



Harrington Group
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KINSHIP CENTER

**FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULE,
and
ADDITIONAL INFORMATION**

JUNE 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kinship Center

We have audited the accompanying Statement of Financial Position of Kinship Center (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 Kinship Center's June 30, 2009 financial statements and, in our report dated October 2, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Kinship Center'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 Kinship Center 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2010 on our consideration of Kinship Center's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, and grants 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 the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Kinship Center taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Nonprofit Organizations*," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

Harrington Group

San Francisco, California
October 20, 2010

KINSHIP CENTER

STATEMENT OF FINANCIAL POSITION

June 30, 2010

With comparative totals at June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010</u>	<u>2009</u>
Assets					
Cash and cash equivalents (Note 2)	\$ 674,369	\$ 143,026	\$ 3,175	\$ 820,570	\$ 597,696
Restricted cash (Note 10)	262,459			262,459	263,432
Accounts receivable - net of allowance of \$5,525	1,819,384			1,819,384	1,924,345
Pledges receivable (Note 3)	1,776	76,500		78,276	183,808
Prepaid expenses and deposits	300,298			300,298	226,342
Bond issuance costs	249,892			249,892	261,984
Donated artwork	43,200			43,200	43,200
Investments (Note 4)	9,812			9,812	9,175
Property and equipment (Note 5)	5,455,853			5,455,853	5,628,904
Total assets	<u>\$ 8,817,043</u>	<u>\$ 219,526</u>	<u>\$ 3,175</u>	<u>\$ 9,039,744</u>	<u>\$ 9,138,886</u>
Liabilities and net assets					
Liabilities					
Accounts payable	\$ 457,596	\$ -	\$ -	\$ 457,596	\$ 548,119
Accrued liabilities (Note 6)	566,292			566,292	505,665
Deferred revenue and advances (Note 7)	463,045			463,045	404,997
Line of credit (Note 8)	553,859			553,859	603,963
Notes payable (Note 9)	190,626			190,626	203,735
Bonds payable (Note 10)	2,610,000			2,610,000	2,690,000
Total liabilities	<u>4,841,418</u>	<u>-</u>	<u>-</u>	<u>4,841,418</u>	<u>4,956,479</u>
Net assets					
Unrestricted	3,975,625			3,975,625	3,888,807
Temporarily restricted (Note 12)		219,526		219,526	290,425
Permanently restricted (Note 13)			3,175	3,175	3,175
Total net assets	<u>3,975,625</u>	<u>219,526</u>	<u>3,175</u>	<u>4,198,326</u>	<u>4,182,407</u>
Total liabilities and net assets	<u>\$ 8,817,043</u>	<u>\$ 219,526</u>	<u>\$ 3,175</u>	<u>\$ 9,039,744</u>	<u>\$ 9,138,886</u>

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

KINSHIP CENTER

STATEMENT OF ACTIVITIES
 For the year ended June 30, 2010
 With comparative totals for the year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010</u>	<u>2009</u>
Revenue and support					
Government contracts (Note 14)	\$ 10,389,473	\$ -	\$ -	\$ 10,389,473	\$ 10,531,275
Program service fees (Note 15)	743,851			743,851	656,474
Contributions and bequests	431,150	289,253		720,403	656,577
Special events (net of expenses of \$39,293)	106,594			106,594	92,272
In-kind contributions	97,217			97,217	83,900
Auxiliary revenue	80,711			80,711	77,589
Other revenue	75,927			75,927	36,587
Interest and dividends	8,035			8,035	10,260
Gain (loss) on investments	638			638	(24,723)
Net assets released from program restrictions	360,152	(360,152)		-	-
Total revenue and support	<u>12,293,748</u>	<u>(70,899)</u>	<u>-</u>	<u>12,222,849</u>	<u>12,120,211</u>
Expenses					
Program services	11,538,690			11,538,690	11,508,910
Support services	668,240			668,240	633,747
Total expenses	<u>12,206,930</u>	<u>-</u>	<u>-</u>	<u>12,206,930</u>	<u>12,142,657</u>
Change in net assets	86,818	(70,899)	-	15,919	(22,446)
Net assets, beginning of year	<u>3,888,807</u>	<u>290,425</u>	<u>3,175</u>	<u>4,182,407</u>	<u>4,204,853</u>
Net assets, end of year	<u>\$ 3,975,625</u>	<u>\$ 219,526</u>	<u>\$ 3,175</u>	<u>\$ 4,198,326</u>	<u>\$ 4,182,407</u>

