CHILDREN'S BUREAU OF SOUTHERN CALIFORNIA AND CHILDREN'S BUREAU FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

CHILDREN'S BUREAU OF SOUTHERN CALIFORNIA
AND CHILDREN'S BUREAU FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Boards of Directors
Children's Bureau of Southern California and
Children's Bureau Foundation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Children's Bureau of Southern California and Children's Bureau Foundation (nonprofit organizations) (collectively, the Organization), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Boards of Directors
Children's Bureau of Southern California and
Children's Bureau Foundation

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 3, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters - Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal and Non-Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the consolidating statements of financial position and activities and the Department of Social Services Form 12FFA are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Green Hasson & Janks LLP

October 31, 2016
Los Angeles, California

CHILDREN'S BUREAU OF SOUTHERN CALIFORNIA
AND CHILDREN'S BUREAU FOUNDATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2016
With Summarized Totals at June 30, 2015

	2016				
ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2015
Cash and Cash Equivalents	$ 3,190,954	$ 409,629	$ -	$ 3,600,583	$ 4,868,816
Investments	10,880,003	748,229	1,627,879	13,256,111	11,964,010
Accounts and Other Receivables	3,993,247	-	-	3,993,247	2,969,841
Pledges Receivable	35,182	1,000,000	-	1,035,182	967,462
Prepaid Expenses and Other Assets	265,977	-	-	265,977	230,795
Property and Equipment (Net)	16,031,852	-	-	16,031,852	16,543,393
Due from Affiliates	-	-	-	-	32,176
TOTAL ASSETS	$ 34,397,215	$ 2,157,858	$ 1,627,879	$ 38,182,952	$ 37,576,493
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts Payable	$ 907,953	$ -	$ -	907,953	$ 679,619
Accrued Liabilities	4,026,618	-	-	4,026,618	4,267,982
TOTAL LIABILITIES	4,934,571	-	-	4,934,571	4,947,601
NET ASSETS:					
Unrestricted:					
Undesignated	27,644,017	-	-	27,644,017	28,118,966
Board Designated	1,818,627	-	-	1,818,627	1,176,962
TOTAL UNRESTRICTED NET ASSETS	29,462,644	-	-	29,462,644	29,295,928
Temporarily Restricted	-	2,157,858	-	2,157,858	1,725,964
Permanently Restricted	-	-	1,627,879	1,627,879	1,607,000
TOTAL NET ASSETS	29,462,644	2,157,858	1,627,879	33,248,381	32,628,892
TOTAL LIABILITIES AND NET ASSETS	$ 34,397,215	$ 2,157,858	$ 1,627,879	$ 38,182,952	$ 37,576,493

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

CHILDREN'S BUREAU OF SOUTHERN CALIFORNIA
AND CHILDREN'S BUREAU FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2016
With Summarized Totals for the Year Ended June 30, 2015

	2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2015 Total
REVENUE AND SUPPORT:					
Government Grants and Contracts	$ 24,779,139	$ -	$ -	$ 24,779,139	$24,886,443
Contributions	1,384,461	1,781,500	20,879	3,186,840	1,732,443
Special Events (Net of Direct Donor Benefit Expenses of $440,035)	1,143,801	-	-	1,143,801	1,173,019
Contributions In-Kind	1,596,065	-	-	1,596,065	1,513,310
Investment Income (Net)	541,623	180,248	-	721,871	68,803
Interest on Notes Receivable	-	-	-	-	227,483
Debt Forgiveness	-	-	-	-	7,687,263
Rental and Other Income	733,148	-	-	733,148	545,823
Net Assets Released from Purpose Restrictions	1,529,854	(1,529,854)	-	-	-
TOTAL REVENUE AND SUPPORT	31,708,091	431,894	20,879	32,160,864	37,834,587
EXPENSES:					
Program Services	26,498,486	-	-	26,498,486	26,167,330
Management and General	4,127,358	-	-	4,127,358	5,513,557
Fundraising	915,531	-	-	915,531	835,028
TOTAL EXPENSES	31,541,375	-	-	31,541,375	32,515,915
CHANGE IN NET ASSETS	166,716	431,894	20,879	619,489	5,318,672
Net Assets - Beginning of Year	29,295,928	1,725,964	1,607,000	32,628,892	27,310,220
NET ASSETS - END OF YEAR	$ 29,462,644	$ 2,157,858	$ 1,627,879	$ 33,248,381	$ 32,628,892

