friends, neighbors, and coworkers with disabilities

abilities united

Financial Statements
June 30, 2014 and 2013

Together with
Independent Auditors' Report

ABILITIES UNITED
Table of Contents
June 30, 2014

Robert Lee & Associates, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Abilities United
Palo Alto, California

We have audited the accompanying financial statements of Abilities United (a California public benefit corporation), which comprise the statement of financial position as of June 30, 2014 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

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To the Board of Directors of
Abilities United
Palo Alto, California

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Abilities United as of June 30, 2014, and the changes in net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2013 financial statements, and our report dated October 3, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Robert Lee & Associates, LLP

San Jose, California
October 10, 2014

ABILITIES UNITED
Statements of Financial Position

	June 30, 2014	June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 444,608	$ 893,116
Accounts receivable, net	413,280	320,951
Grants and bequests receivable	300,000	-
Current portion of pledges receivable	89,036	29,536
Prepaid expenses	75,611	16,731
Total current assets	1,322,535	1,260,334
Property and equipment, net	522,699	914,547
Other assets:		
Endowment investment	903,316	812,444
Board designated deferred compensation plan assets	-	56,036
Long-term portion of pledges receivable	189,581	119,381
Total assets	$ 2,938,131	$ 3,162,742
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit	$ 155,071	$ -
Accounts payable	70,282	120,995
Accrued expenses	220,307	249,273
Deferred revenue	17,806	114,326
Total current liabilities	463,466	484,594
Other liabilities:		
Deferred compensation plan payable	-	56,036
Total liabilities	463,466	540,630
Net assets:		
Unrestricted net assets:		
Board designated operating reserves	-	500,000
Undesignated	1,059,989	964,251
Total unrestricted net assets	1,059,989	1,464,251
Temporarily restricted net assets	601,765	349,950
Permanently restricted net assets	812,911	807,911
Total net assets	2,474,665	2,622,112
Total liabilities and net assets	$ 2,938,131	$ 3,162,742

The accompanying notes are an integral part of these financial statements

ABILITIES UNITED

Statements of Activities and Changes in Net Assets

Year Ended June 30, 2014 (with comparative totals for the fiscal year ended June 30, 2013)

Support and revenues:	Unrestricted	Temporarily Restricted	Permanently Restricted	2014	2013
Support:					
Contributions	$ 1,517,116	$ 458,663	$ 5,000	$ 1,980,779	$ 1,448,851
Special events, net	376,589	-	-	376,589	289,435
Donated services	26,892	-	-	26,892	58,450
Total support	1,920,597	458,663	5,000	2,384,260	1,796,736
Revenue:					
Fees from governmental agencies for program services	3,143,339	-	-	3,143,339	3,266,882
Program service fees	570,855	-	-	570,855	1,295,426
Contract income	2,055	-	-	2,055	16,906
Miscellaneous income (loss)	(162)	-	-	(162)	5,710
Operating interest income	1,122	-	-	1,122	3,630
Endowment investment income (loss), net	-	130,872	-	130,872	79,464
Total revenue	3,717,209	130,872	-	3,848,081	4,668,018
Total support and revenues	5,637,806	589,535	5,000	6,232,341	6,464,754
Net assets released from restrictions	292,720	(292,720)	-	-	-
Amounts appropriated for expenditure	45,000	(45,000)	-	-	-
Total support, revenue, net assets released from restrictions and amounts appropriated for expenditure	5,975,526	251,815	5,000	6,232,341	6,464,754
Expenses:					
Program services	4,683,479	-	-	4,683,479	4,777,512
Supporting services:					
Management and general	803,880	-	-	803,880	781,389
Fundraising	520,838	-	-	520,838	457,703
Total support services	1,324,718	-	-	1,324,718	1,239,092
Total expenses	6,008,197	-	-	6,008,197	6,016,604
Change in net assets before asset write down	(32,671)	251,815	5,000	224,144	448,150
Write down of long lived assets	371,591	-	-	371,591	-
Change in net assets	(404,262)	251,815	5,000	(147,447)	448,150
Net assets, beginning of year	1,464,251	349,950	807,911	2,622,112	2,173,962
Net assets, end of year	$ 1,059,989	$ 601,765	$ 812,911	$ 2,474,665	$ 2,622,112

The accompanying notes are an integral part of these financial statements

ABILITIES UNITED

Statements of Functional Expenses

Year ended June 30, 2014 with comparative totals for the year ended June 30, 2013

