



San Diego Center for Children

Financial Statements

As of and for the Year Ended June 30, 2015

(With Comparative Information for June 30, 2014)

San Diego Center for Children

Financial Statements

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(With Comparative Information for June 30, 2014)

San Diego Center for Children

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Independent Auditor's Report

To the Board of Directors and Audit Committee
San Diego Center for Children
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of San Diego Center for Children (the "Center"), which comprise the statement of financial position as of June 30, 2015, 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.

Auditor's 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 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 financial statements are free from 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 auditor's 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 Center'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 Center'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Center for Children as of June 30, 2015, 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.

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Other Matters

Report on Summarized Comparative Information

We have previously audited San Diego Center for Children's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 16, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

BDO USA, LLP

San Diego, California
October 28, 2015

Financial Statements

San Diego Center for Children

Statements of Financial Position

<i>As of June 30,</i>	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 1,108,334	\$ 466,687
Accounts receivable		
less allowance for doubtful receivables of \$25,000	3,163,522	2,739,681
Pledges receivables	4,172	4,172
Prepaid expenses and other current assets	290,842	290,181
Investments, at fair value	6,054	59,062
Total current assets	4,572,924	3,559,783
Noncurrent assets		
Investments, less current portion and at fair value	2,059,060	1,694,490
Property and equipment, net	7,212,608	7,459,654
Total assets	\$ 13,844,592	\$ 12,713,927
Liabilities and Net assets		
Current liabilities		
Accounts payable	\$ 360,424	\$ 305,755
Accrued liabilities	1,293,545	829,103
Capital lease obligation, current portion	29,271	115,515
Note payable, current portion	152,719	2,256,060
Total current liabilities	1,835,929	3,506,433
Long-term liabilities		
Note payable, less current portion	1,955,464	-
Capital lease obligation, less current portion	-	29,271
Total liabilities	3,791,423	3,535,704
Net assets		
Unrestricted	7,997,012	6,901,501
Temporarily restricted	1,088,787	1,340,367
Permanently restricted	967,370	936,355
Total net assets	10,053,169	9,178,223
Total liabilities and net assets	\$ 13,844,592	\$ 12,713,927

See accompanying notes to financial statements.

San Diego Center for Children

Statements of Activities (With Comparative Totals of the Year Ended June 30, 2014)

<i>June 30,</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
Revenue and support					
Fees from government agencies	\$ 19,192,334	\$ -	\$ -	\$ 19,192,334	\$ 17,397,507
Fees from non-government agencies	538,525	-	-	538,525	-
Special events revenue - net of expenses of \$171,609 and \$200,229, respectively	435,029	-	-	435,029	358,815
In-kind contributions	153,214	-	-	153,214	162,234
Contributions and grants	250,705	285,716	31,015	567,436	963,918
Gain on investments	6,607	16,453	-	23,060	181,329
Investments income	20,060	45,259	-	65,319	55,047
Other income	944	-	-	944	50,795
Net assets released from restrictions of time or purpose	599,008	(599,008)	-	-	-
Total revenue and support	21,196,426	(251,580)	31,015	20,975,861	19,169,645
Expenses					
Program services	17,577,962	-	-	17,577,962	15,533,236
General and administrative	2,015,525	-	-	2,015,525	2,062,410
Fundraising	507,428	-	-	507,428	500,042
Total expenses	20,100,915			20,100,915	18,095,688
Change in net assets	1,095,511	(251,580)	31,015	874,946	1,073,957
Net assets, beginning of year	6,901,501	1,340,367	936,355	9,178,223	8,104,266
Net assets, end of year	\$ 7,997,012	\$ 1,088,787	\$ 967,370	\$ 10,053,169	\$ 9,178,223

See accompanying notes to financial statements.