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

CHILDREN'S BUREAU OF SOUTHERN CALIFORNIA AND CHILDREN'S BUREAU FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2016
With Summarized Totals for the Year Ended June 30, 2015

	2016								
	Program Services				Supporting Services				
	Child Abuse Prevention Services	Mental Health	Specialized Foster Care and Adoption	Total Program Services	Management and General	Fundraising	Total Support Services	Total	2015 Total
Salaries	$ 5,678,032	$ 5,365,922	$ 1,567,581	$ 12,611,535	$ 2,006,363	$ 585,417	$ 2,591,780	$ 15,203,315	$ 15,195,159
Employee Benefits and Payroll Taxes	1,727,233	1,449,329	436,188	3,612,750	584,580	130,922	715,502	4,328,252	4,207,791
TOTAL PERSONNEL COST	7,405,265	6,815,251	2,003,769	16,224,285	2,590,943	716,339	3,307,282	19,531,567	19,402,950
Professional and Temporary Services	475,800	1,243,504	219,870	1,939,174	479,665	33,491	513,156	2,452,330	2,447,208
Direct Client Services	158,709	679	1,638,548	1,797,936	-	240	240	1,798,176	1,862,185
Interest and Fees on NMTC Exit	-	-	-	-	-	-	-	-	1,789,868
Subcontractors	1,512,699	259,200	-	1,771,899	-	-	-	1,771,899	1,425,885
Awareness Campaign	1,392,229	-	-	1,392,229	-	-	-	1,392,229	1,153,325
Occupancy	412,291	579,783	84,891	1,076,965	132,967	8,970	141,937	1,218,902	1,266,943
Depreciation	242,484	93,658	29,156	365,298	220,673	16,649	237,322	602,620	576,571
Computers and Software	228,206	149,239	16,246	393,691	38,774	12,778	51,552	445,243	390,629
Books and Supplies	292,279	80,290	17,723	390,292	33,430	8,157	41,587	431,879	346,773
Recruitment and Training	152,117	29,784	91,072	272,973	99,321	3,777	103,098	376,071	379,430
Travel	198,009	75,582	56,335	329,926	6,046	2,454	8,500	338,426	357,442
Insurance	369	1,238	33,144	34,751	189,024	-	189,024	223,775	214,256
Utilities	75,966	52,813	11,231	140,010	46,568	4,395	50,963	190,973	199,747
Communications	81,697	63,170	15,396	160,263	28,115	1,333	29,448	189,711	172,840
Miscellaneous	18,341	7,972	9,735	36,048	105,360	3,852	109,212	145,260	48,803
Promotion and Outreach	8,412	-	-	8,412	48,492	77,183	125,675	134,087	43,520
Equipment and Vehicle Expense	73,171	38,634	4,629	116,434	12,934	1,151	14,085	130,519	179,138
Printing and Postage	19,660	7,751	5,567	32,978	50,709	16,283	66,992	99,970	97,892
Dues and Subscriptions	10,157	3,865	900	14,922	44,337	8,479	52,816	67,738	85,389
Contributions	-	-	-	-	-	-	-	-	75,121
TOTAL 2016 FUNCTIONAL EXPENSES	$ 12,757,861	$ 9,502,413	$ 4,238,212	$ 26,498,486	$ 4,127,358	$ 915,531	$ 5,042,889	$ 31,541,375	
				84%	13%	3%	16%	100%	
TOTAL 2015 FUNCTIONAL EXPENSES	$ 11,530,022	$ 9,897,198	$ 4,740,110	$ 26,167,330	$ 5,513,557	$ 835,028	$ 6,348,585		$ 32,515,915
				80%	17%	3%	20%		100%

