



Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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SAN DIEGO CENTER FOR CHILDREN



FINANCIAL STATEMENTS

JUNE 30, 2010

CONTENTS

Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-17



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
San Diego Center for Children

We have audited the accompanying Statement of Financial Position of San Diego Center for Children (a nonprofit organization) as of June 30, 2010, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the organization'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 San Diego Center for Children and Affiliate's June 30, 2009 consolidated financial statements, and in our report dated September 25, 2009, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 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, 2010, 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.

Harrington Group

San Marino, California
November 5, 2010

SAN DIEGO CENTER FOR CHILDREN

STATEMENT OF FINANCIAL POSITION

June 30, 2010

With comparative totals at June 30, 2009

	2010	2009
Assets		
Cash and cash equivalents (Note 2)	\$ 481,969	\$ 44,699
Accounts receivable, less allowance for doubtful receivables of \$25,000	3,266,679	2,541,358
Prepaid expenses	255,262	251,903
Investments (Note 3)	198,020	191,242
Total current assets	4,201,930	3,029,202
Investments, less current portion (Note 3)	1,331,519	1,449,394
Property and equipment (Note 4)	6,289,654	6,432,918
Total assets	\$ 11,823,103	\$ 10,911,514
Liabilities and net assets		
Liabilities		
Accounts payable	485,839	\$ 525,832
Accrued liabilities (Note 5)	1,448,229	984,230
Accrued unemployment liability	-	25,253
Line of credit (Note 6)	-	4,773
Current portion of capital lease obligation (Note 7)	18,238	17,219
Note payable (Note 8)	136,893	129,987
Total current liabilities	2,089,199	1,687,294
Note payable, less current portion (Note 8)	2,709,501	2,828,355
Capital lease obligation, less current portion (Note 7)	15,906	29,658
Total liabilities	4,814,606	4,545,307
Net assets		
Unrestricted	5,448,667	4,879,279
Temporarily restricted (Note 11)	623,475	642,769
Permanently restricted (Note 13)	936,355	844,159
Total net assets	7,008,497	6,366,207
Total liabilities and net assets	\$ 11,823,103	\$ 10,911,514

The accompanying notes are an integral part of these financial statements.

SAN DIEGO CENTER FOR CHILDREN

STATEMENT OF ACTIVITIES

For the year ended June 30, 2010

With comparative totals for the year ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010	2009
Revenue and support					
Fees from government agencies (Note 10)	\$ 17,181,189	\$ -	\$ -	\$ 17,181,189	\$ 15,341,908
Special events revenue - net of expenses of \$112,475	377,118			377,118	259,569
In-kind contributions (Note 2)	342,040			342,040	355,036
Contributions	108,261	190,703		298,964	213,400
Gain (loss) on investments (Note 3)	44,449	56,100		100,549	(321,311)
Grants	80,018			80,018	113,050
Interest income	20,556	19,979		40,535	40,599
Other income	30,941			30,941	175,891
Net assets released from restrictions of time or purpose	286,076	(286,076)		-	-
Total revenue and support	18,470,648	(19,294)	-	18,451,354	16,178,142
Expenses					
Program services	15,189,153			15,189,153	13,000,953
General and administrative	2,150,415			2,150,415	3,459,175
Fundraising	469,496			469,496	304,133
Total expenses	17,809,064	-	-	17,809,064	16,764,261
Change in net assets from continuing operations	661,584	(19,294)	-	642,290	(586,119)
Loss from discontinued operations (Note 12)				-	(41,538)
Change in restriction	(92,196)		92,196	-	-
Change in net assets	569,388	(19,294)	92,196	642,290	(627,657)
Net assets, beginning of year	4,879,279	642,769	844,159	6,366,207	6,993,864
Net assets, end of year	\$ 5,448,667	\$ 623,475	\$ 936,355	\$ 7,008,497	\$ 6,366,207

The accompanying notes are an integral part of these financial statements.