	Program Services	Supporting Services			Totals	
		Management and General	Fundraising	Total	2014	2013
Salaries and related expenses:						
Salaries	$ 3,211,642	$ 243,965	$ 359,610	$ 603,575	$ 3,815,217	$ 3,891,320
Employee benefits	576,333	41,433	55,332	96,765	673,098	660,224
Payroll taxes	216,881	58,167	17,175	75,342	292,223	289,149
Total salaries and related expenses	4,004,856	343,565	432,117	775,682	4,780,538	4,840,693
Consulting fees	114,139	222,066	1,409	223,475	337,614	248,865
Travel/ lodging/ meals	144,920	1,223	355	1,578	146,498	159,251
Occupancy	93,397	18,848	7,236	26,084	119,481	112,306
Maintenance and repairs	61,998	34,434	-	34,434	96,432	73,917
Supplies	48,696	12,694	16,044	28,738	77,434	65,467
Professional fees	-	42,359	-	42,359	42,359	27,139
Telephone	39,753	11,048	2,780	13,828	53,581	57,588
Insurance	29,984	9,115	2,638	11,753	41,737	19,209
Technology	4,562	20,444	7,606	28,050	32,612	17,679
Training	27,266	7,778	3,104	10,882	38,148	27,361
Bank charges	5,353	1,023	14,918	15,941	21,294	51,871
Bad debt	15,024	-	-	-	15,024	5,644
Miscellaneous	300	-	82	82	382	16,471
Postage	2,947	8,337	3,440	11,777	14,724	14,163
Taxes and licenses	2,943	10,007	-	10,007	12,950	3,387
Awards and recognitions	3,321	4,507	876	5,383	8,704	13,137
Advertising	25,806	14,662	19,351	34,013	59,819	66,271
Interest	-	-	3,088	3,088	3,088	4,135
Dues and publications	805	678	878	1,556	2,361	9,507
Equipment	1,999	(1,899)	-	(1,899)	100	25,689
Donated services	-	26,892	-	26,892	26,892	58,450
Total expenses before depreciation	4,628,069	787,781	515,922	1,303,703	5,931,772	5,918,200
Depreciation	55,410	16,099	4,916	21,015	76,425	98,404
Total functional expenses	$ 4,683,479	$ 803,880	$ 520,838	$ 1,324,718	$ 6,008,197	$ 6,016,604
Percentage of total	78.0%	13.4%	8.7%	22.0%	100.0%	100.0%

The accompanying notes are an integral part of these financial statements

ABILITIES UNITED

Statements of Functional Expenses (Details of Program Services)

Year ended June 30, 2014

	Aquatic services	Early intervention	Milestone preschool	Therapy clinic	After school socialization	Respite	Computer lab education	Adult day activities	Independent Living skills	Employment services	Community Connections	Total program services
Salaries and related expenses:												
Salaries	$ 411,627	$ 576,816	$ 225,356	$ 84,666	$ 62,388	$ 221,473	$ 41,755	$ 354,720	$ 817,102	$ 183,598	$ 232,141	$ 3,211,642
Employee benefits	60,823	92,673	44,637	13,358	8,152	18,261	6,507	62,256	161,753	46,186	61,727	576,333
Payroll taxes	28,574	39,032	15,375	5,694	4,246	14,946	2,387	24,124	55,104	11,623	15,776	216,881
Total salaries and related expenses	501,024	708,521	285,368	103,718	74,786	254,680	50,649	441,100	1,033,959	241,407	309,644	4,004,856
Travel/ lodging/ meals	2,554	5,048	98	-	86	36,464	191	9,231	79,121	11,605	522	144,920
Consulting fees	56,541	18,905	2,032	784	560	2,066	379	3,174	7,298	20,324	2,076	114,139
Occupancy	53,017	7,919	8,059	2,530	3,641	693	1,262	6,164	4,657	1,467	3,988	93,397
Maintenance and repairs	60,504	279	39	-	-	-	-	849	-	-	327	61,998
Supplies	12,176	4,053	5,508	495	563	799	167	7,069	10,170	933	6,763	48,696
Telephone	7,772	4,338	2,741	2,185	870	1,100	1,473	2,730	10,225	4,645	1,674	39,753
Insurance	6,590	5,421	2,196	975	519	1,676	335	2,456	5,505	1,899	2,412	29,984
Training	10,843	3,731	1,741	5,773	92	539	390	1,388	1,509	843	417	27,266
Bad Debt	-	5,197	-	-	349	1,482	-	111	1,290	6,595	-	15,024
Miscellaneous	-	-	-	-	-	-	-	-	300	-	-	300
Advertising	6,505	2,800	2,520	-	783	2,066	-	3,325	4,255	2,099	1,453	25,806
Bank Charges	5,353	-	-	-	-	-	-	-	-	-	-	5,353
Technology	3,710	123	112	22	12	38	241	56	147	46	55	4,562
Awards and recognitions	38	794	275	-	92	50	-	98	576	319	1,079	3,321
Postage	1,085	400	162	72	38	124	25	180	469	140	252	2,947
Taxes and licenses	-	166	440	-	166	166	-	1,839	-	166	-	2,943
Equipment	1,599	400	-	-	-	-	-	-	-	-	-	1,999
Dues and publications	95	-	-	-	-	-	-	235	-	475	-	805
Total expenses before depreciation	729,406	768,095	311,291	116,554	82,557	301,943	55,112	480,005	1,159,481	292,963	330,662	4,628,069
Depreciation	12,065	10,051	4,071	1,807	961	3,108	621	4,523	10,210	3,521	4,472	55,410
Total functional expenses	$ 741,471	$ 778,146	$ 315,362	$ 118,361	$ 83,518	$ 305,051	$ 55,733	$ 484,528	$ 1,169,691	$ 296,484	$ 335,134	$ 4,683,479
Percentage of total	15.8%	16.6%	6.7%	2.5%	1.8%	6.5%	1.2%	10.3%	25.0%	6.3%	7.2%	100.0%

