



San Diego Center for Children

Financial Statements

As of and for the Year Ended June 30, 2011

(With Comparative Information for June 30, 2010)

San Diego Center for Children

Financial Statements

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San Diego Center for Children

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of San Diego Center for Children (the "Organization") as of June 30, 2011, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of San Diego Center for Children's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the financial statements of San Diego Center for Children as of June 30, 2010, and were audited by other auditors whose report dated September 7, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of San Diego Center for Children's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Center for Children as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

San Diego, California
October 26, 2011

Financial Statements

San Diego Center for Children

Statements of Financial Position

<i>As of June 30,</i>	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 1,873,510	\$ 481,969
Accounts receivable, less allowance for doubtful receivables of \$25,000	2,922,246	3,266,679
Pledges receivables	166,544	-
Prepaid expenses and other current assets	413,350	255,262
Investments	1,161,157	198,020
Total current assets	6,536,807	4,201,930
Noncurrent assets		
Investments, less current portion	476,440	1,331,519
Property and equipment, net	6,550,291	6,289,654
Total assets	\$ 13,563,538	\$ 11,823,103
Liabilities and Net assets		
Current liabilities		
Accounts payable	\$ 625,152	\$ 485,839
Accrued liabilities	1,300,569	1,448,229
Capital lease obligation, current portion	18,238	18,238
Note payable, current portion	145,190	136,893
Total current liabilities	2,089,149	2,089,199
Long-term liabilities		
Note payable, less current portion	2,566,665	2,709,501
Capital lease obligation, less current portion	1,363	15,906
Total liabilities	4,657,177	4,814,606
Net assets		
Unrestricted	6,828,739	5,448,667
Temporarily restricted	1,141,267	623,475
Permanently restricted	936,355	936,355
Total net assets	8,906,361	7,008,497
Total liabilities and net assets	\$ 13,563,538	\$ 11,823,103

See accompanying independent auditors' report and notes to financial statements.

San Diego Center for Children

Statement of Activities (With Comparative Totals for the Year Ended June 30, 2010)

<i>June 30,</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Total 2010
Revenue and support					
Fees from government agencies	\$ 17,157,059	\$ -	\$ -	\$ 17,157,059	\$ 17,181,189
Special events revenue - net of expenses of \$110,012 and \$112,475, respectively	377,911	-	-	377,911	377,118
In-kind contributions	289,180	-	-	289,180	342,040
Contributions and grants	290,528	746,262	-	1,036,790	378,982
Gain on investments	165,048	97,289	-	262,337	100,549
Investment income	802	15,556	-	16,358	40,535
Other income	12,323	-	-	12,323	30,941
Net assets released from restrictions of time or purpose	341,315	(341,315)	-	-	-
Total revenue and support	18,634,166	517,792	-	19,151,958	18,451,354
Expenses					
Program services	14,491,652	-	-	14,491,652	15,189,153
General and administrative	2,276,637	-	-	2,276,637	2,150,415
Fundraising	485,805	-	-	485,805	469,496
Total expenses	17,254,094	-	-	17,254,094	17,809,064
Change in net assets	1,380,072	517,792	-	1,897,864	642,290
Net assets, beginning of year	5,448,667	623,475	936,355	7,008,497	6,366,207
Net assets, end of year	\$ 6,828,739	\$ 1,141,267	\$ 936,355	\$ 8,906,361	\$ 7,008,497

See accompanying independent auditors' report and notes to financial statements.

San Diego Center for Children

Statement of Functional Expenses
(With Comparative Totals for the Year Ended June 30, 2010)