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

KINSHIP CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2010

With comparative totals for the year ended June 30, 2009

	Program Services							Support Services			Total Expenses	
	Adoption	Foster Care	Regional Center Services	Child Mental Health and Developmental Programs	Special Family Services	Education Institute and Student Support	Total	Management and General	Fundraising	Total	2010	2009
Personnel Costs												
Salaries & Benefits	\$ 940,447	\$ 372,548	\$ 70,866	\$ 2,804,463	\$ 2,034,245	\$ 386,690	\$ 6,609,259	\$ 1,104,386	\$ 185,425	\$ 1,289,811	\$ 7,899,070	\$ 7,879,190
Total personnel costs	940,447	372,548	70,866	2,804,463	2,034,245	386,690	6,609,259	1,104,386	185,425	1,289,811	7,899,070	7,879,190
Occupancy expenses	78,452	33,097	5,730	395,686	198,946	30,418	742,329	23,017	4,365	27,382	769,711	774,628
Parent payments		499,826	53,166		86,539		639,531			-	639,531	807,993
Professional services - program	53,763	9,922		292,216		24,929	380,830			-	380,830	489,915
Supplies, software, printing, and postage	32,970	59,680	2,656	93,753	92,048	70,947	352,054	21,930	5,363	27,293	379,347	190,190
Travel and vehicle expense	37,732	24,244	1,542	64,031	114,027	77,988	319,564	37,992	2,128	40,120	359,684	316,212
Special client services		8,355	42,412		288,475	731	339,973			-	339,973	420,830
Phone, internet, and cell phones	27,424	9,979	1,430	44,984	64,729	4,030	152,576	115,284	3,574	118,858	271,434	197,105
Depreciation	19,093	8,999	760	59,187	11,611	17,526	117,176	86,239	7,641	93,880	211,056	215,454
Professional services - administration	30,507	2,180	17,624	19,448	9,860	21,217	100,836	60,404		60,404	161,240	63,540
Equipment expenses, repairs, and leases	13,495	6,098	961	60,768	16,867	9,104	107,293	41,266	1,032	42,298	149,591	135,630
Other expenses	7,675	11,506	492	9,287	4,438	20,255	53,653	76,526	332	76,858	130,511	107,284
Mortgage and bond interest	13,676	6,576	594	39,411	9,035	9,450	78,742	31,283	6,368	37,651	116,393	119,167
Insurance	10,715	4,725	926	36,847	19,287	4,093	76,593	24,154	2,674	26,828	103,421	105,299
Employee training and conference	2,479	1,846	129	35,055	13,800	4,650	57,959	15,496	95	15,591	73,550	64,920
Fundraising expenses							-		58,894	58,894	58,894	69,593
Interest							-	37,182		37,182	37,182	74,031
Advertising and marketing	11,296	5,621	605	3,952	5,760	750	27,984	3,623	843	4,466	32,450	30,346
Memberships and licenses	465	183	8	483	91	80	1,310	24,212	306	24,518	25,828	23,674
Parent recruitment	14,794	2,157	3,513	11	4,187		24,662			-	24,662	26,226
Curriculum, film, and e-learning development							19,232			-	19,232	10,516
Education support and scholarships							11,551			-	11,551	9,800
Library and subscriptions	540	314	15	2,549	301	2,753	6,472	2,854	54	2,908	9,380	9,619
Education Institute materials							2,409			-	2,409	1,495
Total expenses before allocation of management and general expenses	1,295,523	1,067,856	203,429	3,962,131	2,974,246	718,803	10,221,988	1,705,848	279,094	1,984,942	12,206,930	12,142,657
Allocation of management and general	205,699	160,112	29,979	500,288	329,239	91,385	1,316,702	(1,352,105)	35,403	(1,316,702)	-	-
Total 2010 functional expenses	\$ 1,501,222	\$ 1,227,968	\$ 233,408	\$ 4,462,419	\$ 3,303,485	\$ 810,188	\$ 11,538,690	\$ 353,743	\$ 314,497	\$ 668,240	\$ 12,206,930	
Total 2009 functional expenses	\$ 1,416,166	\$ 1,342,931	\$ 283,836	\$ 4,289,051	\$ 3,481,337	\$ 695,589	\$ 11,508,910	\$ 244,015	\$ 389,732	\$ 633,747		\$ 12,142,657

