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**SAN DIEGO CENTER FOR CHILDREN  
AND AFFILIATE**

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**CONSOLIDATED FINANCIAL STATEMENTS  
AND  
SUPPLEMENTAL SCHEDULES**

**JUNE 30, 2009**

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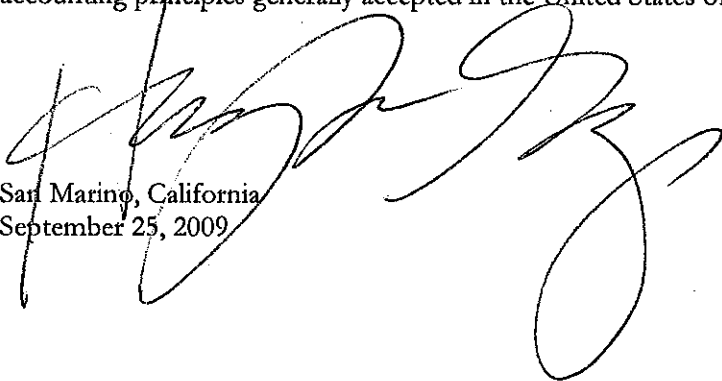
**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
San Diego Center for Children and Affiliate

We have audited the accompanying Consolidated Statement of Financial Position of San Diego Center for Children (a nonprofit organization) and Affiliate as of June 30, 2009 and the related Consolidated Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These consolidated financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these consolidated 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, 2008 consolidated financial statements, and in our report dated September 15, 2008 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 consolidated 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 and Affiliate's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of San Diego Center for Children and Affiliate as of June 30, 2009 and the consolidated 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.



San Marino, California  
September 25, 2009

**SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2009

With comparative totals at June 30, 2008

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Cash and cash equivalents (Note 2)	\$ 44,699	\$ 271,435
Accounts receivable, less allowance for doubtful receivables of \$25,000	2,541,358	2,250,494
Pledges receivable (Note 3)	-	249,754
Prepaid expenses	251,903	155,542
Investments (Note 4)	191,242	400,285
<b>Total current assets</b>	<u>3,029,202</u>	<u>3,327,510</u>
Investments, less current portion (Note 4)	1,449,394	2,002,673
Property and equipment (Note 6)	6,432,918	6,590,666
<b>Total assets</b>	<u>\$ 10,911,514</u>	<u>\$ 11,920,849</u>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 525,832	\$ 598,526
Accrued liabilities (Note 7)	984,230	1,105,883
Accrued unemployment liability (Note 8)	25,253	24,811
Line of credit (Note 9)	4,773	-
Current portion of capital lease obligation (Note 10)	17,219	17,219
Note payable (Note 11)	129,987	118,800
<b>Total current liabilities</b>	<u>1,687,294</u>	<u>1,865,239</u>
Note payable, less current portion (Note 11)	2,828,355	3,020,941
Capital lease obligation, less current portion (Note 10)	29,658	40,805
<b>Total liabilities</b>	<u>4,545,307</u>	<u>4,926,985</u>
<b>Net assets</b>		
Unrestricted	4,879,279	4,885,148
Temporarily restricted (Note 14)	642,769	495,937
Permanently restricted (Note 16)	844,159	1,612,779
<b>Total net assets</b>	<u>6,366,207</u>	<u>6,993,864</u>
<b>Total liabilities and net assets</b>	<u>\$ 10,911,514</u>	<u>\$ 11,920,849</u>