June 30,	Program Services				Supporting Services			Total 2011	Total 2010
	San Diego Center Academy	Campus Programs	Foster Care Programs	Community Programs	Total Program Services	Fundraising	Overhead Departments		
Salaries and wages	\$ 1,198,144	\$ 4,737,487	\$ 1,028,099	\$ 1,808,767	\$ 8,772,497	\$ 224,635	\$ 1,168,993	\$ 10,166,125	\$ 10,373,084
Payroll taxes and employee benefits	270,098	1,021,520	249,943	404,515	1,946,076	49,268	307,455	2,302,799	2,373,902
Total personnel costs	1,468,242	5,759,007	1,278,042	2,213,282	10,718,573	273,903	1,476,448	12,468,924	12,746,986
Activity fee	21,418	72,095	9,625	18,064	121,202	-	55	121,257	182,612
Advertising	1,365	-	-	-	1,365	-	8,176	9,541	3,277
Audit and accounting	-	-	-	-	-	-	65,167	65,167	34,500
Auto, gas and mileage	3,087	38,718	84,670	18,708	145,183	26	1,402	146,611	147,417
Auto lease	4,521	10,364	-	8,778	23,663	-	-	23,663	18,583
Auto maintenance	821	28,760	71	1,370	31,022	9	38	31,069	41,695
Bank fees	-	-	-	-	-	56	22,253	22,309	37,801
Building and ground maintenance	32,875	86,734	17,370	36,759	173,738	2,326	10,695	186,759	130,439
Client allowance	-	12,346	-	-	12,346	-	-	12,346	12,025
Clothing	-	36,657	1,626	-	38,283	-	-	38,283	41,355
Computer expense	20,321	21,871	3,698	15,537	61,427	58	19,720	81,205	109,595
Depreciation	54,399	143,158	14,316	20,042	231,915	5,726	48,674	286,315	284,376
Dietary	86,958	86,959	-	-	173,917	-	-	173,917	198,681
Dues and subscriptions	2,503	1,292	7,322	7,207	18,324	626	11,656	30,606	25,318
EAC - employee appreciation committee	-	-	-	-	-	-	34,840	34,840	34,960
Educational	13,810	1,921	213	80	16,024	-	-	16,024	46,678
Equipment lease	1,540	16,254	10,019	10,392	38,205	1,510	4,012	43,727	42,596
Equipment maintenance	-	-	-	1,297	1,297	-	8,645	9,942	8,732
Foster family	-	-	298,047	-	298,047	-	-	298,047	312,860
Furnishings	1,744	7,127	133	3,496	12,500	-	838	13,338	28,442
Housekeeping and janitorial	23,671	84,064	11,429	14,241	133,405	1,878	8,062	143,345	82,288
In-kind expense	24,967	94,958	10,586	1,318	131,829	149,865	7,486	289,180	342,040
Insurance	20,504	91,395	16,767	28,853	157,519	3,732	19,274	180,525	189,357
Interest expense	30,918	108,425	1,609	847	141,799	5,184	26,126	173,109	190,674
Leasehold improvements	-	-	-	-	-	-	17,621	17,621	39,948
Legal	2,514	50	-	-	2,564	-	152,381	154,945	88,798
License and fees	8,843	9,297	5,344	1,880	25,364	3,675	24,370	53,409	57,539
Medical	239	28,628	108	334	29,309	-	-	29,309	22,624
Meals and entertainment	-	-	243	124	367	821	1,164	2,352	1,875
Meetings and conventions	1,232	876	1,287	1,112	4,507	353	11,998	16,858	21,965
Miscellaneous	1,036	32,951	12,501	(9)	46,479	173	11,958	58,610	34,200
Flex funds	-	-	-	-	5,164	-	-	5,164	4,236
Office	10,121	33,600	7,955	15,635	67,311	1,584	16,118	85,013	97,967
Other consultants	177,569	178,981	28,656	9,355	394,561	2,200	119,984	516,745	574,886
Other expense	13,653	35,928	5,030	3,593	58,204	1,437	17,945	77,586	25,422
Payroll services	-	-	-	-	-	-	32,160	32,160	31,299
Personal hygiene	-	12,925	-	-	12,925	-	-	12,925	18,283
Postage and shipping	1,886	5,601	684	389	8,560	217	4,502	13,279	9,465
Printing	2,943	6,504	2,558	5,858	17,863	953	12,758	31,574	34,093
Property tax	-	-	-	-	-	-	1,849	1,849	2,276
Psychiatric	-	268,337	17,680	220,856	506,873	-	-	506,873	544,968
Records storage	132	2,248	279	896	3,555	11	2,785	6,351	8,604
Recreation	3,862	31,494	4,154	18	39,528	-	-	39,528	39,365
Recruitment	5,172	24,563	2,264	7,420	39,419	914	1,710	42,043	40,043
Rent	12,461	6,000	1,800	139,232	159,493	240	960	160,693	143,101
Repairs and replacements	11,960	52,810	6,431	4,813	76,014	817	3,365	80,196	101,658
Respite payments	-	-	16,438	-	16,438	-	-	16,438	31,949
Security	3,262	6,524	1,957	-	11,743	261	1,044	13,048	9,647
Small equipment	2,820	12,300	629	1,904	17,653	505	13,801	31,959	16,874
Telephone	91	7,147	9,621	20,528	37,387	7	10,054	47,448	93,401
Temporary assistance	4,427	6,945	250	-	11,622	18,117	24,951	54,690	182,605
Training	8,228	26,422	9,622	18,025	62,297	4,463	368	67,128	73,057
Travel	-	-	-	-	-	67	1,234	1,301	1,499
Utilities	37,698	83,337	10,050	23,784	154,869	2,936	17,990	175,795	164,130
Volunteer appreciation	-	-	-	-	-	-	1,155	1,155	-
Total functional expenses	\$ 2,123,813	\$ 7,575,573	\$ 1,916,248	\$ 2,876,018	\$ 14,491,652	\$ 485,805	\$ 2,276,637	\$ 17,254,094	\$ 17,809,064

