Activities	343,265	1,164,859
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(7,207)	(41,029)
Disposals of fixed assets	-	1,306
Reinvested funds on beneficial interest held by others	<u>(1,594)</u>	<u>(1,666)</u>
Net Cash Provided (Used) by Investing Activities	(8,801)	(41,389)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for purchases of fixed assets	(259,677)	-
Proceeds of borrowings from line of credit	1,675,000	-
Principal payments related to line of credit payable	(1,675,000)	(470,000)
Principal payments related to note payable	<u>(428,577)</u>	<u>(405,289)</u>
Net Cash Provided (Used) by Financing Activities	<u>(688,254)</u>	<u>(875,289)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(353,790)	248,181
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,127,538</u>	<u>879,357</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 773,748</u>	<u>\$ 1,127,538</u>
SUPPLEMENTAL INFORMATION:		
Interest expense	<u>\$ 82,929</u>	<u>\$ 105,778</u>
SUPPLEMENTAL NON-CASH INFORMATION:		
In-kind contributions	<u>\$ 271,537</u>	<u>\$ 373,885</u>

See accompanying auditors' report and notes to financial statements.

CHILD AND FAMILY CENTER
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

1. GENERAL

Nature of the Organization

Child & 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.

Merger

During the year, the Center and the Child & Family Center Foundation (the “Foundation”) a nonprofit corporation designed to provide charitable and educational support to the Center were merged. The Agreement of Merger was entered into between Child & Family Center and Child & Family Center Foundation, and recorded with the Secretary of State, State of California, on December 8, 2016.

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, 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, and Substance Abuse Prevention and Control.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Center’s financial statements are 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 are described below to enhance the usefulness and understandability of the financial statements.

Financial Statement Presentation

The 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’s net assets, revenues as well as expenses based on the existence or absence of donor-imposed restrictions. The statement requires presentation of the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – in the statement of financial position and the amounts of change in each of those classes of net assets in the statement of activities.

CHILD AND FAMILY CENTER
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Net Assets

The 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, 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'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, 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 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 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
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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's cash balances, deposited in one bank, exceeded federally insured limits. Management believes the Center is not exposed to any significant credit risk on cash and cash equivalents.

Contracts and Other Receivables

Receivables consist of contracts, employees benefits, clinical services, 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.

Deposits and Prepaid Expenses

Deposits and prepaid expenses such as insurance, rents and other costs are expensed ratably over their respective terms of agreement.

Beneficial Interest in Funds Held by Others – California Community Foundation

The Center has the unconditional right to receive all of the cash flows from its beneficial interest from the California Community Foundation. The Center records its beneficial interest at the fair value using the present value of the estimated future cash. The balance at June 30, 2017 consists of mutual fund investments and money instruments stated at market value.

CHILD AND FAMILY CENTER
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment

Property and equipment are stated at cost. The minimum dollar amount for capitalizing and depreciating an 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:

Automobiles	5 years
Building	30 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.

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.

CHILD AND FAMILY CENTER
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2017, many individuals volunteered their time and performed a variety of tasks that assist the Center's fundraising events, but these services do not meet the criteria for recognition as donated services. Therefore, contributed auxiliary services are not reflected in the 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's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Center.

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. 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.

Income Taxes

The Center is 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 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 has 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, 2017, the Center had no material unrecognized tax benefits, tax penalties or interest.

The Center's Forms 990, Return of Organization Exempt from Income Tax, for each of the three years ended June 30, 2016, 2015, and 2014, are subject to examination by the IRS, generally for 3 years after they were filed.

CHILD AND FAMILY CENTER
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expense Recognition and Allocation

The cost of providing the Center's programs and other activities are summarized on a functional basis in the statement of activities and 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.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Center generally does 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, 2017, advertising expenses amounted to \$12,997.

Use of Estimates

The preparation of the 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's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Center's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2016 comparative totals have been reclassified to conform with the 2017 reporting format.

Comparative Totals

The 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's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

CHILD AND FAMILY CENTER
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements

The Center reports its 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 has 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 Center 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 measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

CHILD AND FAMILY CENTER
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(CONTINUED)

3. CONTRACTS AND OTHER RECEIVABLES

Receivables at June 30, 2017 consisted of the following:

Contracts receivables	\$ 1,607,955
Less : Allowance for contracts receivables	(505,997)
Other receivables	<u>52,678</u>
Total	<u>\$ 1,154,636</u>

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

During year ended June 30, 2017, the Center received communication from DMH on its Fiscal Year 2009-2010 settlement which indicated that the account receivable balance due for the Fiscal Year 2009-2010 invoices of \$524,023 will be denied payment. In the worst scenario, there will also be an estimated settlement liability of \$29,000 for the Center. In response to this situation, the Center has written off \$283,679 receivables from the Fiscal Year 2009-2010 invoices. The Center has also set up a separate uncompensated care allowance of \$269,343 for the year ended June 30, 2017.

The Center was unable to specifically determine the amount of funds that would be reimbursed from DMH for services already provided to clients over the contractual amount for the remaining receivables. The Center continues to maintain the reserve for uncollectible receivables of \$236,654. Management believes the amount represents a reasonable estimate at this time.

Total allowance for uncompensated care at June 30, 2017 was \$505,997.