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

**SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

For the year ended June 30, 2009

With comparative totals for the year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009</u>	<u>2008</u>
<b>Revenue and support</b>					
Fees from government agencies (Note 13)	\$ 15,341,908	\$ -	\$ -	\$ 15,341,908	\$ 13,888,599
In-kind contributions (Note 2)	355,036			355,036	133,242
Special events revenue - net of expenses of \$120,832	259,569			259,569	131,660
Contributions	83,073	130,327		213,400	1,003,689
Other income	175,891			175,891	135,182
Grants	113,050			113,050	228,699
Interest income	40,599			40,599	72,862
(Loss) on investments	(321,311)			(321,311)	(187,965)
Net assets released from restrictions of time or purpose	216,478	(216,478)		-	-
<b>Total revenue and support</b>	<u>16,264,293</u>	<u>(86,151)</u>	<u>-</u>	<u>16,178,142</u>	<u>15,405,968</u>
<b>Expenses</b>					
Program services	13,000,953			13,000,953	12,231,644
General and administrative	3,459,175			3,459,175	2,812,017
Fundraising	304,133			304,133	432,979
<b>Total expenses</b>	<u>16,764,261</u>	<u>-</u>	<u>-</u>	<u>16,764,261</u>	<u>15,476,640</u>
<b>Change in net assets from continuing operations</b>	<u>(499,968)</u>	<u>(86,151)</u>	<u>-</u>	<u>(586,119)</u>	<u>(70,672)</u>
<b>Loss from discontinued operations (Note 15)</b>	<u>(41,538)</u>			<u>(41,538)</u>	<u>(14,979)</u>
<b>Change in donor restriction</b>	535,637	232,983	(768,620)	-	-
<b>Allowance for pledge receivable litigation</b>				-	(250,000)
<b>Change in net assets</b>	<u>(5,869)</u>	<u>146,832</u>	<u>(768,620)</u>	<u>(627,657)</u>	<u>(335,651)</u>
<b>Net assets, beginning of year</b>	<u>4,885,148</u>	<u>495,937</u>	<u>1,612,779</u>	<u>6,993,864</u>	<u>7,329,515</u>
<b>Net assets, end of year</b>	<u>\$ 4,879,279</u>	<u>\$ 642,769</u>	<u>\$ 844,159</u>	<u>\$ 6,366,207</u>	<u>\$ 6,993,864</u>

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

**SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

For the year ended June 30, 2009

With comparative totals for the year ended June 30, 2008

	<u>Program</u>	<u>General and</u>	<u>Fundraising</u>	<u>Total Expenses</u>	
	<u>Services</u>	<u>Administration</u>		2009	2008
Salaries	\$ 7,909,799	\$ 1,690,556	\$ 194,461	\$ 9,794,816	\$ 9,222,421
Payroll taxes and employee benefits	1,755,612	267,252	13,816	2,036,680	1,905,024
Total personnel costs	<u>9,665,411</u>	<u>1,957,808</u>	<u>208,277</u>	<u>11,831,496</u>	<u>11,127,445</u>
Children related	957,746			957,746	948,946
Professional fees	365,216	375,016	41,110	781,342	523,086
Repairs and maintenance	463,805	15,651		479,456	442,008
Other	267,495	124,889	19,476	411,860	355,217
In-kind expense (Note 2)	355,036			355,036	133,242
Occupancy	200,033	119,009		319,042	306,270
Depreciation	24,266	271,219		295,485	305,747
Interest		203,966		203,966	227,795
Insurance		200,674		200,674	216,217
Food	179,802	883		180,685	169,170
Travel expense	124,333	14,784		139,117	115,177
Office	74,593	24,423	1,057	100,073	101,946
Training	75,303	6,841		82,144	50,806
Recruitment	59,190	22,369	269	81,828	137,982
Equipment and automobile lease	42,803	35,043	498	78,344	96,106
Educational	76,975			76,975	35,296
Telephone	34,479	20,216		54,695	68,943
Licenses and taxes	16,427	7,659	14,908	38,994	42,470
Dues and subscriptions	4,577	25,485	5,699	35,761	35,078
Printing and publications	5,538	19,327	8,424	33,289	16,950
Postage and shipping	7,925	13,913	4,415	26,253	20,743
<b>Total 2009 functional expenses</b>	<u><u>\$ 13,000,953</u></u>	<u><u>\$ 3,459,175</u></u>	<u><u>\$ 304,133</u></u>	<u><u>\$ 16,764,261</u></u>	
<b>Total 2008 functional expenses</b>	<u><u>\$ 12,231,644</u></u>	<u><u>\$ 2,812,017</u></u>	<u><u>\$ 432,979</u></u>		<u><u>\$ 15,476,640</u></u>