San Diego Center for Children
Statements of Functional Expenses
(With Comparative Totals of the Year Ended June 30, 2014)

June 30,	Program Services					Supporting Services		Total 2015	Total 2014
	San Diego Center Academy	Campus Programs	Foster Care Programs	Community Programs	Total Program Services	Fundraising	Overhead Departments		
Salaries and wages	\$ 1,746,049	\$ 5,042,579	\$ 2,741,850	\$ 1,717,410	\$ 11,247,888	\$ 195,798	\$ 1,109,655	\$ 12,553,341	\$ 10,899,788
Payroll taxes and employee benefits	278,999	1,409,718	512,151	295,535	2,496,403	25,855	207,935	2,730,193	2,342,491
Total personnel costs	2,025,048	6,452,297	3,254,001	2,012,945	13,744,291	221,653	1,317,590	15,283,534	13,242,279
Activity Fee	18,954	132,102	8,754	20,773	180,583	-	100	180,683	186,277
Advertising	400	-	319	981	1,700	-	6,219	7,919	7,612
Audit & Accounting	-	-	-	-	-	-	61,875	61,875	51,446
Auto, Gas & Mileage	1,527	36,391	243,535	8,571	290,024	463	578	291,065	230,117
Auto Lease	1,348	1,229	-	610	3,187	-	-	3,187	22,298
Auto Maintenance	835	19,319	196	328	20,678	39	26	20,743	19,631
Bad Debt Allowance	-	-	-	-	-	-	6,115	6,115	12,025
Bank Fees	-	-	-	-	-	-	30,686	30,686	27,121
Building & Ground Maintenance	50,851	133,828	45,032	17,022	246,733	3,943	22,811	273,487	365,848
Client Allowance	-	7,178	-	-	7,178	-	-	7,178	5,182
Client Incentives	-	-	-	-	-	-	-	-	1,440
Clothing	-	7,690	(726)	-	6,964	-	-	6,964	28,654
Computer Expense	3,071	18,377	6,051	3,747	31,246	-	3,438	34,684	73,388
CSI Lease Sales Tax	11,066	713	214	-	11,993	43	937	12,973	9,650
Depreciation	80,492	227,834	35,471	5,457	349,254	23,284	82,220	454,758	450,979
Dietary	85,110	85,110	-	-	170,220	-	-	170,220	161,856
Donation Expense	-	-	-	-	-	-	2,590	2,590	-
Dues & Subscriptions	9,302	10,936	6,894	6,803	33,935	313	18,487	52,735	49,339
EAC - Employee Appreciation Committee	-	-	-	-	-	-	16,322	16,322	17,587
Educational	12,572	-	-	-	12,572	-	-	12,572	10,355
Equipment Lease	534	3,745	6,037	2,677	12,993	152	2,284	15,429	35,842
Equipment Maintenance	2,559	2,199	16	591	5,365	3	9,420	14,788	9,579
Foster Family	-	-	368,018	-	368,018	-	-	368,018	340,706
Furnishings	2,205	23,653	4,068	14,826	44,752	55	1,858	46,665	58,771
Housekeeping & Janitorial	18,408	118,609	14,499	9,661	161,177	1,597	12,397	175,171	171,543
In-Kind Expense	2,442	27,270	1,525	4,860	36,097	108,637	-	144,734	162,235
Insurance - Auto	1,409	8,031	-	2,942	12,382	-	-	12,382	11,081
Insurance: Business & Prof Liab	34,604	107,030	51,275	28,862	221,771	5,277	25,030	252,078	225,645
Interest Expense	32,526	67,916	1,847	994	103,283	2,623	19,564	125,470	156,842
Investment Management Fees	-	-	-	-	-	-	7,816	7,816	7,197
Legal	-	-	-	1,445	1,445	-	18,396	19,841	122,378
License & Fees	3,308	7,718	11,780	2,781	25,587	3,253	19,363	48,203	44,449
Medical	-	13,794	334	4,164	18,292	-	-	18,292	17,622
Meals & Entertainment	223	170	143	59	595	61	898	1,554	2,994
Meetings & Conventions	62	4,082	2,897	1,818	8,859	730	8,162	17,751	24,435
Miscellaneous	-	664	4,768	1,485	6,917	-	15,207	22,124	42,838
Flex Funds	-	-	16,321	-	16,321	-	-	16,321	3,963