See accompanying independent auditors' report and notes to financial statements.

San Diego Center for Children

Statements of Cash Flows

<i>Years ended June 30,</i>	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 1,897,864	\$ 642,290
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	286,315	284,375
Gain on investments	(262,337)	(100,549)
Reinvested interest and dividends	(16,358)	(40,535)
Donation of investments	(10,000)	(10,000)
Increase (decrease) in cash resulting from change in:		
Accounts receivable	344,433	(725,321)
Pledges receivable	(166,544)	-
Prepaid expenses and other current assets	(158,088)	(3,359)
Accounts payable	139,313	(39,993)
Accrued liabilities	(147,660)	463,999
Accrued unemployment liability	-	(25,253)
Net cash provided by operating activities	1,906,938	445,654
Cash flows from investing activities:		
Purchase of property and equipment, net	(546,952)	(141,111)
Sale of investments, net	180,637	262,181
Net cash provided by investing activities	(366,315)	121,070
Cash flows from financing activities:		
Principal payments on note payable	(134,539)	(111,948)
Net payments on line of credit	-	(4,773)
Principal payments on capital lease	(14,543)	(12,733)
Net cash used in financing activities	(149,082)	(129,454)
Net increase in cash and cash equivalents	1,391,541	437,270
Cash and cash equivalents, beginning of year	481,969	44,699
Cash and cash equivalents, end of year	\$ 1,873,510	\$ 481,969
Supplemental disclosure:		
Interest paid	\$ 173,109	\$ 190,674

See accompanying independent auditors' report and 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 expert 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, and loving 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 3 to 6 years old whose multiple foster care placements have caused behavior challenges; a 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 on an out-patient basis; 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 300 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, a recreational therapist, 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, 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 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, 2011 and 2010.

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 \$166,544 and \$-0- as of June 30, 2011 and 2010, respectively. Management has determined that an allowance for doubtful accounts was not necessary at June 30, 2011 or 2010.

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

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. <p>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.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

San Diego Center for Children

Notes to Financial Statements

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.

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 two 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	40
Furniture and equipment	5
Computer equipment	2
Vehicles	5

In fiscal year 2011, the San Diego Center for Children began several refurbishment and improvement projects. The Clark Adolescent Residential building's showers, flooring, windows, and certain aspects of its heating and ventilation systems are in renovation. Portions of the Clark project are funded by CDBG grants. This approximately \$300,000 project was completed in August 2011.

The San Diego Center Academy is being upgraded and centralized on the Kearny Mesa campus to include a multisensory room, three new classrooms, and a center quad pavilion for assemblies, student performances, and other school related events. This major project has an approximate budget of \$650,000 partially funded by CDBG grants and by a restricted gift. Estimated completion of the school upgrade is Spring 2012.

Other miscellaneous projects include a storage shed, the installation of the Padre Sensory room donated by a County Supervisor, major repair of the executive offices, parking lot and periphery security upgrades, and a minor remodel of the administration lobby. Completion of the miscellaneous projects is projected from July 2011 through January 2012. Portions of these miscellaneous projects are funded by restricted gifts.