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

KINSHIP CENTER

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	\$ 15,919	\$ (22,446)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	211,056	215,454
(Gain) loss on investments	(638)	24,723
Changes in operating assets and liabilities:		
Decrease (increase) in restricted cash	973	(2,010)
Decrease in accounts receivable	104,961	330,200
Decrease (increase) in pledges receivable	105,532	(98,948)
(Increase) in prepaid expenses	(73,956)	(10,390)
(Decrease) in accounts payable	(90,523)	(64,513)
Increase in accrued liabilities	60,627	30,659
Increase in deferred revenue	58,048	291,000
	391,999	693,729
Cash flows from investing activities:		
Proceeds from sale of investments	-	124,915
Purchase of property and equipment	(25,912)	-
	(25,912)	124,915
Cash flows from financing activities:		
Proceeds from line of credit	9,064,331	-
Principal payments on line of credit	(9,114,435)	(386,037)
Principal payments on notes payable	(13,109)	(17,218)
Principal payments on bonds payable	(80,000)	(75,000)
	(143,213)	(478,255)
Net increase in cash and cash equivalents	222,874	340,389
Cash and cash equivalents, beginning of year	597,696	257,307
Cash and cash equivalents, end of year	\$ 820,570	\$ 597,696
Supplemental disclosure:		
Operating activities reflect interest paid of:	\$ 153,575	\$ 193,198

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

KINSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

Kinship Center is a nonprofit, community benefit organization incorporated in 1984, licensed statewide for child placement services by the California Department of Social Services, Community Care Licensing Division, licensed by Orange County Health Care Agency, San Luis Obispo County Department of Behavioral Health Services, and Monterey County Health Department for delivery of mental health services, and accredited by the California Alliance of Children and Family Services. Kinship Center's mission is: Committed to the core belief that every child deserves a family, Kinship Center provides the full spectrum of family-centered support to strengthen the families and communities we serve. Headquartered in Monterey County, Kinship Center is a multi-faceted organization with service sites in Monterey, Orange, Santa Clara, San Benito, San Bernardino, San Luis Obispo, and Los Angeles Counties.

Kinship Center is dedicated to developing and supporting successful permanent families for foster children with identified special needs, such as being part of a sibling group, having medical, developmental, educational, or mental health challenges. Adoption placement programs provide adoptive parent recruitment and training, and post placement services and education. The agency also provides infant adoption services including pregnancy counseling, voluntary relinquishment, and adoptive placements of infants.

The majority of foster family placements by Kinship Center are fostering-to-adopt. Permanence through adoption is often the ultimate goal, but transition to healthy adulthood may also be the outcome.

Specialized foster family placements are offered to medically fragile children who are clients of Regional Centers for the Developmentally Disabled. The case plan for these children may include long-term family based care, guardianship, or adoption. Enhanced services are also available to this very special population.

Permanency focused outpatient mental health clinics operate in Orange County, San Luis Obispo County, and Monterey County. The therapy is family based and multidisciplinary. The mental health clinics track the progress and outcomes of clients over time.

Kinship Center operates wraparound programs for adoptive and relative families in crisis in Santa Clara, Monterey, and Orange Counties. These services are provided to families with children at risk of out-of-home placement. The goal of this program is keeping the family together.

In Monterey and San Luis Obispo Counties, Kinship Center operates contract programs serving several hundred relative caregivers and their children. Referral to community resources, support groups, family recreation, emergency services, case management, and legal guardianship are among the services provided. Through these programs, Kinship Center builds the capacity of kin caregivers to meet the multiple challenges of the children in their care.

KINSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

The Education Institute of Kinship Center develops and teaches basic and advanced educational curricula for adoptive, foster, and relative parents and postgraduate professionals in California and throughout the United States. The *ACT: An Adoption and Permanency Curriculum for Mental Health and Child Welfare Professionals* curriculum has trained more than 7,000 professionals in California, Virginia, Texas, New Mexico, Oregon, and Utah. Educational conferences and seminars are offered on a regular basis for parents and professionals in child welfare and mental health. In 2009, the agency began training therapeutic boarding school staff in Oregon and Utah in response to the overrepresentation of adoptees in the boarding school populations. The Education Institute also develops and produces educational DVDs for child welfare professionals and parents that are available for purchase.