San Diego Center for Children
Statements of Functional Expenses
(With Comparative Totals of the Year Ended June 30, 2014)

June 30,	Program Services				Supporting Services			Total 2015	Total 2014
	San Diego Center Academy	Campus Programs	Foster Care Programs	Community Programs	Total Program Services	Fundraising	Overhead Departments		
Office	14,116	35,395	32,018	12,642	94,171	1,024	20,423	115,618	97,265
Other Consultants	98,271	68,877	5,880	8,936	181,964	105,951	90,664	378,579	415,598
Other Expense	-	-	-	-	-	-	847	847	5,587
Payroll Services	-	-	-	-	-	-	59,487	59,487	49,619
Personal Hygiene	-	8,780	-	-	8,780	-	-	8,780	10,518
Postage & Shipping	1,335	4,536	880	708	7,459	4,183	1,269	12,911	10,760
Printing	228	-	-	-	228	16,739	8,293	25,260	10,393
Property Tax	-	-	-	-	-	-	1,017	1,017	884
Psychiatric	-	227,260	87,578	80,184	395,022	-	-	395,022	306,622
Records Storage	-	4,286	312	436	5,034	-	1,708	6,742	5,814
Recreation	4,190	1,287	5,553	-	11,030	-	-	11,030	20,500
Recruitment	4,795	17,760	5,145	6,294	33,994	1,315	9,275	44,584	46,462
Rent	12,996	6,000	112,625	78,066	209,687	360	240	210,287	169,392
Respite Payments	-	-	28,743	-	28,743	-	-	28,743	19,343
Safety	3,230	5,383	1,615	4,018	14,246	323	215	14,784	16,029
Security	9,160	27,871	4,976	2,245	44,252	848	7,176	52,276	54,770
Small Equipment	7,512	9,468	6,212	12,399	35,591	647	5,629	41,867	83,805
Staff Wellness	-	-	-	-	-	-	31,785	31,785	22,120
Telephone	(3,208)	(1,077)	61,897	27,757	85,369	483	132	85,984	93,545
Temporary Assistance	11,520	11,503	3,200	2,000	28,223	640	38,245	67,108	45,192
Training	6,206	38,682	35,023	12,784	92,695	514	1,274	94,483	60,235
Travel	-	4	420	-	424	-	50	474	-
Utilities	34,251	74,934	25,439	12,014	146,638	2,199	27,407	176,244	139,938
Volunteer Appreciation	-	-	-	-	-	76	-	76	93
Total functional expenses	\$ 2,603,458	\$ 8,058,834	\$ 4,500,785	\$ 2,414,885	\$ 17,577,962	\$ 507,428	\$ 2,015,525	\$ 20,100,915	\$ 18,095,688

See accompanying notes to financial statements.

San Diego Center for Children

Statements of Cash Flows

<i>Years ended June 30,</i>	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 874,946	\$ 1,073,957
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions restricted for endowments	(31,015)	-
Depreciation	454,758	450,979
Gain on investments	(23,060)	(181,329)
Reinvested interest and dividends	(65,319)	(55,047)
Increase (decrease) in cash resulting from change in:		
Accounts receivable	(423,841)	(782,060)
Pledges receivable	-	10,000
Prepaid expenses and other current assets	(661)	(56,799)
Accounts payable	54,669	(42,174)
Accrued liabilities	464,442	199,011
Net cash provided by operating activities	1,304,919	616,538
Cash flows from investing activities:		
Purchase of property and equipment	(207,712)	(314,382)
Purchase of investments	(223,183)	(96,756)
Net cash used in investing activities	(430,895)	(411,138)
Cash flows from financing activities:		
Contributions restricted for endowments	31,015	-
Principal payments on note payable	(147,877)	(161,423)
Principal payments on capital lease	(115,515)	(109,325)
Net cash used in financing activities	(232,377)	(270,748)
Net increase (decrease) in cash and cash equivalents	641,647	(65,348)
Cash and cash equivalents, beginning of year	466,687	532,035
Cash and cash equivalents, end of year	\$ 1,108,334	\$ 466,687
Supplemental disclosure:		
Interest paid	\$ 121,208	\$ 151,766
Taxes paid	9,649	9,649