The accompanying notes are an integral part of these financial statements

ABILITIES UNITED
Notes to Financial Statements

	For the Year Ended June 30, 2014	2013
Cash flows from operating activities:		
Change in net assets	$ (147,447)	$ 448,150
Adjustments to reconcile change in net assets to net cash Provided by (used in) operating activities:		
Depreciation and amortization	76,426	98,404
(Gain)/loss on disposal of fixed assets	371,590	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(92,329)	(38,328)
Pledges receivable	(129,700)	(134,881)
Grants and bequests receivable	(300,000)	-
Prepaid expenses	(58,880)	(5,078)
Board designated 457 (f) plan assets	56,036	(14,378)
Accounts payable	(50,713)	91,417
Accrued expenses	(28,966)	(58,156)
Deferred revenue	(96,520)	(1,078)
457 (f) plan payable	(56,036)	14,378
Net cash provided by (used in) operating activities	(456,539)	400,450
Cash flows from investing activities:		
Acquisition of property and equipment	(56,168)	(158,849)
Acquisition of investments	(90,872)	(40,984)
Sale (Purchase) of certificates of deposit	-	259,092
Net cash provided by (used in) investing activities	(147,040)	59,259
Cash flows from financing activities:		
Borrowings on line of credit	855,497	-
Repayments on line of credit	(700,426)	-
Net cash used in financing activities	155,071	-
Net change in cash and cash equivalents	(448,508)	459,709
Cash and cash equivalents at beginning of year	893,116	433,407
Cash and cash equivalents at end of year	$ 444,608	$ 893,116

Supplemental disclosure of cash flow information:

Cash paid during the year for interest	$ 3,088	$ 4,135

The accompanying notes are an integral part of these financial statements

ABILITIES UNITED

Notes to Financial Statements

Year Ended June 30, 2014

Note 1 - Organization and operations:

Vision - Abilities United (the "Organization") sees a day when people with developmental and physical challenges have all the rights, resources and opportunities they need to lead the lives they choose. The Organization sees a society where there are no barriers, attitudinal or physical, to the full participation of people with disabilities and their families.

Mission - The Organization supports children and adults with disabilities, their families and the community, and champions a culture in which all members of society are included and appreciated for their distinctive contributions.

Program services:

Children's Development Services ensure that children from birth to nine years of age, and their parents, learn the techniques and skills needed to get the best possible start in life. These services are provided through Early Intervention and Meeting My Milestones services, therapy services and Milestones Preschool. .

Early Intervention - The Early Intervention and Meeting My Milestones Program offers in-home and center-based services for children from birth to four years old that have development delays or are at risk of delay, and their families. The Organization's multi-disciplinary team of special educators and therapists provides structured developmental and educational opportunities. Parent participation and extensive family support are integral parts of this service. The Organization serves families throughout the Bay Area. Non-English speaking families work directly with the Organization's Spanish bilingual/bicultural staff.

Milestones Preschool - Milestones Preschool is a relationship-based developmental program providing both preschool and pre-K classes, and supports children aged 2-5 years and their families. Milestones Preschool is an inclusive program serving small groups of children from 2 to 5 years of age with and without developmental delays or risk factors. The program stresses individual growth and progress in a developmentally focused program to gain access to specialized services, and expand the variety of social situations available to themselves and their children. The community has an opportunity to increase their understanding of developmentally appropriate practices in child development.

Therapy Clinic - The Therapy Clinic offers quality developmental and therapeutic services for children from birth to 5 years of age, for private pay, in a clinic setting. The Organization believes in a family oriented, collaborative approach that emphasizes parent/caregiver involvement and partnership with other professionals who work with the children. The Organization's therapists and staff are trained pediatric specialists with extensive experience and knowledge regarding resources and interventions for young children. In collaboration with other early childhood professionals, the Therapy Clinic provides high quality therapeutic (occupational, physical, speech, vocational therapies) services that improve the quality of life for the children and their family.