Kinship Center has been successful in developing and sustaining a wide range of specialized programs that serve foster, adoptive, and relative families and that disseminate the agency's expertise to the child welfare industry through public and private collaborations, foundation grants, fees for services, public agency contracts, community-based fundraising events, and corporate and individual donations.

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 Kinship 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 revenues 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.

KINSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Temporarily Restricted. Kinship 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.

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

Cash and Cash Equivalents

Kinship Center has defined cash and cash equivalents as cash in banks, money market funds in a securities institution, and certificates of deposits with an original maturity of six months or less.

Accounts Receivable

Accounts receivable includes interest receivable and receivables from governmental agencies. Kinship Center uses the allowance method in order to reserve for potential uncollectible accounts receivable.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Investments

Kinship 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.

KINSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements

Generally accepted accounting principles 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).
- 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.

Concentration of Credit Risks

Kinship 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. Kinship 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 risks with respect to trade receivables are limited, as the majority of Kinship Center's receivables consist of earned fees from contract programs granted by governmental agencies.

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. 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 five thousand dollars and the useful life is greater than one year.

KINSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, donated materials and services were \$97,217.

A number of unpaid volunteers have made significant contributions of their time to Kinship Center. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied.

Income Taxes

Kinship 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 Kinship Center in their federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Kinship 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 Kinship 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. Kinship Center uses salary expenses or total direct expenses to allocate indirect costs.

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.

continued

KINSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 Kinship Center's financial statements for the year ended June 30, 2009 from which the summarized information was derived.

Reclassification

Certain amounts from the June 30, 2009 financial statements have been reclassified to conform to June 30, 2010 presentation.

Subsequent Events

Management has evaluated subsequent events through October 20, 2010, the date which the financial statements were available.

3. Pledges Receivable

Pledges receivable are recorded as support when pledged, unless designated otherwise. All pledges are valued at estimated fair value at June 30, 2010. The total amount of pledges receivable at June 30, 2010 of \$78,276 is expected to be collected within one year.

4. Investments

The fair value of the asset has been measured on a recurring basis using inputs other than quoted prices included within Level 1 that are observable directly or indirectly through corroboration with observable market data (market-corroborated inputs) (Level 2 inputs). Significant information about investments at June 30, 2010 is summarized as follows:

	<u>Fair Value</u>	<u>Significant Observable Inputs in the Market (Level 2)</u>
Pooled securities	<u>\$9,812</u>	<u>\$9,812</u>
	<u>\$9,812</u>	<u>\$9,812</u>

The fair value of marketable securities within the Level 2 inputs are based on observable market prices as of the closing of the last business day of the fiscal year.

continued

KINSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

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

Land	\$ 640,231
Land improvements	211,338
Buildings	5,030,229
Leasehold improvements	74,060
Furniture and equipment	694,034
Vehicles	<u>229,060</u>
	6,878,952
Less: accumulated depreciation	<u>(1,423,099)</u>
	<u>\$ 5,455,853</u>

6. Accrued Liabilities

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

Accrued vacation	\$376,932
Payroll and related expenses	131,343
Accrued bond interest	38,148
Other accrued liabilities	<u>19,869</u>
	<u>\$566,292</u>

7. Deferred Revenue and Advances

Deferred revenue and advances for the year ended June 30, 2010 consist of the following:

Other income and fees	\$275,660
Wraparound income	<u>187,385</u>
	<u>\$463,045</u>

8. Line of Credit

Kinship Center has a secured line of credit in the amount of \$1,500,000, from a bank, with interest payments payable monthly on the outstanding balance at a variable interest rate, currently at 4.5%, due May 2011. The outstanding balance at June 30, 2010 is \$553,859.