Valuation of Long-Lived Assets

Accounting Standards Codification ("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, 2011, the Center did not identify an events or circumstances that would require the recognition of an impairment loss under this standard.

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, 2011 and 2010 the Center recorded in-kind contributions of \$289,180 and \$342,040, respectively.

Concentration of Credit Risks

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Center has never experienced any losses related to these balances. All of the non-interest bearing cash balances were fully insured at June 30, 2011 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and our non-interest bearing cash balances may again exceed federally insured limits. At June 30, 2011 the Center had no interest-bearing amounts on deposit in excess of federally insured limits.

The primary receivable balance outstanding at June 30, 2011 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, 2011, the Center received 47% of its revenue and support from its residential programs, 38% 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 from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d).

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, 2010, 2009, and 2008 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 in total but not by net asset class. 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, 2010 from which the summarized information was derived.

Reclassification

For comparability, certain June 30, 2010 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at June 30, 2011.

Subsequent Events

Management has evaluated subsequent events through October 26, 2011, the date which the financial statements were available to be issued.

In May 2011, the Center chose to move its investment portfolio to a local investment advisor. As a result, in June 2011 a significant portion of its investment assets were held in money market accounts. Subsequent to fiscal year end, the investment manager has begun investing in accordance with the Center's asset allocation model.

San Diego Center for Children

Notes to Financial Statements

3. Investments

The following table sets forth by level within the fair value hierarchy the Center's investment assets and investment liabilities at fair value as of June 30, 2011:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	Total
Money market	\$ 1,161,157	\$ -	\$ -	\$ 1,161,157
Total current investments	1,161,157	-	-	1,161,157
Mutual funds				
Equity securities	251,626	-	-	251,626
Fixed income	88,234	-	-	88,234
Asset backed securities	16,263	-	-	16,263
Complementary strategies	11,007	-	-	11,007
Common stocks	9,991	-	-	9,991
Investments held by others	-	-	99,319	99,319
Total noncurrent investments	377,121	-	99,319	476,440
Total investments	\$ 1,538,278	\$ -	\$ 99,319	\$ 1,637,597

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, 2011.

Common stocks: Common stocks are valued at the closing price reported on the active market on which the individual securities are traded.

Investments held by others: The endowment pool consists of stocks, fixed income securities, and alternative investments and 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.

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Notes to Financial Statements

For assets and liabilities 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		Total
Balance at June 30, 2010	\$ 92,196	\$	92,196
Change in valuation	7,123		7,123
Balance at June 30, 2011	\$ 99,319	\$	99,319

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

	2011
Unrealized gain, net of losses	\$ 304,948
Realized loss	(42,611)
Gain on investment	\$ 262,337

4. Property and Equipment

Property and equipment consist of the following at June 30:

	2011		2010
Land	\$ 32,361	\$	32,361
Buildings and building improvements	9,505,042		9,526,146
Furniture and equipment	810,486		672,899
Computer equipment	323,803		272,857
Vehicles	163,420		158,853
Construction in progress	416,248		41,292
	11,251,360		10,704,408
Less: accumulated depreciation	(4,701,069)		(4,414,754)
	\$ 6,550,291	\$	6,289,654

Depreciation expense was \$286,315 and \$284,375 for the years ended June 30, 2011 and 2010, respectively.

San Diego Center for Children

Notes to Financial Statements

5. Accrued Liabilities

Accrued liabilities consist of the following at June 30:

	2011	2010
Accrued salaries and wages	\$ 361,288	\$ 326,588
Accrued vacation	349,062	329,342
Deferred revenue	255,515	343,884
Other accrued liabilities	334,704	448,415
	<hr/> \$ 1,300,569	<hr/> \$ 1,448,229

6. Line of Credit

The Center has a revolving line of credit with a financial institution, secured by real property, in the amount of \$1,000,000, bearing interest, at 3.25%, due to mature on November 30, 2011. At June 30, 2011, no amount was outstanding.

7. Capital Lease Obligation

The Center leases a phone system under a capital lease.