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

**SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended June 30, 2009

With comparative totals for the year ended June 30, 2008

	<u>2009</u>	<u>2008</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (627,657)	\$ (335,651)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	295,485	305,747
Loss on investments	321,311	187,965
Change in allowance for doubtful receivables	9,853	-
Change in discount of pledges receivable	-	37,611
Allowance for pledge receivable litigation	-	250,000
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(300,717)	(225,997)
Decrease in pledges receivable	249,754	688,892
(Increase) in prepaid expenses	(96,361)	(28,429)
(Decrease) in accounts payable	(72,694)	(76,524)
Increase (decrease) in accrued liabilities	(121,653)	107,324
Increase in accrued unemployment liability	442	9
	<u>(342,237)</u>	<u>910,947</u>
<b>Net cash provided (used) by operating activities</b>		
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(137,737)	(197,491)
Proceeds from sale of investments	462,411	1,626,087
Purchase of investments	(21,400)	(1,880,989)
	<u>303,274</u>	<u>(452,393)</u>
<b>Net cash provided (used) by investing activities</b>		
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable	(181,399)	(109,292)
New borrowing on line of credit	4,379,284	3,375,000
Principal payments on line of credit	(4,374,511)	(3,975,000)
Principal payments on capital lease	(11,147)	(8,574)
	<u>(187,773)</u>	<u>(717,866)</u>
<b>Net cash (used) by financing activities</b>		
<b>Net (decrease) in cash and cash equivalents</b>	<u>(226,736)</u>	<u>(259,312)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>271,435</u>	<u>530,747</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 44,699</u>	<u>\$ 271,435</u>
<b>Supplemental disclosure:</b>		
Operating activities reflect interest paid of:	<u>\$ 203,966</u>	<u>\$ 227,794</u>
<b>Non-cash investing and financing transactions:</b>		
Acquisition of equipment with capital lease obligation	<u>\$ -</u>	<u>\$ 66,598</u>

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

# SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. **Organization**

San Diego Center for Children and Affiliate (the "Center") includes San Diego Center for Children ("SDCC") and Hawaii Center for Children ("HCC"). SDCC and HCC are governed by separate Boards, with SDCC being the sole voting member of HCC.

SDCC provides residential treatment, partial hospitalization, non-public school, day treatment, foster care and other therapeutic programs for "at-risk" children, adolescents and their families in the San Diego area. HCC provides residential treatment and other therapeutic services in the Hawaii area.

HCC operated under contract with Child and Adolescent Mental Health Division ("CAMHD") of the State of Hawaii which expired on June 30, 2006. HCC was asked to continue the residential program past the June 30, 2006 closure date until the last child in residence could be placed elsewhere. Accordingly, the program officially closed on July 30, 2006. Expenses for HCC continued through June 30, 2009.

In September 1994, the Accounting Standards Division of the American Institute of Certified Public Accountants issued a Statement of Position ("SOP") 94-3, "Reporting of Related Entities by Not-for-Profit Organizations." This statement provides guidance for the reporting and disclosure of financially interrelated not-for-profit organizations. Based upon the nature of the relationship between SDCC and HCC consolidated financial statements are presented.

### 2. **Summary of Significant Accounting Policies**

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

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of SDCC and HCC. HCC is consolidated since SDCC has both an economic interest in HCC and control of the organization through a majority voting interest in its governing board. All inter-organization transactions have been eliminated.

#### **Basis of Presentation**

The accompanying consolidated 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:

continued

# SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

**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 consolidated Statement of Activities as net assets released from program or capital restrictions.

**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 certificates of deposits 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.

#### **Investments**

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

# SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies, continued

#### 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, 2009 the Center recorded in-kind contributions of \$355,036.

#### 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, 2009 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.

The Center holds investments in the form of short-term money market investments, 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.

#### Income Taxes

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

#### Functional Allocation of Expenses

Costs of providing the Center's programs and other activities have been presented in the consolidated 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.

# SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies, continued

#### Use of Estimates

The preparation of consolidated 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.