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

CHILDREN'S BUREAU OF SOUTHERN CALIFORNIA
AND CHILDREN'S BUREAU FOUNDATION

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2016
With Summarized Totals for the Year Ended June 30, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	$ 619,489	$ 5,318,672
Adjustments to Reconcile Change in Net Assets to		
Net Cash (Used In) Provided by Operating Activities:		
Depreciation	602,620	576,571
Realized and Unrealized (Gains) Losses on Investments	(298,920)	302,925
Contributions Restricted for Investment in Perpetuity	(20,879)	-
Debt Forgiveness	-	(7,687,263)
(Increase) Decrease in:		
Accounts and Other Receivables	(1,023,406)	(128,036)
Pledges Receivable	(67,720)	1,228,208
Prepaid Expenses and Other Assets	(35,182)	80,921
Due from Affiliates	32,176	485,435
Increase (Decrease) in:		
Accounts Payable	228,334	(158,907)
Accrued Liabilities	(241,364)	462,750
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(204,852)	481,276
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collections on Notes Receivable	-	4,947,263
Purchase of Property and Equipment	(91,079)	(170,542)
Purchase of Investments	(1,586,400)	(560,573)
Proceeds on Sale of Investments	593,219	1,011,271
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(1,084,260)	5,227,419
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions Restricted for Investment in Perpetuity	20,879	-
Payments of Notes Payable	-	(3,800,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	20,879	(3,800,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,268,233)	1,908,695
Cash and Cash Equivalents - Beginning of Year	4,868,816	2,960,121
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,600,583	$ 4,868,816
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	$ -	$ 639,949

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

NOTE 1 - NATURE OF ORGANIZATION

Since 1904, Children's Bureau of Southern California (Children's Bureau) (www.all4kids.org) has been a nonprofit leader in the prevention and treatment of child abuse and neglect. Nearly 30,000 children and families are helped each year throughout Southern California with services that include school readiness, parenting classes, family resource centers, support groups, mental health, foster care, adoption and more.

Mission. Children's Bureau is committed to providing vulnerable children - especially in the early years - the foundation necessary to become caring and productive adults by:

- Preventing child abuse and neglect;
- Protecting, nurturing, and treating abused children;
- Enhancing the potential of families and communities to meet the needs of their children; and
- Advancing the welfare of children and families through superior programs in foster care, adoptions, child development, parent education, mental health, research, and advocacy.

Vision. Children's Bureau's vision is to significantly change the lives of at-risk children by providing state-of-the-art child abuse prevention and treatment services. While increasing the scope, depth, and volume of services, Children's Bureau engages in continuous discovery through research to determine and implement what works and is a passionate advocate on behalf of children and families.

The Children's Bureau Foundation (the Foundation) was founded in 1987 for the specific and primary purpose of providing financial support exclusively to Children's Bureau. The Foundation completed a $23 million capital campaign for Children's Bureau headquarters, Magnolia Place Family Center.

Today, the Magnolia Place Family Center is at the heart of a broader vision known as the Magnolia Community Initiative, a ground-breaking national model for large scale community mobilization where children, living in the most vulnerable neighborhoods, break all records of success in their education and health milestones and in the nurturing they receive.

Children's Bureau receives substantial funding from county and state governmental agencies, with a portion of its funding originating from the federal government. Other foundation and corporate grants, as well as private donations, also make up a portion of annual revenue and support.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Children's Bureau of Southern California and Children's Bureau Foundation (collectively, the Organization). All inter-organization balances and transactions have been eliminated on consolidation.

(b) BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

(c) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Organization are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into 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 Undesignated.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

- **Unrestricted Board Designated.** These are comprised of unrestricted net assets which the Board of Directors has designated to reinvest in agency owned facilities. At June 30, 2016, the Organization has unrestricted board designated net assets of $1,818,627.

- **Temporarily Restricted.** The Organization 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 purpose or time restrictions. At June 30, 2016, the Organization has temporarily restricted net assets of $2,157,858.

- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit the Organization to expend all of the income (or other economic benefits) derived from the donated assets. At June 30, 2016, the Organization has permanently restricted net assets of $1,627,879.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term, highly liquid investments with original maturities of three months or less at the time of purchase. The carrying value of cash and cash equivalents at June 30, 2016 approximates its fair value.