The cost of the phone system under the capital lease at June 30, 2011, included in property and equipment, consists of the following:

	2011
Phone system	\$ 66,598
Less: accumulated depreciation	(18,869)
	<hr/> \$ 47,729

San Diego Center for Children

Notes to Financial Statements

Future minimum payments under this lease at June 30, 2011 are as follows:

Year ended June 30,

2012	\$	18,238
2013		4,256
Total minimum lease payments		22,494
Less: interest expense		(2,893)
Present value of net minimum lease payments		19,601
Less: current portion		(18,238)
Long-term portion		\$ 1,363

8. Note Payable

The Center has a note payable to a financial institution that was executed on November 12, 2004, secured by real property, with monthly payments of \$25,329, including interest at 6%, due in December 2014. The outstanding balance was \$2,711,855 and \$2,846,394 as of June 30, 2011 and 2010, respectively.

Principal payments on the note payable are as follows:

<i>Year ended June 30,</i>	2011
2012	\$ 145,190
2013	154,205
2014	163,716
2015	2,248,744

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 year end June 30, 2011, the Center met all debt covenants.

San Diego Center for Children

Notes to Financial Statements

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,

2012	\$	212,865
2013		196,581
2014		142,553
2015		127,660
Thereafter		263,647
		<hr/>
		\$ 943,306

Rent expense under operating leases for the years ended June 30, 2011 and 2010 was \$160,693 and 143,101, 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.

10. Fees from Government Agencies

Fees from government agencies for the year ended June 30, 2011 and 2010 consist of the following:

	2011	2010
Foster care - Title IV-E	\$ 8,037,008	\$ 7,172,362
Mental health	6,604,822	6,593,478
Non-public school	2,399,092	2,276,611
First five	7,099	895,534
Other	109,038	243,204
		<hr/>
		\$ 17,157,059
		\$ 17,181,189

San Diego Center for Children

Notes to Financial Statements

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, 2011 and 2010.

12. Temporarily Restricted Net Assets

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

	2011	2010
Children's Therapeutic and Recreation Activity fund	\$ 279,521	\$ 347,908
San Diego Academy Pavilion Project	88,087	-
San Diego Assessment Program	398,544	-
San Diego Academy Reading Program	45,000	-
Various	102,659	88,759
Wraparound program	3,234	75,000
Endowment funds (see Note 13)	178,418	65,573
Cottage Fund	45,804	46,235
	\$ 1,141,267	\$ 623,475

Net assets in the amounts of \$341,315 and \$286,076 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, 2011 and 2010, 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.

Permanently restricted net assets were available for the following purposes at June 30, 2011 and 2010:

Clark Endowment	\$ 532,519
Iris Auxiliary Endowment	122,244
Mary Allen Sellers Endowment	189,396
San Diego Foundation	92,196
	\$ 936,355

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Notes to Financial Statements

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 Oppenheimer 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.

San Diego Center for Children

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 investments to temporary 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.

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

	Temporarily Restricted	Permanently Restricted	Total 2011
Donor restricted endowment funds	\$ 178,418	\$ 936,355	\$ 1,114,773

	Temporarily Restricted	Permanently Restricted	Total 2010
Donor restricted endowment funds	\$ 65,573	\$ 936,355	\$ 1,001,928

San Diego Center for Children

Notes to Financial Statements

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

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, June 30, 2009	\$ -	\$ 844,159	\$ 844,159
Change in restriction	-	92,196	92,196
Investment income	19,979	-	19,979
Realized investment loss	(4,374)	-	(4,374)
Unrealized investment gain	60,474	-	60,474
Amount appropriated for expenditure	(10,506)	-	(10,506)
Endowment net assets, June 30, 2010	65,573	936,355	1,001,928
Investment income	15,556	-	15,556
Realized investment loss	(33,894)	-	(33,894)
Unrealized investment gain	131,183	-	131,183
Amount appropriated for expenditure	-	-	-
Endowment net assets, June 30, 2011	\$ 178,418	\$ 936,355	\$ 1,114,773

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, 2011 consist of the following:

Revenue earned:	\$ 2,453,610
Costs incurred:	
Personnel	1,468,242
Operating	655,571
Total costs	2,123,813
Net revenue	\$ 329,797