As required by the terms of the line of credit's regulatory agreement, Kinship Center is required to satisfy certain debt covenants. Kinship Center has met its debt covenants at June 30, 2010.

continued

KINSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

9. Notes Payable

Notes payable at June 30, 2010 consist of the following:

Note payable to a bank, secured by real property, monthly payments of \$1,259, including interest currently at 3.25%, due June 2011.	\$174,555
Note payable to a corporation, secured by a vehicle, monthly payments of \$620, including interest at 3.90%, due September 2012.	<u>16,071</u>
	<u>\$190,626</u>

Maturities for notes payable are as follows:

<u>Year ended June 30,</u>	
2011	\$181,526
2012	7,247
2013	<u>1,853</u>
	<u>\$190,626</u>

10. Bonds Payable

On March 1, 2006, the Office of Statewide Health Planning and Development of the State of California issued bonds payable in the principal amount of \$2,910,000.

The bonds bear interest at a gradually increasing rate ranging from 3.35% in 2006 to 4.65% in 2031, with staggered maturities through March 1, 2031. The proceeds from the sale of the certificates were used to refinance an existing note payable on the River Road property. The balance outstanding on the bonds payable at June 30, 2010 was \$2,610,000.

As required by the terms of the bond's regulatory agreement, Kinship Center is required to satisfy certain restrictive covenants which, among other terms, require the maintenance of certain financial ratios and operational levels, places limits on other indebtedness, and requires certain informational reports. Kinship Center met all three of its debt covenants at June 30, 2010 in light of the intended refinancing of the notes payable that is due to be paid by Kinship Center to the bank subsequent to year-end (refer to Note 16).

Kinship Center has pledged security interests in substantially all revenue and all interest in real property, fixtures, and personal property to the extent of its interest.

KINSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

10. Bonds Payable, continued

Maturities for the bonds are as follows:

<u>Year ended June 30,</u>	
2011	\$ 80,000
2012	85,000
2013	85,000
2014	90,000
2015	95,000
Thereafter	<u>2,175,000</u>
	<u>\$2,610,000</u>

Cash held in trust at June 30, 2010, related to the bonds payable, consists of the following:

Bond reserve fund	\$197,365
Interest reserve fund	38,385
Principal reserve fund	26,671
Revenue fund	<u>38</u>
	<u>\$262,459</u>

11. Commitments and Contingencies

Obligations Under Operating Leases

Kinship Center leases various facilities 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:

<u>Year ended June 30,</u>	
2011	\$ 504,254
2012	438,223
2013	384,673
2014	325,815
2015	<u>2,262</u>
	<u>\$1,655,227</u>

Rent expense under operating leases for the year ended June 30, 2010 was \$692,976.

continued

KINSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

11. Commitments and Contingencies, continued

Contracts

Kinship 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, Kinship Center has no provisions for the possible disallowance of program costs on its financial statements.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2010 consist of the following:

Wendy's Wonderful Kids recruitment grant	\$ 81,994
Change a Life	43,186
River Road Clinic	24,329
Family Ties	23,819
Evaluation	11,835
Orange County Clinic	11,591
Other funds	8,121
Friends fund - South	6,547
Mattice education fund	3,661
Friends fund - North	2,671
Chapman education grant	<u>1,772</u>
	<u>\$219,526</u>

13. Permanently Restricted Net Assets and Endowment Funds

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 therefrom may be expended for unrestricted purposes. At June 30, 2010, permanently restricted net assets were \$3,175.

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"* which was codified as *FASB ASC [ASC 958-205 45-28 through 45-31]* ("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

KINSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

13. Permanently Restricted Net Assets and Endowment Funds, 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. Kinship Center has adopted FSP FAS 117-1 for the year ending June 30, 2010.

Kinship 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 portion 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 Kinship Center.

Kinship Center's endowment fund is held in its bank account and consists of donor-restricted endowment funds. 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 and are valued at historical cost.

Endowment Net Assets Composition by type of fund as of June 30, 2010 is as follows:

	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Donor-restricted endowment funds	<u>\$3,175</u>	<u>\$3,175</u>

Permanently restricted net assets at June 30, 2010 consist of the following:

Cash in bank	<u>\$3,175</u>
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14. Government Contracts

Fees from government contracts for the year ended June 30, 2010 consist of the following:

Mental health and developmental services	\$ 4,644,221
Post adoption assistance	2,351,336
Foster care	1,156,014
Adoption assistance	1,134,642
Relative caregiver support	583,628
Adoption education	191,090
Services to regional center clients	153,299
Kincamp	101,253
Other	<u>73,990</u>
	<u>\$10,389,473</u>

continued

KINSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

15. Program Service Fees

Program service fees for the year ended June 30, 2010 consist of the following:

Training and workshop fees	\$365,984
Adoption income	319,685
Mental health clinic fees	47,070
Insurance reimbursements – Adoption Clinic	6,841
Other	<u>4,271</u>
	<u>\$743,851</u>

16. Subsequent Events

Subsequent to year-end, Kinship Center is currently pursuing the refinancing of the notes payable that is due to the bank. The financial statements as of June 30, 2010 do not include any provision for gain or loss that may arise from this transaction.