4. PROMISES TO GIVE RECEIVABLE

Effective January 1, 2017, the Center no longer recorded promises to give receivable. All donations are recorded at the time when donations are received by the Center. The promises to give receivable balance from prior fiscal years were received during the fiscal year ended June 30, 2017.

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5. BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS

The Center 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 is 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, 2017, the Center 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, 2017 was \$162,726. The composition is as follows using Level 2 inputs:

Beginning balance	\$ 144,456
Dividends and interest reinvested	2,773
Realized gain/(loss)	5,588
Unrealized gain/(loss) included in changes in net assets	11,088
Less - Investment Fees	<u>(1,179)</u>
Total	<u>\$ 162,726</u>

6. PROPERTY AND EQUIPMENT, NET

Property and equipment at June 30, 2017 consisted of the following:

Automobile	\$ 76,266
Building	6,537,375
Computers and equipment	1,233,626
Furniture and fixtures	909,293
Land	503,347
Signage	<u>19,157</u>
	9,279,064
Less accumulated depreciation and amortization	<u>(4,876,052)</u>
Net, property and equipment	<u>\$ 4,403,012</u>

Depreciation expense for the year ended June 30, 2017 was \$298,164, which is included as part of depreciation and amortization expense.

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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 as follows:

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

Total accrued vacation at June 30, 2017, was \$264,572. Accrued donated vacation at June 30, 2017 was \$13,847.

8. LINE OF CREDIT PAYABLE

The Center has a \$1,200,000 line of credit agreement expiring May 7, 2018 bearing a variable rate above the bank's Reference Rate (5.0% at June 30, 2017). The line of credit is collateralized by accounts receivable of the Center and other property as defined. As of June 30, 2017, there was no outstanding balance owed on the credit line. As of June 30, 2017, the Center was in compliance with its line of credit debt covenants. For the year ended June 30, 2017, interest cost amounted to \$3,609.

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, 2017 was \$1,182,297. For the year ended June 30, 2017, interest cost amounted to \$79,320. 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, 2017 amortization expense was \$4,194.

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

2018	\$ 453,203
2019	479,243
2020	<u>249,851</u>
Total	<u>\$ 1,182,297</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, 2017, the Center was in compliance with its debt covenants.

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10. CONTINGENCY

In the ordinary course of business the Center may be subject to certain lawsuits and other potential legal actions. The Center's management represents that as of June 30, 2017, the Center is not involved in any legal action or litigation.

11. OPERATING LEASE COMMITMENTS

The Center has entered into various equipment lease agreements with various companies. The leases expire at various terms. For the year ended June 30, 2017, equipment rental expense was \$2,882.

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

2018	\$ 2,636
2019	2,636
2020	<u>2,416</u>
Total	<u>\$ 7,688</u>

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, 2017, pension expense was \$130,645.

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 the 2005-2006 fiscal year. The original investments may decrease over the lifetime of the annuity when payments exceed the lifetime income amount.

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14. RELATED PARTIES

During the year the Center 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's procurement policies. The total purchases amounted to approximately \$80,273.

15. FUND DEVELOPMENT

The Center conducts various special events and fundraising activities during the year. The revenue and expenses from fund development activities for the year ended June 30, 2017 were as follows:

	<u>Revenue</u>	<u>Expenses</u>	<u>Net Revenue</u>
Kid Expo	38,557	(14,230)	24,327
Other Events	29,684	(7,466)	22,218
Taste of the Town	<u>216,866</u>	<u>(73,844)</u>	<u>143,022</u>
Fundraising Events, Net	<u>\$ 285,107</u>	<u>\$ (95,540)</u>	<u>\$ 189,567</u>

16. RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017, consist of amounts restricted by donor-imposed stipulations; the activity for the year ended is as follows:

Grant	Balance 6/30/16	Income	Expenditures	Balance 6/30/17
City of Santa Clarita – CDBG	\$ -	\$ 5,000	\$ -	\$ 5,000
Los Angeles County – M. Antonovich	98,534	-	(95,613)	2,921
The Henry Mayo Newhall Foundation	25,000	-	(25,000)	-
The Ahmanson Foundation	2,204	-	(2,204)	-
The Ralph M. Parsons Foundation	-	50,000	(50,000)	-
Scholarships – Foster Foundation Grant	520,369	-	(520,369)	-
Women Helping Youth	<u>12,019</u>	<u>-</u>	<u>(12,019)</u>	<u>-</u>
Total	<u>\$ 658,126</u>	<u>\$ 55,000</u>	<u>\$ (705,205)</u>	<u>\$ 7,921</u>

Permanently restricted net assets at June 30, 2017 consisted of one endowment fund totaling \$20,000. Earnings from the fund may be used by the Center 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.

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16. RESTRICTED NET ASSETS - Continued

Endowment Fund

The Center follows 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 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 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.

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 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
- The investment policy of the Center

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16. RESTRICTED NET ASSETS - Continued

The net asset composition of the endowment as of June 30, 2017, 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, 2017, are as follows:

	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ 20,000	\$ 20,000
Investment return:		
Investment income	-	-
Net gains (realized and unrealized)	<u>-</u>	<u>-</u>
Total investment return	-	-
Endowment net assets, June 30, 2017	<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, 2017.

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, 2017.

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17. CONCENTRATION RISK

The Center maintains its cash balances in two 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'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'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's services.

The Center's investments 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's 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 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 has evaluated events subsequent to June 30, 2017, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 20, 2017, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the 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 financial statements.