(e) INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair value.

Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Interest and dividend income is recorded when earned. Gains or losses (including investments bought, sold, and held during the year), and interest and dividend income are reflected in the consolidated statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily restricted by donor stipulations or by law.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Because of the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

(f) ACCOUNTS AND OTHER RECEIVABLES

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, if any, represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. At June 30, 2016, the majority of receivables are due from governmental agencies and no allowance for doubtful accounts was considered necessary.

(g) CONCENTRATION OF CREDIT RISKS

The Organization maintains its cash and cash equivalents in bank deposit accounts and other investment accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on these accounts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) CONCENTRATION OF CREDIT RISKS (continued)

Approximately 77% of the Organization's revenue and support is provided by various government agencies. The Organization anticipates that it will continue to run these programs although there can be no assurance that the Organization will be able to obtain future grant agreements upon the expiration of the current term of the contracts. Included in the accounts and other receivables balance outstanding at June 30, 2016 is $3,973,280 of government contracts receivable due from county, state, and federal granting agencies. Concentration of credit risk with respect to these receivables is limited, as the majority of the Organization's receivables consist of earned revenue from contract programs granted by government agencies.

(h) CONTRIBUTIONS AND PLEDGES RECEIVABLE

Unconditional contributions, including pledges recorded at fair value, are recognized as revenues when the pledge is received. The Organization reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not included as support until such time as the conditions are substantially met. Pledges receivable at June 30, 2016 are due in their entirety within one year. The Organization evaluated the collectability of pledges receivable at June 30, 2016 and determined that no allowance for doubtful pledges was needed.

(i) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost at the date of acquisition if purchased or at estimated fair value at the date of donation if donated. Depreciation and amortization are computed using the straight-line basis over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Buildings and Improvements	33 - 40 Years
Furniture and Equipment	3 - 15 Years
Leasehold Improvements	Lease Term

Expenditures for repairs and maintenance are charged to expense as incurred while renewals and betterments are capitalized. Property and equipment are capitalized if the cost of an asset is greater than or equal to $5,000 and the useful life is greater than one year.

(j) LONG-LIVED ASSETS

The Organization evaluates the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized during the year ended June 30, 2016.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) CONTRIBUTED GOODS AND SERVICES

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, were provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed goods and services were valued at $1,596,065 for the year ended June 30, 2016, which consists of $1,392,229 for the Organization's awareness campaign and $203,836 for pro-bono legal services.

(l) INCOME TAXES

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

(m) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Organization'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 supporting services by a method that best measures the relative degree of benefit. The Organization uses direct service staff compensation and square footage to allocate indirect costs.

(n) 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. Accordingly, actual results could differ from those estimates.

(o) 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 Organization's consolidated financial statements for the year ended June 30, 2015 from which the summarized information was derived.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and providing additional information about the amounts recorded in the financial statements. For the Organization, the ASU will be effective for the year ending June 30, 2021.

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. For the Organization, the ASU will be effective for the year ending June 30, 2019.

(q) SUBSEQUENT EVENTS

The Organization has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2016 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through October 31, 2016, the date these consolidated financial statements were available to be issued.

NOTE 3 - INVESTMENTS

At June 30, 2016, investments consist of the following:

Money Market and Cash Equivalents	$ 2,001,322
Mutual Funds:	
Income / Bond Funds	132,655
Emerging Markets Index Funds	104,087
Other Index Funds	303,216
Corporate Stocks	6,323,198
Corporate and Municipal Bonds	4,139,647
Certificates of Deposit	251,986
TOTAL INVESTMENTS	$ 13,256,111

NOTE 3 - INVESTMENTS (continued)

Net investment income for the year ended June 30, 2016 consists of the following:

Interest and Dividend Income	$ 422,951
Net Realized and Unrealized Gains	298,920
INVESTMENT INCOME (NET)	$ 721,871

NOTE 4 - FAIR VALUE MEASUREMENTS

The Organization has implemented the accounting standard for those assets (and liabilities) that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets (or liabilities). Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset (or liability) and include situations where there is little, if any, market activity for the asset (or liability).