See accompanying notes to financial statements.

San Diego Center for Children

Notes to Financial Statements

1. Organization

Established in 1887, the San Diego Center for Children (the "Center") helps children thrive whose trauma, abuse or mental health problems are interfering with their success. The Center is a Joint Commission accredited institution with expertise in helping children with behavioral health problems, such as depression, autism, bipolar disorder, post-traumatic stress, reactive attachment disorder and extreme anxiety. Children are referred to the Center by the foster care system, Child Welfare Services, County Mental Health, public school districts, health insurance companies, professionals in the community and caring families. The Center is a clinical training site for several local universities. The Center focuses on a strengths-based, positive behavioral support model to help children find and fulfill their potential.

Each year, the Center adopts additional evidence-based practices to support the well-being of the children. The Center has an array of programs and services for children from age infancy to 18 years of age. The Center's services have a scope that reaches across San Diego County, and some of our services are available to children from other counties who require very specialized care. Programs and services include behavioral therapy for children and youth whose multiple foster care placements have caused behavior challenges; a WASC accredited K-12th grade school for special needs children; a residential treatment program for children aged 6 to 18 needing the most care and help; day treatment programs in public schools across San Diego County integrating mental health therapy as part of the school day; mental health counseling for children and families on an out-patient basis; Wraparound intensive outpatient services; a county-wide program dedicated to providing individual and family therapy for special needs foster children and their families; a foster care agency for infants up to 18 years of age; counseling for families of children who have mental health problems; and aftercare services for some of the children and teens who leave our program. The Center integrates music, art, recreation, and life skills into many of our mental health programs. As well, the Center provides an intensive reading improvement program for our special needs children who are most behind in reading.

The Center's staff of more than 340 full and part-time caring professionals helps to improve the lives of these children. Our team includes psychiatrists, mental health therapists, family therapists, occupational therapists, speech therapists, recreation professionals, reading specialists, social workers, special education teachers, instructional aides, music instructors, nurses, youth advisors and mentors, and youth counselors. Volunteers also play an important part of the Center's fabric of support for the children by providing fun activities for the children, and assisting in the upkeep of our campuses. The Center relies on government contracts, private pay from health insurances as well as the generosity of foundation, corporate, and individual support from donors.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

San Diego Center for Children

Notes to Financial Statements

Financial Statement Presentation

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Center are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted

These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted

The Center reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities.

Permanently Restricted

These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Center to expend all of the income (or other economic benefits) derived from the donated assets.

Cash and Cash Equivalents

The Center has defined cash and cash equivalents as cash in banks, and money market funds with an original maturity of three months or less.

Accounts Receivable

Accounts receivable are recorded when services are provided and are presented net of any allowance for doubtful accounts. No collateral is obtained. Receivables are written-off in the period deemed uncollectible. Management determined an allowance for doubtful accounts of \$25,000 to be necessary for accounts receivable at June 30, 2015 and 2014.

San Diego Center for Children

Notes to Financial Statements

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. The Center has pledge receivables of \$4,172 and \$4,172 as of June 30, 2015 and 2014, respectively. Management has determined that an allowance for doubtful accounts was not necessary at June 30, 2015 or 2014.

Investments

The Center values its investments at fair value. Realized and unrealized gains or losses (including investments bought, sold and held during the year) are reflected in the Statement of Activities as gain on investments.