ABILITIES UNITED
Notes to Financial Statements
Year Ended June 30, 2014

Note 1 - Organization and operations (continued):

Adult Services assists individuals with developmental or other disabilities to fully participate in their community through employment, educational, recreational, social, and volunteer activities. Using community resources and experiences, Adult Services Specialists and Community Training Instructors assist individuals to acquire or expand their skills through the Adult Day Activities, Community Connections, Independent Living Skills, and Employment Services programs.

Adult Day Activities - At Adult Day Activities, the adults we serve choose from a variety of activities to experience new opportunities and learn. The adults we serve participate in activities to learn household tasks such as shopping, cooking, laundry, cleaning, and gardening; community life skills like transportation usage and restaurant dining; and how to access community resources such as libraries, museums, theatres, parks, and other public areas. The men and women we serve make their own goals, choices, and decisions with whatever support and assistance they need from their family, friends, and Adult Day Activities staff.

Community Connections - As a member of the community, the men and women we serve have access to many free public resources and activities. They can choose from a variety of social and volunteer activities that let them give back to their community. They also have opportunities to make new friends and learn exciting new things. At Community Connections the adults we serve can volunteer at dozens of local organizations, learn new things in the Organization's educational series, and develop communication skills when they help produce the Community Connections cable TV show and newsletters.

Independent Living Skills - The men and women we serve already have many life skills, but if there are others they would like to develop, the Organization can assist in acquiring them. In Independent Living Skills (ILS), adults work one-on-one with their Adult Services Specialists to learn the additional daily living skills they need to be as independent as possible.

Employment Services - For those adults looking for paid employment, the Organization is here to support them. This program assists men and women attain work skills to complement those they already have. Many people seek to have a job that they like and value; thus Adult Services Specialists spend a lot of time with the people they serve to determine what skills they already have and which ones they need to develop to get the job they want. People served may have access to job development services to work with them to apply for the job they choose, and when they're hired, their Adult Services Specialists will be there until they are ready to go solo.

Family Support helps families remain together and grow together, as a strong and healthy unit. Support is provided through of After School Socialization, Computer Lab Education and Respite programs.

ABILITIES UNITED
Notes to Financial Statements
Year Ended June 30, 2014

Note 1 - Organization and operations (continued):

After School Socialization - After School Socialization is a socialization training and community-integration service for children and young adults; age 5 to 22 years old, who have a developmental disability. Each day offers children and young adults the opportunity to learn the daily living skills that help them do better in school, become more independent, socialize with their peers, and transition into community afterschool programs that serve children from all walks of life. Additionally, this program offers two summer camps—one located at Abilities United and an inclusionary summer camp in partnership with the city of Palo Alto, located in various community settings.

Computer Education - The Organization's Computer Education Program offers accessible computer and technology classes to help men, women and children of all ages and all abilities develop their everyday living skills and increase their level of independence through training in computer access, academic and daily living skills. Classes may be 1:1 or small group, and can be customized based on an individual's goals. Each computer station at the campus classroom is wheelchair accessible and equipped with specially designed keyboards, mice and monitors to accommodate limited range of motion, visual and hearing impairment, or other special needs. Software used by the Organization is specially designed for people with disabilities or accessibility challenges. A variety of educational software packages designed by education specialists are utilized to teach the various skill sets. Computer Education classes can also be accessed in the community at community partner locations.

Respite - Respite services provide highly trained Home Companions for families caring for a family member with a developmental or other disability. The Organization's companions work in private homes and in varied community settings throughout Santa Clara and San Mateo counties. The Organization's compassionate Home Companions give respite to parents and other primary care givers of people of all ages with developmental disabilities.

Aquatic Services - Aquatic Services, through the Betty Wright Aquatic Center and through community partner sites, includes continuum of care services for rehabilitation and fitness goals, and a boutique swim school, and serves a diverse cross-section of the community and people of all abilities.

Warm-water exercise can benefit people of all ages and ability levels. When submerged into warm-water, the nearly weight-free environment allows muscle relaxation, joint lubrication, nerve integration and increased range of motion. Services include personalized assessments, performed by an Aquatic Physical Therapist, 1:1 Hydrotherapy, small group fitness classes, adapted aquatics, and both 1:1 and semi-private swim lessons for children.

Additionally, Aquatic Services developed and provided a Drowning Prevention Program with the focus on teaching at-risk children of all abilities water safety, drowning survival and swimming techniques.

Note 1 - Organization and operations (continued):

In October of 2013, the pool at the Betty Wright Swim Center, at Abilities United, was closed due to age related piping infrastructure damage. As a result of the closure, aquatic services have transitioned to limited availability of time at satellite locations. The Organization continues to provide continuum of care services and boutique swim school classes via satellite services at our community partners' pools. Services are available to children, adults and seniors with and without disabilities.

For further information about the Organization's services go to www.abilitiesunited.org or call (650) 494-0550.