The following table presents information about the Organization's assets that are measured at fair value on a recurring basis at June 30, 2016 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

		Fair Value Measurements Using		
	Year Ended June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market and Cash Equivalents	$ 2,001,322	$ 2,001,322	$ -	$ -
Mutual Funds:				
Income / Bond Funds	132,655	132,655	-	-
Emerging Markets Index Funds	104,087	104,087	-	-
Other Index Funds	303,216	303,216	-	-
TOTAL MUTUAL FUNDS	539,958	539,958	-	-
Corporate Stocks	6,323,198	6,323,198	-	-
Corporate and Municipal Bonds	4,139,647	-	4,139,647	-
Certificates of Deposit	251,986	-	251,986	-
TOTAL INVESTMENTS	$ 13,256,111	$ 8,864,478	$ 4,391,633	$ -

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

The fair values of marketable securities within Level 1 inputs were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

The corporate and municipal bonds and certificates of deposit within Level 2 have been valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

The Organization recognizes transfers at the beginning of each reporting period. Transfers between Level 1 and Level 2 investments generally relate to whether a market becomes active or inactive. Transfers between Level 2 and Level 3 investments relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers between levels during the year ended June 30, 2016.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2016:

Land	$ 3,176,936
Buildings and Improvements	16,954,720
Furniture and Equipment	1,384,013
Leasehold Improvements	813,405
TOTAL	22,329,074
Less: Accumulated Depreciation	(6,297,222)
PROPERTY AND EQUIPMENT (NET)	$ 16,031,852

Depreciation expense for the year ended June 30, 2016 was $602,620.

NOTE 6 - ACCRUED LIABILITIES

Accrued liabilities consist of the following at June 30, 2016:

Department of Mental Health Contract Reserve [Note 12(c)]	$ 1,190,204
Accrued Payroll and Benefits	825,618
Accrued Vacation	740,596
Deferred Compensation Liabilities	443,803
Reserve for Unemployment Liability (Note 7)	253,984
Wraparound Contract Reserve [Note 12(c)]	215,619
Targeted Case Management Reserve [Note 12(c)]	102,378
Other Accrued Liabilities	254,416
TOTAL ACCRUED LIABILITIES	$ 4,026,618

NOTE 7 - SELF-INSURANCE

The Organization has elected to be self-insured for the purposes of California State Unemployment Insurance. The reserve for unemployment liability at June 30, 2016 of $253,984 (included in accrued liabilities) represents estimated future claims arising from current and past employees. Unemployment expense for the year ended June 30, 2016 was $109,688.

	Gross Claims Liability	Estimated Insurance Recoveries	Net Claims Liability
Balance at July 1, 2015	$ 288,509	$ -	$ 288,509
Self-Insurance Expenses Incurred	109,688	-	109,688
Payments Made to Fund Related Liabilities	(144,213)	-	(144,213)
BALANCE AT JUNE 30, 2016	$ 253,984	$ -	$ 253,984

NOTE 8 - LINE OF CREDIT

The Organization has a revolving line of credit with Bank of America due December 31, 2016 in the amount of $4,500,000. The line of credit bears interest at ICE LIBOR daily floating rate plus 2.25 percentage points. The line is collateralized with certain brokerage accounts. At June 30, 2016, no balance was due on the line of credit.

The daily LIBOR rate was 0.41% at June 30, 2016.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 are restricted to the following:

Magnolia Community Initiative	$ 1,384,629
Donor Restricted Endowment Funds (Note 10)	748,229
Time Restrictions	25,000
TOTAL TEMPORARILY RESTRICTED NET ASSETS	$ 2,157,858

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENTS

The Organization's endowments consist of funds established for a variety of purposes. Endowment funds are established by donor-restricted gifts and bequests to either provide a permanent endowment, which is to provide a permanent source of income to the Organization, or a term endowment, which is to provide income for a specified period to the Organization.

The Organization's management understands California State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

As a result, permanently restricted net assets include the fair value of the original and subsequent gifts made to the endowment fund and any accumulations required by donor stipulation. Accumulated earnings as well as gains and losses related to endowment assets are classified as temporarily restricted until they are either appropriated by the Board of Directors for use in current operations or in accordance with donor stipulations.