Fair Value Measurements

Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

<i>Level Input</i>	<i>Input Definition</i>
Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.
Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted process for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs or other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

San Diego Center for Children

Notes to Financial Statements

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets, which range from three to forty years. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to one thousand dollars and the useful life is greater than one year.

	<i>Years</i>
Buildings and building improvements	25 - 40
Furniture and equipment	10
Computer equipment	3
Vehicles	5

In fiscal year 2015, the San Diego Center for Children began work on an expansion of its Clark teaching kitchen with funds received in the form of a private grant. Additionally, in fiscal year 2015 the Center received new CDBG grants for the purposes of upgrading the Center's security features. The Center completed minor upgrades to its music building and its residential campus that were funded by the Center.

Valuation of Long-Lived Assets

ASC Topic 360, *Property, Plant, and Equipment*, requires that long-lived assets and certain identifiable intangibles to be held and used by the Center be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment, which is determined based upon the estimated fair value of the asset, is recorded when estimated undiscounted cash flows expected to be generated by the asset is insufficient to recover its net carrying value. As of June 30, 2015, the Center did not identify an events or circumstances that would require the recognition of an impairment loss under this standard.

Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Revenue from government agencies is recognized to the extent of eligible costs incurred up to an amount not to exceed the total contract authorized.

San Diego Center for Children

Notes to Financial Statements

Donated Materials and Services

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the years ended June 30, 2015 and 2014 the Center recorded in-kind contributions of \$153,214 and \$162,234, respectively.

Concentration of Credit Risks

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2015, the Center had no interest-bearing amounts on deposit in excess of federally insured limits. At June 30, 2014, the Center had approximately \$1,440,950 of non-interest bearing cash balances in excess of FDIC insured limits. The Center has never experienced any losses related to these balances.

The primary receivable balance outstanding at June 30, 2015 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risk with respect to trade receivables are limited, as the majority of the Center's receivables consist of earned fees from contract programs granted by governmental agencies.

For the year ended, June 30, 2015, the Center received 37% of its revenue and support from its residential and foster care programs, 42% of its revenue and support from its mental health programs, and 15% of its revenue and support from its non-public school program fees.

For the year ended, June 30, 2014, the Center received 37% of its revenue and support from its residential and foster care programs, 39% of its revenue and support from its mental health programs, and 14% of its revenue and support from its non-public school program fees.

The Center holds investments in the form of common stocks of publicly held companies, equity securities and mutual funds. Market values of such investments and credit ratings of bond issuers are routinely reviewed by the Center's Finance Committee. Investments held by the San Diego Foundation are distributed annually in accordance with the Center's spending policy.

Income Taxes

The Center is a nonprofit organization and is exempt under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). Contributions are deductible under Internal Revenue Code Section 501(a).

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Center in their federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Center's returns for years ended June 30, 2014, 2013, and 2012 are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

San Diego Center for Children

Notes to Financial Statements

Functional Allocation of Expenses

Costs of providing the Center's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services based on direct expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates used in preparation of these financial statements include the valuation of investment gains and losses, and the functional allocation of expenses.

Litigation

In the normal course of business, the Center is occasionally named as a defendant in various claims. It is the opinion of management that the outcome of any pending claims will not materially affect the operation or the financial position of the Center.

Comparative Totals

The financial statements include certain prior year summarized comparative information. With respect to the statement of activities, the prior year information is presented in total, not by net asset class. With respect to the statement of functional expenses, the prior year expenses are presented by expense classification in total rather than functional category. 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, 2014 from which the summarized information was derived.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The standard provides companies with a single model for accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company is in the process of evaluating the impact of adoption on its financial statements.

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In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*. The standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give risk to substantial doubt about an entity's ability to continue as a going concern. ASU 2014-15 applies to all entities and is effective for annual and interim reporting periods ending after December 31, 2016, with early adoption permitted. The Company does not expect that the adoption of this standard will have a material effect on its financial statements.