#### Concentrations

For the year ended, June 30, 2009, the Center received 39% of its revenue and support from its residential programs, 38% of its revenue and support from its mental health programs, and 15% of its revenue and support from its non-public school program fees.

#### Comparative Totals

The consolidated 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, 2008 from which the summarized information was derived.

### 3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at their estimated fair present value at June 30, 2008. A discount rate of 4.62% has been used to calculate the present value of pledges receivable.

Total amount of pledges receivable at June 30, 2008 was \$249,754 and consisted of the following:

	<u>2009</u>	<u>2008</u>
Pledges receivable, gross	\$ -	\$ 888,000
Less: allowance for doubtful pledges receivable		(250,000)
Less: unamortized discount on pledges receivable		(388,246)
	<u>\$ -</u>	<u>\$ 249,754</u>

continued

# SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. Investments

Investments at June 30, 2009 and 2008 consist of the following:

	<b>2009</b>	<b>2008</b>
Mutual funds	\$ 660,669	\$ 846,389
Money market funds	407,880	592,502
Equity securities	380,845	500,714
Certificates of deposit	191,242	400,285
Other	-	63,068
	<b>\$1,640,636</b>	<b>\$2,402,958</b>

Gains or losses (including investments bought, sold, and held during the year) reflected in the consolidated Statement of Activities at June 30, 2009 and 2008 are as follows:

	<b>2009</b>	<b>2008</b>
Realized gain (loss)	\$ (279,167)	\$ 8,899
Unrealized (loss)	(42,144)	(196,864)
(Loss) on investment	<b>\$(321,311)</b>	<b>\$(187,965)</b>

### 5. Fair Value Measurements

Fair values of assets measured on a recurring basis at June 30, 2009 are as follows:

	<b>Fair Value</b>	<b>Quoted Price in Active Markets for Identical Assets (Level 1)</b>
Mutual funds	\$ 660,669	\$ 660,669
Money market funds	407,880	407,880
Equity securities	380,845	380,845
Certificates of deposit	191,242	191,242
	<b>\$1,640,636</b>	<b>\$1,640,636</b>

*Fair Value Measurements.* SFAS No. 157 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 consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Center uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. The Center used Level 1 inputs when disclosing its investments. No Level 2 and 3 inputs were available to the Center.

continued

**SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**5. Fair Value Measurements, continued**

*Level 1 Fair Value Measurements.* The Center's investments are from active markets and therefore Level 1 Fair Value Measurement is used whereby Level 1 inputs are quoted prices (unadjusted) from these active markets for identical assets or liabilities that the Center has the ability to access at year end. The fair values of mutual funds, money market funds and equity securities are based on quoted market prices.

**6. Property and Equipment**

Property and equipment at June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 32,361	\$ 32,361
Buildings and building improvements	9,476,246	9,359,920
Furniture and equipment	649,672	641,467
Computer equipment	246,166	232,958
Vehicles	<u>158,853</u>	<u>158,853</u>
	10,563,298	10,425,559
Less: accumulated depreciation	<u>(4,130,380)</u>	<u>(3,834,893)</u>
	<u>\$ 6,432,918</u>	<u>\$ 6,590,666</u>

**7. Accrued Liabilities**

Accrued liabilities at June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Accrued salaries and wages	\$ 275,714	\$ 601,411
Accrued vacation	332,697	393,286
Deferred revenue	158,839	60,538
Other accrued liabilities	<u>216,980</u>	<u>50,648</u>
	<u>\$984,230</u>	<u>\$1,105,883</u>

**8. Accrued Unemployment Liability**

The Center has elected to be self-insured for the purposes of California State Unemployment Insurance. Accrued unemployment liability at June 30, 2009 of \$25,253 represents estimated future claims arising from payroll paid to June 30, 2009. Unemployment expense for the year ended June 30, 2009 was \$63,526.

continued

# SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 9. Line of Credit

The Center has a revolving line of credit with a bank in the amount of \$1,000,000, bearing interest at prime rate plus 1%. The balance as of June 30, 2009 was \$4,773.