SAN DIEGO CENTER FOR CHILDREN

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2010

With comparative totals for the year ended June 30, 2009

	Program Services			Total Program Services	General and Administration	Fundraising	Total Expenses	
	Academy	Residential	Community Programs				2010	2009
Salaries	\$ 1,227,264	\$ 4,602,514	\$ 3,391,982	\$ 9,221,760	\$ 990,289	\$ 161,035	\$ 10,373,084	\$ 9,794,816
Payroll taxes and employee benefits	280,680	1,125,500	609,246	2,015,426	334,853	23,623	2,373,902	2,036,680
Total personnel costs	1,507,944	5,728,014	4,001,228	11,237,186	1,325,142	184,658	12,746,986	11,831,496
Children related	69,893	521,389	627,789	1,219,071	508	295	1,219,874	957,746
Professional fees	133,557	85,036	227,916	446,509	384,952	39,647	871,108	781,342
Repairs and maintenance	61,876	295,751	83,938	441,565	74,418	3,742	519,725	479,456
Occupancy	37,270	94,709	188,343	320,322	33,714	2,790	356,826	319,042
In-kind expense (Note 2)	14,840	84,205	500	99,545	27,742	214,753	342,040	355,036
Depreciation	54,031	162,094	14,219	230,344	48,344	5,688	284,376	295,485
Food and cafeteria	96,546	102,119	16	198,681			198,681	180,685
Interest	36,228	108,684	9,534	154,446	32,415	3,813	190,674	203,966
Insurance	19,661	100,193	49,407	169,261	16,899	3,197	189,357	200,674
Other	6,988	24,447	63,933	95,368	66,238	2,918	164,524	411,860
Travel expense	2,761	24,940	119,307	147,008	1,803	105	148,916	139,117
Office	11,277	35,217	37,378	83,872	48,553	503	132,928	100,073
Telephone	117	7,158	72,351	79,626	13,766	9	93,401	54,695
Training	4,946	22,121	40,969	68,036	5,021		73,057	82,144
Equipment and automobile lease	5,791	23,312	24,552	53,655	6,848	675	61,178	78,344
Licenses and taxes	4,627	8,308	5,453	18,388	37,587	3,841	59,816	38,994
Educational	32,498	9,939	4,241	46,678			46,678	76,975
Recruitment	7,115	18,156	12,095	37,366	2,039	638	40,043	81,828
Printing and publications	7,943	6,119	9,844	23,906	8,495	1,692	34,093	33,289
Dues and subscriptions			12,867	12,867	11,982	469	25,318	35,761
Postage and shipping	698	2,890	1,865	5,453	3,949	63	9,465	26,253
Total functional expenses	\$ 2,116,607	\$ 7,464,801	\$ 5,607,745	\$ 15,189,153	\$ 2,150,415	\$ 469,496	\$ 17,809,064	\$ 16,764,261

The accompanying notes are an integral part of these financial statements.

SAN DIEGO CENTER FOR CHILDREN

STATEMENT OF CASH FLOWS

For the year ended June 30, 2010

With comparative totals for the year ended June 30, 2009

	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 642,290	\$ (627,657)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	284,375	295,485
(Gain) loss on investments	(100,549)	321,311
Reinvested interest and dividends	(40,535)	-
Change in allowance for doubtful receivables	-	9,853
Donation of investments	(10,000)	-
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(725,321)	(300,717)
Decrease in pledges receivable	-	249,754
(Increase) in prepaid expenses	(3,359)	(96,361)
(Decrease) in accounts payable	(39,993)	(72,694)
Increase (decrease) in accrued liabilities	463,999	(121,653)
Increase (decrease) in accrued unemployment liability	(25,253)	442
Net cash provided (used) by operating activities	445,654	(342,237)
Cash flows from investing activities:		
Purchase of property and equipment	(141,111)	(137,737)
Proceeds from sale of investments	262,181	462,411
Purchase of investments	-	(21,400)
Net cash provided (used) by investing activities	121,070	303,274
Cash flows from financing activities:		
Principal payments on notes payable	(111,948)	(181,399)
Net borrowing (payments) on line of credit	(4,773)	4,773
Principal payments on capital lease	(12,733)	(11,147)
Net cash (used) by financing activities	(129,454)	(187,773)
Net increase (decrease) in cash and cash equivalents	437,270	(226,736)
Cash and cash equivalents, beginning of year	44,699	271,435
Cash and cash equivalents, end of year	\$ 481,969	\$ 44,699
Supplemental disclosure:		
Operating activities reflect interest paid of:	\$ 190,674	\$ 203,966

The accompanying notes are an integral part of these financial statements.