Subsequent Events

Management has evaluated subsequent events through October 28, 2015, the date which the financial statements were available to be issued.

In July 2015, the Center acquired a new note payable from a financial institution. See Note 8 for further information.

3. Investments

The following table sets forth by level within the fair value hierarchy the Center's investment assets at fair value as of June 30, 2015:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	Total
Money market	\$ 6,054	\$ -	\$ -	\$ 6,054
Total current investments	6,054	-	-	6,054
Mutual funds:				
Equity securities	1,162,713	-	-	1,162,713
Fixed income	728,609	-	-	728,609
Asset backed securities	15,936	-	-	15,936
Complementary strategies	15,852	-	-	15,852
Investments held by others	-	-	135,950	135,950
Total noncurrent investments	1,923,110	-	135,950	2,059,060
Total investments	\$ 1,929,164	\$ -	\$ 135,950	\$ 2,065,114

Following is a description of the valuation methodologies used for investment assets measured at fair value:

Mutual Funds: Mutual funds represent investments with various investment managers. The fair value of these investments are determined by reference to the fund's underlying assets, which are principally marketable equities and fixed income securities. Shares held in mutual funds traded on national securities exchanges are valued at the net asset value as of June 30, 2015.

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Investments held by others: The endowment pool consists of stocks, fixed income securities, and alternative investments that are recorded at fair value. The fair value of alternative investments, for which quoted market prices are not available, are determined by investment managers in good faith using methods considered appropriate, and is subject to oversight and review by management.

For assets measured at fair value on a recurring basis using Level 3 inputs during the year, authoritative guidance requires a reconciliation of the beginning and ending balances for each major category, except for derivative assets and liabilities, which may be presented net, as follows:

	Investments held by others
Balance at June 30, 2014	\$ 106,105
Change in valuation	29,845
Balance at June 30, 2015	\$ 135,950

Gains or losses (including investments bought, sold, and held during the year) reflected in the Statement of Activities at June 30 are as follows:

	2015
Unrealized gain	\$ 23,135
Realized loss	(75)
Gain on investment	\$ 23,060

4. Property and Equipment

Property and equipment consist of the following at June 30:

	2015	2014
Land	\$ 32,361	\$ 32,361
Buildings and building improvements	9,557,151	9,557,151
Furniture and equipment	1,373,290	1,336,997
Computer equipment	224,735	224,735
Vehicles	48,031	27,469
Construction in progress	170,504	19,647
	11,406,072	11,198,360
Less: accumulated depreciation	(4,193,464)	(3,738,706)
	\$ 7,212,608	\$ 7,459,654

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Depreciation expense was \$454,758 and \$450,979 for the years ended June 30, 2015 and 2014, respectively.

The Center estimates the cost to complete construction in progress to be \$400,000 at June 30, 2015. The estimate to complete includes \$200,000 in commitments outstanding as of June 30, 2015. Such commitments are executed, but cancellable, contracts for the construction projects. Approximately \$200,000 of the total construction costs are funded by CDBG grants.

5. Accrued Liabilities

Accrued liabilities consist of the following at June 30:

	2015	2014
Accrued salaries and wages	\$ 102,703	\$ 63,683
Accrued vacation	542,592	495,511
Bonus liability	176,952	-
Overpayment liability	66,637	73,331
Other accrued liabilities	404,661	196,578
	<u>\$ 1,293,545</u>	<u>\$ 829,103</u>

6. Line of Credit

The Center has a revolving line of credit with a financial institution, secured by real property, in the amount of \$650,000, bearing interest, at 4.25%, due to mature on December 1, 2014. At June 30, 2015, no amount was outstanding.

7. Capital Lease Obligation

In fiscal year 2013, the Center entered into a sale-leaseback arrangement. Under the arrangement, the Center sold modular buildings to a financial institution which it leased back for a period of three years. The leaseback has been accounted for as a capital lease with an effective interest rate of 5.52%.