Note 2 - Summary of significant accounting policies:

Basis of accounting - The financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of presentation - The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. In accordance with Generally Accepted Accounting Principles ("GAAP"), the Organization reports information regarding its financial position and operating activities in three classes of net assets:

- *Unrestricted net assets* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes. The Organization has elected to report as an increase in unrestricted net assets any restricted revenue received in the current year for which the restrictions have been met in the current year.
- *Temporarily restricted net assets* - include those assets which are subject to a donor restriction and for which the applicable restriction was not met as of the end of the current reporting year.
- *Permanently restricted net assets* - include those assets which are subject to a non-expiring donor restriction, such as endowments.

Functional expense allocations - The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, specifically identified expenses are charged to the applicable program. The remaining costs are allocated among the programs and services benefited based on management estimates.

Note 2 - Summary of significant accounting policies (continued):

Comparative financial information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Use of estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates under different assumptions or conditions.

Revenue recognition - The Organization’s programs are supported by government grants and contracts, earned revenue, and by contributions from individuals, corporations and organizations. The Organization recognizes support and revenue on the accrual basis of accounting. Grants and contracts which are exchange transactions (service contracts) are recognized as program service fees in the period in which the service is provided. These contracts are reported as an increase in unrestricted revenue if expenditures are incurred in the current period that effectively fulfilled the conditions of the contract.

Earned revenue is recognized when the organization provides a service or class through one of its programs. A majority of the program revenue is generated and collected at the point of service but some have a billing schedule that the organization provides because of the length of the service provided.

Contributions are recognized when the donor makes a pledge that is, in substance, an unconditional promise to give. Unconditional promises to give are recorded as unrestricted, temporarily restricted or permanently restricted depending on the nature of donor restrictions and depending on whether the restrictions are met in the current period. A conditional promise to give is a promise that depends on the occurrence of a specified future and uncertain event to bind the promissor. There were no conditional promises to give at June 30, 2014 and 2013.

In-kind contributions - Significant donated equipment, facility and other goods are recorded at their estimated fair market value as of the date of receipt. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair market value at the time the services are rendered. The Organization may also receive donated services that do not require specific expertise but which are nonetheless central to the Organization's operations; these amounts are not recorded.

Note 2 - Summary of significant accounting policies (continued):

Cash and cash equivalents - Cash and cash equivalents include demand deposits in banks, money market funds and liquid asset accounts held in brokerage accounts with a maturity of three months or less. The carrying amount in the Statements of Financial Position approximates fair value.

Certificates of deposit - Certificates of deposit are carried at fair value. Income from the certificates of deposit are recorded when earned. During fiscal year ended June 30, 2014, the Organization redeemed all of its investments in certificates of deposit.

Accounts receivable and allowance for doubtful accounts - Accounts receivable consists primarily of amounts billed for services provided. The Organization provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The valuation allowances were approximately $10,000 at June 30, 2014 and 2013. Bad debt expense for years ended June 30, 2014 and 2013 totaled $15,024 and $5,644, respectively.

Grants receivable - The Organization receives grants which may be granted and paid within the same year granted or payable to the Organization over multiple years. The Organization discounts the multi-year grants receivable at a reasonable rate of interest based on the U.S. Treasury Strip Coupon Rate, when material to the financial statements.

Bequests receivable - The Organization records a bequest receivable when it receives written notification that it has been named as a beneficiary of an irrevocable trust or estate for which the amount to be received has been made known or an estimate has been provided by the executor of the estate. If appropriate, the amount is adjusted for fair value measurements, if measureable.

Note 2 - Summary of significant accounting policies (continued):

Pledges received and receivable - Pledges received are reported as unrestricted, temporarily restricted or permanently restricted, depending upon donor restrictions, if any.

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions that are promised in one year but are not expected to be collected until after the end of the year are recorded at fair value which includes among other factors, a discount at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable. There were no conditional pledges as of June 30, 2014 and 2013.

Investments - The Organization's investments are valued in accordance with GAAP, including Fair Value Measurements. Investments consist primarily of investments in the Silicon Valley Community Foundation investment pool. Gains and losses that result from market fluctuations are recognized in the year such fluctuations occur. Realized gains or losses resulting from sales or maturities are determined by comparison of specific costs of acquisition to proceeds at the time of disposal. Dividend and interest income are recognized when earned.

Fair value of financial instruments - Financial instruments included in the Organization's statements of financial position as of June 30, 2014 and 2013 include cash and cash equivalents, receivables, investments, accounts payable and accrued expenses. The balances of these instruments represent a reasonable estimate of the corresponding fair values. Investments are reflected in the accompanying statements of financial position at their estimated fair values using methodologies described above.

Prepaid expenses - Prepaid expenses primarily consists of payments made associated with the Organization's workers compensation, liability insurance and certain event prepaid expenses. Such prepayments are amortized over the term of the related insurance coverage or at the time the event occurs.