SAN DIEGO CENTER FOR CHILDREN

NOTES TO FINANCIAL STATEMENTS

1. Organization

Established in 1887, the San Diego Center for Children (“the Center”) is a multi-service children’s mental health, child welfare, and academic organization that provides mental health and social services including, but not limited to, counseling, individual, group, and family psychotherapy, case management, medication management, therapeutic residential treatment for Rate Classification Level 12 and 14 (the highest level of residential care in the state of California for children’s mental health), day treatment, non-public school, foster family agency services and treatment, wraparound, and outpatient school based mental health services for children between the ages of 3 to 18. The Center is the oldest accredited non-profit children’s mental health organization in San Diego County. The Center provides 74 psychiatric residential beds, an accredited nonpublic school for special education students, and an Interim Day Treatment program on the main campus. The Center’s community programs serve several hundred children and families throughout San Diego County each year. The Center’s staff of over 330 individuals includes licensed clinicians, psychiatrists, psychologists, certified special education teachers, licensed recreational therapists, nursing, and a range of paraprofessionals such as parent partners and youth mentors. The Center is a training site for several local universities for clinical training. The Center is an active and successful service partners with Child Welfare, the public schools, and San Diego County Department of Mental Health.

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.

Accounting

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 as net assets released from program or capital restrictions.

continued

SAN DIEGO CENTER FOR CHILDREN

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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

The Center uses the allowance method in order to reserve for potentially uncollectible accounts receivable.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as 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 did not have pledges receivable as of June 30, 2010.

Investments

The Center values its investments at fair value. 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

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs).

continued

SAN DIEGO CENTER FOR CHILDREN

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

- Level 3 inputs are unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances.

The specific techniques used to measure fair value for financial statement elements are described in the notes below that relate to each element.

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.

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 year ended June 30, 2010 the Center recorded in-kind contributions of \$342,040.

Concentration of Credit Risks

The Center places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Center has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2010 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, 2010, the Center received 40% of its revenue and support from its residential programs, 35% of its revenue and support from its mental health programs, and 12% 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 Board of Directors.

continued

SAN DIEGO CENTER FOR CHILDREN

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

The Center is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

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, 2009, 2008, and 2007 are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

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 by a method that best measures the relative degree of benefit. 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 reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented.

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 consolidated financial statements for the year ended June 30, 2009 from which the summarized information was derived.

Reclassification

For comparability, certain June 30, 2009 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at June 30, 2010.

Subsequent Events

Management has evaluated subsequent events through November 5, 2010, the date which the financial statements were available.

continued

SAN DIEGO CENTER FOR CHILDREN

NOTES TO FINANCIAL STATEMENTS

3. Investments

The fair value of mutual funds, equity securities, and certificates of deposits have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs). Significant information about investments at June 30, 2010 and June 30, 2009 is summarized as follows:

Mutual funds	\$ 830,660
Equity securities	487,175
Certificate of Deposits	198,020
Other	<u>13,684</u>
	<u>\$1,529,539</u>

The fair value of marketable securities within the Level 1 inputs are based on quoted market prices as of the closing of the last business day of the fiscal year.

Gains or losses (including investments bought, sold, and held during the year) reflected in the Statement of Activities at June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Unrealized gain (loss)	\$107,182	\$ (42,144)
Realized gain (loss)	<u>(6,633)</u>	<u>(279,167)</u>
Gain (loss) on investment	<u>\$100,549</u>	<u>\$(321,311)</u>

4. Property and Equipment

Property and equipment at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Land	\$ 32,361	\$ 32,361
Buildings and building improvements	9,526,146	9,476,246
Furniture and equipment	672,899	649,672
Computer equipment	272,857	246,166
Vehicles	158,853	158,853
Construction in progress	<u>41,292</u>	<u>-</u>
	10,704,408	10,563,298
Less: accumulated depreciation	<u>(4,414,754)</u>	<u>(4,130,380)</u>
	<u>\$ 6,289,654</u>	<u>\$ 6,432,918</u>

continued

SAN DIEGO CENTER FOR CHILDREN

NOTES TO FINANCIAL STATEMENTS

5. Accrued Liabilities

Accrued liabilities at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Accrued salaries and wages	\$ 326,588	\$ 275,714
Accrued vacation	329,342	332,697
Deferred revenue	343,884	158,839
Other accrued liabilities	<u>448,415</u>	<u>216,980</u>
	<u>\$1,448,229</u>	<u>\$984,230</u>