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The cost of the school expansion and remodel and the information technology under the capital lease at June 30, 2015, included in property and equipment, consists of the following:

	2015
School building and remodel	\$ 326,635
Less: accumulated depreciation	(44,059)
	\$ 282,576
Computer equipment	\$ 25,725
Less: accumulated depreciation	(20,722)
	\$ 5,003

Future minimum payments under this lease at June 30, 2015 are as follows:

Year ended June 30,

2016	\$ 31,950
Total minimum lease payments	31,950
Less: interest and tax expense	(2,679)
Present value of net minimum lease payments	\$ 29,271

8. Note Payable

The Center had a note payable to US Bank that was executed on November 12, 2004, secured by real property, with monthly payments of \$25,329, including interest at 6%, due June 30, 2015. In November of 2014, the Center signed an amendment stipulating monthly principal payments of \$13,000 and monthly interest payments of 6% of the outstanding balance through June 30, 2015. At June 30, 2015, the outstanding principal balance was due in its entirety. The outstanding balance was \$2,108,183 and \$2,256,060 as of June 30, 2015 and 2014, respectively. The note payable is classified as long term because, as stated below, the note was refinanced prior to the issuance of the financial statements.

On July 1, 2015, the Center received proceeds related to refinancing agreement ("Business Loan Agreement") with California Bank & Trust new that was dated June 23, 2015. The Business Loan Agreement is comprised of a term loan valued at \$3,000,000. A portion of the proceeds were used to pay off the outstanding principal with US Bank with the remainder being received directly to the Center. The new note bears an interest rate of 3.990% and is payable in equal monthly payments with the final payment due on June 23, 2030. The remainder of approximately \$850,000 is expected to be used for capital or operating expenses.

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Principal payments on the new term loan are as follows:

Years ended June 30,

2016	\$	152,719
2017		156,410
2018		162,766
2019		169,380
2020		176,263
Thereafter		2,182,462
	\$	3,000,000

As required by the terms of the note's regulatory agreement, the Center is required to satisfy certain restrictive covenants which, among other terms, require the maintenance of certain financial ratios and places limits on other indebtedness, and requires certain informational reports. For the year ending June 30, 2015, the Center did not have to meet the financial ratios required under the terms of the note because the entire note balance was paid in full in July 1, 2015.

9. Commitments and Contingencies

Obligations Under Operating Leases

The Center leases real property and equipment under operating leases expiring in various years. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

Years ended June 30,

2016	\$	259,464
2017		252,932
2018		132,440
2019		122,086
2020		67,733
	\$	834,655

Rent expense under operating leases for the years ended June 30, 2015 and 2014 was \$210,287 and \$169,392, respectively.

Contracts

The Center's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, the Center has no provisions for the possible disallowance of program costs on its financial statements.

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10. Fees from Government Agencies

Fees from government agencies for the years ended June 30, 2015 and 2014 consist of the following:

	2015	2014
Foster care - Title IV-E	\$ 7,670,786	\$ 7,238,497
Mental health	8,319,066	7,449,872
Non-public school	3,107,847	2,614,395
Other	94,635	94,743
	<hr/> \$ 19,192,334	<hr/> \$ 17,397,507

11. Retirement Plan

The Center maintains a tax deferred defined contribution plan qualified under Section 403(b) of the Internal Revenue Code. Eligible employees may contribute a percentage of their compensation to the Plan. There were no employer contributions for the years ended June 30, 2015 and 2014.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 and 2014 consist of:

	2015	2014
Children's Therapeutic and Recreation Activity fund	\$ 187,295	\$ 210,931
Cottage Fund	1,438	34,419
Endowment Funds (see Note 13)	650,884	589,172
Maintenance Funds	36,478	29,725
Music Program	2,199	17,261
Renovation of the Clark Adolescent Program Building	45,208	137,407
San Diego Assessment Program	20,060	298,292
San Diego Academy Reading Program	-	9,658
Transition Youth Initiative	115,129	-
Various	30,096	13,502
	<hr/> \$ 1,088,787	<hr/> \$ 1,340,367

Net assets in the amounts of \$599,008 and \$344,579 were released from donor restrictions by incurring expenses and events satisfying the purpose or time restrictions specified by donors for the years ended June 30, 2015 and 2014, respectively.