### 10. 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, 2009 consists of the following:

Phone system	\$66,598
Less: accumulated depreciation	<u>(12,210)</u>
	<u>\$54,388</u>

Future minimum payments under this lease at June 30, 2009 are as follows:

<u>Year ended June 30,</u>	
2010	\$ 17,219
2011	17,219
2012	17,219
2013	<u>3,796</u>
Total minimum lease payments	55,453
Less: interest expense	(8,576)
Less: current portion	<u>(17,219)</u>
	<u>\$ 29,658</u>

### 11. 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, 2009 was \$ 2,958,342.

Principal payments on note payable are as follows:

<u>Year ended June 30,</u>	
2010	\$ 129,987
2011	138,005
2012	146,517
2013	155,553
2014	165,148
Thereafter	<u>2,223,132</u>
	<u>\$2,958,342</u>

continued

# SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 11. Note Payable, continued

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. The Center is currently performing on its loan but is in default of one of its mortgage loan covenants. Under the current financial market conditions management has not sought a waiver of its open obligations. Based upon recent appraisals of the value of the property securing the mortgage, management believes that, while not liquid, there are sufficient resources to satisfy all commitments under the loan.

### 12. 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>	
2010	\$13,700
2011	<u>1,000</u>
	<u>\$14,700</u>

Rent expense under operating leases for the year ended June 30, 2009 was \$138,210.

#### 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 consolidated financial statements.

#### Litigations

HCC is a defendant in a lawsuit. HCC's maximum exposure is \$25,000 which is deductible on the insurance policy. HCC made a provision of \$13,000 in excess of cash on the account to the provision for the full amount of the deductible. The lawsuit has been settled subsequent to year-end for the amount of deductible.

The Center is a defendant in a lawsuit. The Center is in the process of settling the lawsuit in amount of \$58,246, for which the provision has been made and liability recorded as of June 30, 2009. The lawsuit has been settled subsequent to year-end for the amount accrued by the Center.

continued

# SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 13. Fees From Government Agencies

Fees from government agencies for the year ended June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Foster care –Title IV-E	\$ 6,045,651	\$ 6,207,027
Mental health	5,895,189	5,037,825
Non-public school	2,336,915	2,086,781
First Five	409,241	358,393
Other	654,912	198,573
	<u>\$15,341,908</u>	<u>\$13,888,599</u>

### 14. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2009 and 2008 consist of:

	<u>2009</u>	<u>2008</u>
Tuney fund	\$351,282	\$ -
Various	122,181	133,340
Wraparound program	123,075	53,444
Building repairs	46,231	48,472
Mary Seller fund	-	4,896
Iris Auxiliary fund	-	6,031
Pledges receivable	-	249,754
	<u>\$642,769</u>	<u>\$495,937</u>

### 15. 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. Total net loss from discontinued operations for the year ended June 30, 2009 was \$28,538.

### 16. Permanently Restricted Net Assets

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position No. FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" ("FSP FAS 117-1"). FSP FAS 117-1 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"). FSP FAS 117-1 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.

continued

# SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 16. Permanently Restricted Net Assets, continued

The State of California enacted UPMIFA effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. The Center has adopted FSP FAS 117-1 for the year ending June 30, 2009. 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.

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 AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**16. Permanently Restricted Net Assets, continued**

*Spending Policy*

The Center has a policy of transferring any gain or loss on investments to either temporary restricted net 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, 2009 is as follows:

	<b>Permanently Restricted</b>	<b>Total Endowment Assets</b>
Donor-restricted endowment funds	<u>\$844,159</u>	<u>\$844,159</u>
Total funds	<u>\$844,159</u>	<u>\$844,159</u>

Changes in endowment net assets as of June 30, 2009 are as follows:

	<b>Permanently Restricted</b>	<b>Total Endowment Assets</b>
Endowment net assets, beginning of year	\$1,612,779	\$1,612,779
Change in donor's restriction	<u>(768,620)</u>	<u>(768,620)</u>
Endowment net assets, end of year	<u>\$ 844,159</u>	<u>\$ 844,159</u>