6. Line of Credit

The Center has a revolving line of credit with a bank in the amount of \$1,000,000, bearing interest, currently at 4.250%, due to mature in August 2010. At June 30, 2010, 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, 2010 consists of the following:

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

Future minimum payments under this lease at June 30, 2010 are as follows:

<u>Year ended June 30,</u>	
2011	\$ 18,238
2012	18,238
2013	<u>3,040</u>
Total minimum lease payments	39,516
Less: interest expense	(5,372)
Less: current portion	<u>(18,238)</u>
	<u>\$ 15,906</u>

continued

SAN DIEGO CENTER FOR CHILDREN

NOTES TO FINANCIAL STATEMENTS

8. Note Payable

The Center has a note payable to a financial institution, secured by real property, monthly payments of \$25,329 including interest at 6%, due December 2014. The outstanding balance at June 30, 2010 was \$2,846,394.

Principal payments on note payable are as follows:

<u>Year ended June 30,</u>	
2011	\$ 136,893
2012	146,517
2013	155,553
2014	165,148
Thereafter	<u>2,242,283</u>
	<u>\$2,846,394</u>

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, 2010, the Center met all debt covenants.

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:

<u>Year ended June 30,</u>	
2011	\$140,752
2012	59,722
2013	61,631
2014	50,328
2015	12,000
Thereafter	<u>40,000</u>
	<u>\$364,433</u>

Rent expense under operating leases for the year ended June 30, 2010 was \$143,101.

SAN DIEGO CENTER FOR CHILDREN

NOTES TO FINANCIAL STATEMENTS

9. Commitments and Contingencies, continued

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, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Foster care –Title IV-E	\$ 7,172,362	\$ 6,045,651
Mental health	6,593,478	5,895,189
Non-public school	2,276,611	2,336,915
First Five	895,534	409,241
Other	243,204	654,912
	<u>\$17,181,189</u>	<u>\$15,341,908</u>

11. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2010 and 2009 consist of:

	<u>2010</u>	<u>2009</u>
Tuney fund	\$347,908	\$351,282
Various	88,759	122,181
Wraparound program	75,000	123,075
Endowment funds (see Note 14)	65,573	-
Moore's Cottage Fund	46,235	-
Building repairs	-	46,231
	<u>\$623,475</u>	<u>\$642,769</u>

continued

SAN DIEGO CENTER FOR CHILDREN

NOTES TO FINANCIAL STATEMENTS

12. **Discontinued operations**

HCC operated for several years under a contract from CAMHD of the State of Hawaii which expired on June 30, 2006. HCC continued, at the request of CAMHD, to operate the program through July 30, 2006. Expenses continued through the end of June 2009.

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. At June 30, 2010, permanently restricted net assets were \$936,355.

FASB ASC 958-205 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"). FASB ASC 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 ("GAAP"), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

SAN DIEGO CENTER FOR CHILDREN

NOTES TO FINANCIAL STATEMENTS

14. Permanently Restricted Net Assets, continued

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 is not classified in permanently restricted net assets is 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.

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.

continued

SAN DIEGO CENTER FOR CHILDREN

NOTES TO FINANCIAL STATEMENTS

14. Permanently Restricted Net Assets, continued

Spending Policy

The Center has a policy of transferring any gain or loss on investments to either temporary restricted nets assets or unrestricted net assets. 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 expects its Endowment Fund to be consistent over the next years with any changes being appropriately reflected either as unrestricted or temporarily restricted. This is consistent with the Center's objective 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, 2010:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Donor restricted endowment funds	<u>\$65,573</u>	<u>\$936,355</u>	<u>\$1,001,928</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2010:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$844,159	\$ 844,159
Change in restriction		92,196	92,196
Contributions			
Investment income	19,979		19,979
Realized investment loss	(4,374)		(4,374)
Unrealized investment gain	60,474		60,474
Amount appropriated for expenditure	<u>(10,506)</u>		<u>(10,506)</u>
Endowment net assets, end of year	<u>\$ 65,573</u>	<u>\$936,355</u>	<u>\$1,001,928</u>

continued

SAN DIEGO CENTER FOR CHILDREN

NOTES TO FINANCIAL STATEMENTS

15. 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, 2010 consist of the following:

Revenue earned:	<u>\$2,276,611</u>
Costs incurred:	
Personnel	\$1,507,944
Operating	<u>608,663</u>
Total costs	<u>\$2,116,607</u>
Net	<u>\$ 160,004</u>