SUPPLEMENTAL SCHEDULE

KINSHIP CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2010

Program Name Federal Award	Contract Number	Federal CFDA No.	Contract Term	Program Award	Program Expenditure
Department of Health and Human Services ("DHHS"):					
Pass-through, from the County of Orange - Medical Assistance Program:		93.778	07/01/09 - 06/30/10	\$ 2,172,309	\$ 1,198,013
Pass-through, from the County of San Luis Obispo - Medical Assistance Program:		93.778	07/01/09 - 06/30/10	531,028	531,028
Pass-through, from the County of Monterey - Medical Assistance Program:		93.778	07/01/09 - 06/30/10	519,883	519,883
Pass-through, from the County of Shasta - Medical Assistance Program:		93.778	07/01/09 - 06/30/10	28,270	28,270
Pass-through, from the County of Ventura - Medical Assistance Program:		93.778	07/01/09 - 06/30/10	22,773	22,773
Pass-through, from the County of Santa Cruz - Medical Assistance Program:		93.778	07/01/09 - 06/30/10	1,961	1,961
Pass-through, from the County of Kern - Medical Assistance Program:		93.778	07/01/09 - 06/30/10	28	28
Sub-total pass-through, various counties - Medical Assistance Program				<u>3,276,252</u>	<u>2,301,956</u>
Pass-through various counties - Adoption Assistance (a):		93.659	07/01/09 - 06/30/10	1,147,780	1,147,780
Pass-through, State of California, Department of Human Services - Foster Care - Title IV-E Program (a):		93.658	07/01/09 - 06/30/10	260,721	260,721
Pass-through, from the County of Orange - Promoting Safe and Stable Families Program:		93.556	07/01/09 - 06/30/10	18,498	18,498
Directly from the U.S. Department of Health and Human Services National Family Caregiver Support Program		93.052	07/01/09 - 06/30/10	21,650	21,650
Total Federal Awards				<u>\$ 4,724,901</u>	<u>\$ 3,750,605</u>

(a) Audited as a major program

Summary of Significant Accounting Policies:

- 1) Basis of Accounting - The Schedule of Expenditures of Federal Awards has been reported on the accrual basis of accounting.
- 2) Kinship Center is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See independent auditors' report.

ADDITIONAL INFORMATION



J. Joseph Harrington
Emeritus

Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Job M. Quesada
Sean E. Cain
Tonetta L. Conner

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Kinship Center

We have audited the financial statements of Kinship Center as of and for the year ended June 30, 2010 and have issued our report thereon dated October 20, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kinship Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kinship Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kinship Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Kinship Center's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kinship Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within Kinship Center, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Harrington Group

San Francisco, California
October 20, 2010



J. Joseph Harrington
Emeritus

Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Job M. Quesada
Sean E. Cain
Tonetta L. Conner

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
Kinship Center

Compliance

We have audited the compliance of Kinship Center with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Kinship Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Kinship Center's management. Our responsibility is to express an opinion on Kinship Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kinship Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Kinship Center's compliance with those requirements.

In our opinion, Kinship Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Kinship Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kinship Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kinship Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

**Report on Compliance with Requirements Applicable to Each Major
Program and Internal Control over Compliance in Accordance with
OMB Circular A-133**
continued

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

This report is intended solely for the information and use of management, the Board of Directors, others within Kinship Center, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Harrington Group

San Francisco, California
October 20, 2010

KINSHIP CENTER
Schedule of Findings and Questioned Costs
For the year ended June 30, 2010

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

Identification of Major Programs:

U.S Department of Health and Human Services: Foster Care Title IV-E	93.658
U.S Department of Health and Human Services: Adoption Assistance	93.659

Section II – Financial Statements Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

None.

Section IV – Summary Schedule of Prior Year Findings

None.