13. Permanently Restricted Net Assets

Permanently restricted net assets represent contributions which the donor has stipulated that the principal is to be kept intact in perpetuity and only the interest and dividends there from may be expended for unrestricted purposes.

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Permanently restricted net assets at June 30, 2015 and 2014 consist of:

	2015	2014
Clark Endowment	\$ 532,519	\$ 532,519
Iris Auxiliary Endowment	122,244	122,244
Mary Allen Sellers Endowment	189,396	189,396
San Diego Foundation	123,211	92,196
	<hr/> \$ 967,370	<hr/> \$ 936,355

ASC Topic 958-205, *Presentation of Financial Statements*, provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). ASC Topic 958-205 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The Board of Directors has determined that the majority of the Center's permanently restricted net assets meet the definition of endowment funds under UPMIFA. Based on the Center's interpretation of UPMIFA, the Center has reviewed all of its endowment funds and considers that they are currently being appropriately reflected.

The Center's endowment fund is managed by Wells Fargo and by John Brennan, of Personal Financial Management using TD Ameritrade brokers and held in various investments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Center has interpreted the 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 endowment funds absent 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 the gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portions of the donor-restricted endowment fund that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Center considered the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the organization.

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Notes to Financial Statements

Investment Return Objectives, Risk Parameters and Strategies

The Center has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes money market funds, mutual funds and equity securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make a reasonable annual distribution, while growing the funds if possible. Therefore, the Center expects its endowment assets, over time, to produce an average rate of return of approximately 3% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Center has a policy of reporting any gain or loss on endowment assets to temporarily restricted nets assets until appropriated for expenditures. In establishing this policy, the Center considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Center's objective is to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return. As of June 30, 2015, the Center's investment policy requires income or economic benefit derived from permanently restricted net assets to accumulate until such time as the investment balance reaches a total of \$5 million.

Endowment net assets composition by type of fund as of June 30:

	Temporarily Restricted	Permanently Restricted	Total 2015
Donor restricted endowment funds	\$ 650,884	\$ 967,370	\$ 1,618,254

	Temporarily Restricted	Permanently Restricted	Total 2014
Donor restricted endowment funds	\$ 589,172	\$ 936,355	\$ 1,525,527

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Changes in endowment net assets for the fiscal year ended June 30:

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, June 30, 2013	\$ 381,181	\$ 936,355	\$ 1,317,536
Investment income	37,066	-	37,066
Realized investment gain	1,606	-	1,606
Unrealized investment gain	169,319	-	169,319
Amount appropriated for expenditure	-	-	-
Endowment net assets, June 30, 2014	\$ 589,172	\$ 936,355	\$ 1,525,527
Contributions	-	31,015	31,015
Investment income	45,259	-	45,259
Realized investment gain	585	-	585
Unrealized investment gain	15,868	-	15,868
Amount appropriated for expenditure	-	-	-
Endowment net assets, June 30, 2015	\$ 650,884	\$ 967,370	\$ 1,618,254

14. Education Program - Revenue Earned and Funds Expended

Revenue earned for the Education Program is included in fees from government agencies on the Statement of Activities. Costs incurred for the Education Program ("Academy") are included in program services on the Statement of Functional Expenses. The revenue and costs for the year ended June 30, 2015 consist of the following:

	2015
Revenue earned	\$ 3,272,909
Costs incurred:	
Personnel	2,025,049
Operating	578,409
Total costs	2,603,458
Surplus applied to Overhead Expense	\$ 669,451