Note 2 - Summary of significant accounting policies (continued):

Property, equipment, depreciation and amortization - Property and equipment are recorded at cost, or if contributed, at the estimated fair market value when donated. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. There were no restrictions placed on property plant and equipment at June 30, 2014 and 2013.

Depreciation and amortization is computed using the straight-line method over estimated useful lives of the related assets which range from five to thirty nine years. The Organization capitalizes all expenditures for fixed assets in excess of $500. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Long-lived assets - The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of any assets may not be recoverable. During 2014 the Organization determined the pool at the Betty Wright Swim Center was no longer usable and impaired the assets associated with the swim center.

Accrued vacation - Accrued vacation represents vacation earned, but not taken as of June 30, 2014 and 2013. The accrued vacation balance as of June 30, 2014 and 2013 was approximately $170,000 and $195,000, respectively.

Accounts payable and accrued expenses - Accounts payable and accrued expenses consist of normal operating liabilities due and payable within the following 12 months.

Concentration of credit risk - Financial instruments, which potentially subject the Organization to credit risk, consist primarily of cash, cash equivalents and receivables. The Organization maintains cash and cash equivalents with commercial banks and other major financial institutions. At times, such amounts might exceed Federal Deposit Insurance Corporation ("FDIC") limits. It is the Organization's opinion that it is not exposed to any significant credit risks.

Concentration of revenue sources - For the years ending June 30, 2014 and 2013, approximately 78% and 67%, respectively, of the Organization's revenue is derived from contracts from two governmental entities. These same two governmental entities accounted for 63% and 81% of accounts receivable balance for June 30, 2014 and 2013, respectively.

Note 2 - Summary of significant accounting policies (continued):

Accounting for uncertainty in income taxes - The Organization evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2014 management did not identify any uncertain tax positions.

The Organization is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and the State of California. The tax years that remain subject to potential examination for the U.S. federal jurisdiction is June 30, 2011 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years June 30, 2010 and forward.

Advertising - The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended June 30, 2014 and 2013 totaled approximately $60,000 and $66,000, respectively.

Endowment accounting and interpretation of relevant law - The Organization is subject to the State of California enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), the provisions of which apply to its endowment funds. As required by UPMIFA and GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Subsequent events - Subsequent events are evaluated through the date of the independent auditors' report, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or disclosed as of June 30, 2014.

Note 3 - Investments:

The Organization follows the provisions of the Fair Value Measurements and Disclosure topic of the FASB Accounting Standards Codification. These standards establish 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; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. The Organization's investments are classified as level 3 investments using significant unobservable inputs and are as follows as of June 30:

	2014	2013
Community Foundation pool	$ 903,316	$ 812,444

The following schedule summarizes total investment returns as of June 30:

	2014	2013
Realized gains	$ 53,155	$ 36,493
Unrealized gains (loss)	79,144	43,099
Interest and dividends	8,776	9,105
Total investment income	141,075	88,697
Investment related expenses	(10,203)	(9,233)
Total investment returns net of management fees	130,872	79,464
Operating interest income	1,122	3,630
Total investment income	$ 131,994	$ 83,094

An investment's classification within a level in the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The categorization of the investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Organization's perceived risk of that investment.

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Notes to Financial Statements

Year Ended June 30, 2014

Note 3 - Investments (continued):

The following is a reconciliation of the beginning and ending balances for investments measured at fair value on a reoccurring basis using significant unobservable inputs (Level 3):

	2013	2012
Beginning balance	$ 812,444	$ 771,460
Realized gains	53,155	36,493
Unrealized gains (losses)	79,144	43,099
Interest and dividends	8,776	9,105
Fees	(10,203)	(9,233)
Contributions	5,000	2,500
Disbursements	(45,000)	(40,980)
Transfers in and/or out of Level 3	-	-
Ending balance	$ 903,316	$ 812,444

The Organization uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments in the Silicon Valley Community Foundation Investment Pool which does not have a readily determinable fair value. The Silicon Valley Community Foundation prepares its financial statements consistent with the measurement principles of an investment company. The Silicon Valley Community Foundation obtains pricing and valuations using prices from custodian banks and its pricing vendors quarterly, and audited financial statements from managers of private equity and hedge funds, and through initial and ongoing due diligence and monitoring by investment consultants, staff and the investment committee. At June 30, 2014, the Organization had no unfunded commitments and all its investments in the investment pool can be redeemed at any time by written request with certain restrictions for large withdrawals and full redemption.

Note 4 – Pledges, grants and bequests receivable:

Pledges receivable - Unconditional promises to give, which are not expected to be collected until after the year contributed, are reflected in the accompanying financial statements as pledges receivable and revenue in the appropriate net asset category. Pledges receivable are recorded at fair value which includes a discount rate of 2.1% at June 30, 2014.