**SUPPLEMENTAL SCHEDULES**

**SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

June 30, 2009

	<u>SDCC</u>	<u>HCC</u>	<u>Eliminations</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 32,234	\$ 12,465	\$ -	\$ 44,699
Accounts receivable, less allowance for doubtful receivables of \$25,000	2,541,358			2,541,358
Pledges receivable				-
Receivable from parent		13,000	(13,000)	-
Prepaid expenses	251,903			251,903
Investments	191,242			191,242
<b>Total current assets</b>	<u>3,016,737</u>	<u>25,465</u>	<u>(13,000)</u>	<u>3,029,202</u>
Investments, less current portion	1,449,394			1,449,394
Pledges receivable, less current portion	-			-
Property and equipment	6,432,918			6,432,918
<b>Total assets</b>	<u>\$ 10,899,049</u>	<u>\$ 25,465</u>	<u>\$ (13,000)</u>	<u>\$ 10,911,514</u>
<b>Liabilities and net assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 525,832	\$ -	\$ -	\$ 525,832
Accrued liabilities	913,885	70,345		984,230
Accrued unemployment liability	25,253			25,253
Payable to affiliate	13,000		(13,000)	-
Line of credit	4,773			4,773
Current portion of capital lease obligation	17,219			17,219
Note payable	129,987			129,987
<b>Total current liabilities</b>	<u>1,629,949</u>	<u>70,345</u>	<u>(13,000)</u>	<u>1,687,294</u>
Note payable, less current portion	2,828,355			2,828,355
Capital lease obligation	29,658			29,658
<b>Total liabilities</b>	<u>4,487,962</u>	<u>70,345</u>	<u>(13,000)</u>	<u>4,545,307</u>
<b>Net assets</b>				
Unrestricted	4,924,159	(44,880)		4,879,279
Temporarily restricted	642,769			642,769
Permanently restricted	844,159			844,159
<b>Total net assets</b>	<u>6,411,087</u>	<u>(44,880)</u>	<u>-</u>	<u>6,366,207</u>
<b>Total liabilities and net assets</b>	<u>\$ 10,899,049</u>	<u>\$ 25,465</u>	<u>\$ (13,000)</u>	<u>\$ 10,911,514</u>

See independent auditor's report

**SAN DIEGO CENTER FOR CHILDREN AND AFFILIATE**

**CONSOLIDATING STATEMENT OF ACTIVITIES**

For the year ended June 30, 2009

	<u>SDCC</u>	<u>HCC</u>	<u>Eliminations</u>	<u>Total</u>
<b>Revenue and support</b>				
Fees from government agencies	\$ 15,341,908	\$ -	\$ -	\$ 15,341,908
In-kind contributions	355,036			355,036
Special events revenue (net of expenses of \$120,832)	259,569			259,569
Contributions	213,400			213,400
Other income	175,891			175,891
Grants	113,050			113,050
Interest income	40,599			40,599
Loss on investments	(321,311)			(321,311)
<b>Total revenue and support</b>	<u>16,178,142</u>	<u>-</u>	<u>-</u>	<u>16,178,142</u>
<b>Expenses</b>				
Program services	13,000,953			13,000,953
General and administrative	3,472,175		(13,000)	3,459,175
Fundraising	304,133			304,133
<b>Total expenses</b>	<u>16,777,261</u>		<u>(13,000)</u>	<u>16,764,261</u>
<b>Change in net assets from continuing operations</b>	<u>(599,119)</u>	<u>-</u>	<u>13,000</u>	<u>(586,119)</u>
<b>Loss from discontinued operations</b>	-	(28,538)	(13,000)	(41,538)
<b>Change in donor restriction</b>	-	-	-	-
<b>Allowance for pledge receivable litigation</b>	-	-	-	-
<b>Change in net assets</b>	<u>(599,119)</u>	<u>(28,538)</u>	<u>-</u>	<u>(627,657)</u>
<b>Net assets, beginning of year</b>	<u>7,010,206</u>	<u>(16,342)</u>	<u>-</u>	<u>6,993,864</u>
<b>Net assets, end of year</b>	<u>\$ 6,411,087</u>	<u>\$ (44,880)</u>	<u>\$ -</u>	<u>\$ 6,366,207</u>

See independent auditor's report