The investment objective of the endowment funds is to attain a total return that provides for preservation of principal and long-term growth in real terms. To achieve this investment objective, the endowment funds are invested in accordance with the investment policy of the Organization.

The Organization's Board of Directors determines the utilization of the endowment funds each year with reference to specific donor instructions. This utilization is incorporated into the Organization's annual budget, which is approved by the Board of Directors each year. In accordance with California law, the original corpus (historical cost) of each endowment gift cannot be utilized.

Endowment Net Asset Composition by Type of Fund at June 30, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	$ -	$ 748,229	$ 1,627,879	$ 2,376,108
Changes in Endowment Net Assets for the Year Ended June 30, 2016				
Endowment Net Assets - Beginning of Year	$ -	$ 743,647	$ 1,607,000	$ 2,350,647
Contributions	-	-	20,879	20,879
Investment Income	-	180,248	-	180,248
Appropriation of Endowment Assets for Expenditure	-	(175,666)	-	(175,666)
ENDOWMENT NET ASSETS - END OF YEAR	$ -	$ 748,229	$ 1,627,879	$ 2,376,108

NOTE 11 - EMPLOYEE BENEFIT PLANS

The Organization sponsors a defined contribution 401(k) plan that covers all eligible employees. Effective December 1, 2014, the retirement plan initiated a matching opportunity. The Organization's contributions to this plan for the year ended June 30, 2016 were $676,056.

The Organization has an ineligible deferred compensation plan under Section 457(f) for its President and Chief Executive Officer (CEO). For each calendar year during the term, beginning August 25, 2008 and ending December 31, 2016, the Organization shall make a contribution to the account associated with this plan, equal to the difference between (i) the employer's contribution, if any, made on the CEO's behalf under the sponsored retirement plan; and (ii) twenty percent (20%) of the CEO's compensation, as defined. The CEO may also elect to make salary and bonus deferrals under this plan. The Organization maintains the account related to this plan on its books, on behalf of the employee. The CEO's interest in his account shall become fully vested and nonforfeitable on the applicable vesting dates as set forth in the plan agreement. The balance of the CEO's account shall be forfeited in its entirety if the CEO separates from service with the Organization prior to the applicable vesting dates as set forth in the plan agreement. The balance in the account related to this plan as of June 30, 2016 was $294,612 and is included in accrued liabilities.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

(a) OBLIGATIONS UNDER OPERATING LEASES

The Organization leases office space and equipment under operating leases with various terms. 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 Ending June 30	
2017	$ 452,053
2018	197,953
2019	79,409
2020	54,024
TOTAL	$ 783,439

Rent expense under operating lease for the year ended June 30, 2016 was $751,369.

NOTE 12 - COMMITMENTS AND CONTINGENCIES (continued)

(b) LEGAL PROCEEDINGS

In the ordinary course of conducting its business, the Organization becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against the Organization which, from time to time, may have an impact on changes in net assets. The Organization does not believe that these proceedings, individually or in the aggregate, would have a material effect on the accompanying consolidated financial statements.

(c) CONTRACTS

The Organization's grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. 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. The Organization has established a reserve of $1,190,204 for the possible disallowance of previously funded units of service under its contract with the Los Angeles County Department of Mental Health. The reserve is related to mental health contract years which have not yet been settled by the State of California. In addition, the Organization maintains a reserve of $215,619 related to previously funded costs for its Wraparound programs, and a reserve of $102,378 for Targeted Case Management related activities. Except as mentioned, the Organization has no other provisions on its consolidated financial statements for the possible disallowance of program costs related to any of its other governmental contracts and grants.

NOTE 13 - RELATED PARTY TRANSACTIONS

The Organization's Board of Directors has a conflict of interest policy in place that is intended to assure its stakeholders that the decisions of the Organization are made objectively and with full knowledge of the involvement, if any, of the Board members and staff. At times during the course of the year, the Organization may determine that doing business with a Board member is in the best interest of the Organization. In accordance with the by-laws, such transactions are reviewed and approved by the Board of Directors.