Note 4 – Pledges, grants and bequests receivable (continued):

Pledge receivables consists of the following at June 30:

	2014	2013
Receivables in less than one year	$ 89,036	$ 29,536
Receivables in one to five years	197,000	122,000
	286,036	151,536
Less: discount to net present value	(7,419)	(2,619)
	278,617	148,917
Less: current portion	(89,036)	(29,536)
Non-current portion	$ 189,581	$ 119,381

Grants receivable - The Organization had total grants receivable of $50,000 at June 30, 2014. All amounts are expected to be collected during the year ended June 30, 2015. There were no grants receivables at June 30, 2013.

Bequests receivable - The Organization had total bequests receivable of $250,000 at June 30, 2014. All amounts are expected to be collected during the year ended June 30, 2015. There were no bequests receivables at June 30, 2013.

Note 5 - Property and equipment:

Property and equipment consists of the following at June 30:

	2014	2013
Leasehold improvements:		
Buildings	$ 773,836	$ 998,649
Building improvements	583,356	978,750
Furniture and equipment	265,403	277,052
Transportation equipment	196,647	270,683
	1,819,242	2,525,134
Less: accumulated depreciation and amortization	(1,296,543)	(1,610,587)
Property and equipment, net	$ 522,699	$ 914,547

Depreciation and amortization expense was approximately $76,000 and $98,000 for the years ended June 30, 2014 and 2013, respectively. Leasehold improvements are buildings and building improvements that were constructed on County owned land. See Note 11 for further detail.

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Notes to Financial Statements
Year Ended June 30, 2014

Note 6 - Line of credit:

The Organization renewed a $250,000 line of credit agreement with Wells Fargo in February 2014 for a one year term. The line is secured by various assets and bears interest at the greater of a floating rate equal to the prime rate plus 1.5% or the floor rate of 5%. As of June 30, 2014 and 2013 there was $155,071 outstanding. There were no borrowings against the line of credit during the year ended June 30, 2013.

Note 7 - Board designated net assets:

Operating reserve - The Organization has historically maintained an operating reserve to permit the Organization to continue to operate during difficult financial times. The primary investment objective of this policy is capital preservation and liquidity. Due to the current economic conditions of the Organization primarily related to the closure of the Betty Wright Swim Center as noted in Note 1, the Organization has determined it is in their best interest to release the designated funds for current operations. As of June 30, 2013, the Organization had designated $500,000 for this reserve.

Note 8 - Temporarily restricted net assets and net assets released from restrictions:

The temporarily restricted net asset activity for the year ended June 30, 2014 was as follows:

	2013	Additions	Releases	2014
Time Restrictions:				
Pledges receivable	$ 148,917	$ 227,500	$ (97,800)	$ 278,617
Endowment accumulated earnings - unappropriated	4,533	130,872	(45,000)	90,405
Purpose Restrictions:				
Aquatic services	109,335	2,000	(85,068)	26,267
Early intervention	35,888	4,543	(29,063)	11,368
Adult day activities	11,219	98,304	(22,330)	87,193
Fund development	8,448	19,000	(13,240)	14,208
Technology	-	100,000	(16,870)	83,130
Community connections	3,241	-	(2,782)	459
Milestones preschool	28,369	5,001	(25,567)	7,803
After school socialization	-	2,315	-	2,315
Total temporarily restricted net assets	$ 349,950	$ 589,535	$ (337,720)	$ 601,765

Note 8 - Temporarily restricted net assets and net assets released from restrictions:

The temporarily restricted net asset activity for the year ended June 30, 2014 and 2013 was as follows:

	2012	Additions	Releases	2013
Time Restrictions:				
Pledges receivable	$ 14,036	$ 148,917	$ (14,036)	$ 148,917
Endowment accumulated earnings - unappropriated	-	79,464	(74,931)	4,533
Purpose Restrictions:				
Aquatic services	227,055	27,000	(144,720)	109,335
Early intervention	18,748	130,008	(112,868)	35,888
Adult day activities	17,021	11,140	(16,942)	11,219
Employment services/ independent living skills	10,000	-	(10,000)	-
Fund development	6,096	22,750	(20,398)	8,448
Community connections	4,513	5,000	(6,272)	3,241
Milestones preschool	2,605	29,067	(3,303)	28,369
After school socialization	413	-	(413)	-
Total temporarily restricted net assets	$ 300,487	$ 453,346	$ (403,883)	$ 349,950

Note 9 – Permanently restricted net assets:

At June 30, 2014 and 2013, permanently restricted net assets consist of the Organization's endowment funds (see Note 12).

Note 10 - Donated services:

During the years ended June 30, 2014 and 2013, individuals volunteered their time to the Organization's various programs in professional services such as marketing and financial services. The volunteers performing these services required specialized training. Since the volunteers required specialized skills to perform these services, they are considered contributed professional services, and the volunteer services are recorded as support in the financial statements. Management has estimated the value of these services for the years ended June 30, 2014 and 2013 to be $26,892 and $58,450, respectively.

During the years ended June 30, 2014 and 2013, volunteers also donated 10,637 and 10,634 hours of non-professional services, respectively, such as childcare and general administrative services. Management has estimated the values of these services for the years ended June 30, 2014 and 2013 to be approximately $227,000 in each year. Since these services did not require specialized skills, they have not been recorded as support and expense in the financial statements.

Note 11 - Operating lease commitment:

Facility lease - The County of Santa Clara leases to the Organization the land on which the Organization's offices and swim facility are located. The leases, which commenced in October 1979, have a 50-year term with an option to renew for an additional 49-year term. The leases require the Organization to perform certain functions in consideration of reduced lease payments of $1 per year for each facility. These leases are considered exchange transactions. Rental expense for years ended June 30, 2014 and 2013 totaled $2 for each year.

Equipment lease - The Organization leases three pieces of office equipment which expire in 2019. The minimum lease obligations are as follows:

Year ending June 30,		
2015	$	8,928
2016		8,928
2017		8,928
2018		8,928
2019		4,464
Total	$	40,176

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Notes to Financial Statements

Year Ended June 30, 2014

Note 12 - Endowment:

The Organization, with authorization from its Board of Directors, has entered into an agreement with Silicon Valley Community Foundation (the "Foundation") to manage, hold in trust, and invest certain assets according to the Organization's investment policy guidelines. The Organization’s endowment consists of funds established for earnings thereon to support general operations. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Directors of the Organization has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Organization classifies as permanently restricted net assets (a) the original value of gifts donated 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 the Organization in a manner consistent with the standard of prudence prescribed by the California version of UPMIFA.

In accordance with the California version of UPMIFA, the Organization considers 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
(7) The investment policies of the Organization

Investment Return Objectives, Risk Parameters and Strategies - The endowment assets are held in the Silicon Valley Community Foundation Long-Term Growth Pool (the "Pool"). The performance objective of the Pool is to earn a rate of return that is at least equivalent to the rate of inflation plus the spending rate. Thus, the long-term objective of the Pool is to earn a return of at least the Consumer Price Index plus 5%. Given that this benchmark is not directly related to market performance, success or failure in achieving this objective should be evaluated over ten to twenty years.

Note 12 - Endowment (continued):

The Pool is constructed in such a way as to achieve its return objective while minimizing volatility to the degree possible. Silicon Valley Community Foundation believes that this is best accomplished through the use of a well-diversified asset allocation strategy. The Silicon Valley Community Foundation Long-Term Growth Pool has a broad target allocation of 25% fixed income, 50% equity and 25% alternative investments.

Spending Policy - The Organization's current spending policy for endowment funds is 5% of the fair market value at prior calendar year end.

Changes in endowment net assets for the fiscal year ended June 30, 2014 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 4,533	$ 807,911	$ 812,444
Contributions	-	-	5,000	5,000
Investment income		141,075	-	141,075
Fees	-	(10,203)	-	(10,203)
Amounts appropriated for expenditure	-	(45,000)	-	(45,000)
Endowment net assets, end of year	$ -	$ 90,405	$ 812,911	$ 903,316

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Notes to Financial Statements

Year Ended June 30, 2014

Note 12 - Endowment (continued):

Changes in endowment net assets for the fiscal year ended June 30, 2013 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (33,951)	$ -	$ 805,411	$ 771,460
Contributions	-	-	2,500	2,500
Investment income		88,697	-	88,697
Fees	-	(9,233)	-	(9,233)
Amounts appropriated for expenditure	33,951	(74,931)	-	(40,980)
Endowment net assets, end of year	$ -	$ 4,533	$ 807,911	$ 812,444

Note 13 - Defined contribution plans:

The Organization has a defined contribution plan under Section 403(b) of the Internal Revenue code. The plan covers all employees who are at least 21 years old. Eligibility commences on the date of hire. The Organization has not made any matching contributions to the Plan for the years ended June 30, 2014 and 2013.

Note 14 - Supplemental retirement compensation agreement:

The Organization has a non-qualified deferred compensation agreement under IRS Section 457(f) for the benefit of the Executive Director to defer eligible compensation. Annually through June 30, 2014, the Organization will defer 10% of full-time equivalent base compensation plus hypothetical interest on the accumulated balance. The hypothetical interest rate is equivalent to the 12-month CD rate payable by the Stanford Federal Credit Union on accounts of $10,000 or more established on the immediately preceding July 1st. Provided that the executive director continues in employment with the Organization continuously through June 30, 2014, the accumulated deferred balance will be paid from the general assets of the Organization at the time of retirement. Although not required under the agreement, the Board of Directors has set aside funds equal to the corresponding liability.

For the years ended June 30, 2014 and 2013 principal amounts credited to the deferral account under the plan were $14,175 for each year. During the current year, the Executive Director retired and the full balance of the deferral account was disbursed on June 30, 2014.