friends, neighbors, and coworkers with disabilities

abilities united

Financial Statements
June 30, 2013 and 2012

Together with
Independent Auditors' Report

ABILITIES UNITED

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June 30, 2013

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 nonprofit organization), which comprise the statement of financial position as of June 30, 2013 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

<u>INDEPENDENT AUDITORS' REPORT (continued)</u>

Opinion

In our opinion, the 2013 financial statements referred to above present fairly, in all material respects, the financial position of Abilities United as of June 30, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Abilities United as of June 30, 2012, were audited by other auditors whose report dated October 2, 2012, expressed an unmodified opinion on those statements.

Report on Summarized Comparative Information

The Organization's 2012 financial statements, audited by other auditors and dated October 12, 2012, 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, 2012, 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 3, 2013

ABILITIES UNITED

Statements of Financial Position

	June 30, 2013	June 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 893,116	$ 433,407
Certificates of deposit	-	259,092
Accounts receivable, net	320,951	282,623
Current portion of pledges receivable	29,536	14,036
Prepaid expenses	16,731	11,653
Total current assets	1,260,334	1,000,811
Property and equipment, net	914,547	854,102
Other assets:		
Endowment investment	812,444	771,460
Board designated deferred compensation plan assets	56,036	41,658
Long-term portion of pledges receivable	119,381	-
Total assets	$ 3,162,742	$ 2,668,031
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 120,995	$ 29,578
Accrued expenses	249,273	307,429
Deferred revenue	114,326	115,404
Total current liabilities	484,594	452,411
Other liabilities:		
Deferred compensation plan payable	56,036	41,658
Total liabilities	540,630	494,069
Net assets:		
Unrestricted net assets:		
Board designated operating reserves	500,000	247,913
Undesignated	964,251	820,151
Total unrestricted net assets	1,464,251	1,068,064
Temporarily restricted net assets	349,950	300,487
Permanently restricted net assets	807,911	805,411
Total net assets	2,622,112	2,173,962
Total liabilities and net assets	$ 3,162,742	$ 2,668,031

ABILITIES UNITED

Statements of Activities and Changes in Net Assets

Year ended June 30, 2013 with comparative totals for the year ended June 30, 2012

Support and revenues:	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
Support:					
Contributions	$ 1,072,469	$ 373,882	$ 2,500	$ 1,448,851	$ 857,607
Special events, net	289,435	-	-	289,435	327,759
Donated services	58,450	-	-	58,450	34,625
Total support	1,420,354	373,882	2,500	1,796,736	1,219,991
Revenue:					
Fees from governmental agencies for program services	3,266,882	-	-	3,266,882	2,987,446
Program service fees	1,295,426	-	-	1,295,426	1,257,196
Contract income	16,906	-	-	16,906	18,076
Miscellaneous income	5,710	-	-	5,710	13,060
Operating interest income	3,630	-	-	3,630	8,398
Endowment investment income (loss), net	-	79,464	-	79,464	(5,948)
Total revenue	4,588,554	79,464	-	4,668,018	4,278,228
Total support and revenues	6,008,908	453,346	2,500	6,464,754	5,498,219
Net assets released from restrictions	328,952	(328,952)	-	-	-
Amounts appropriated for expenditure	74,931	(74,931)	-	-	-
Total support, revenue, net assets released from restrictions and amounts appropriated for expenditure	6,412,791	49,463	2,500	6,464,754	5,498,219
Expenses:					
Program services	4,777,512	-	-	4,777,512	4,525,684
Supporting services:					
Management and general	781,389	-	-	781,389	942,762
Fundraising	457,702	-	-	457,702	351,645
Total support services	1,239,091	-	-	1,239,091	1,294,407
Total expenses	6,016,604	-	-	6,016,604	5,820,091
Change in net assets	396,187	49,463	2,500	448,150	(321,872)
Net assets, beginning of year	1,068,064	300,487	805,411	2,173,962	2,495,834
Net assets, end of year	$ 1,464,251	$ 349,950	$ 807,911	$ 2,622,112	$ 2,173,962

The accompanying notes are an integral part of these financial statements

ABILITIES UNITED

Statements of Functional Expenses

Year ended June 30, 2013 with comparative totals for the year ended June 30, 2012

	Program Services	Supporting Services			Totals	
		Management and General	Fundraising	Total	2013	2012
Salaries and related expenses:						
Salaries	$ 3,321,219	$ 261,390	$ 308,711	$ 570,101	$ 3,891,320	$ 3,792,424
Employee benefits	587,737	22,234	50,253	72,487	660,223	588,664
Payroll taxes	225,124	47,836	16,189	64,025	289,149	282,666
Total salaries and related expenses	4,134,079	331,460	375,153	706,613	4,840,693	4,663,754
Consulting fees	53,149	195,060	656	195,716	248,865	204,690
Travel/ lodging/ meals	156,897	1,161	1,193	2,354	159,251	152,295
Occupancy	94,555	13,570	4,181	17,751	112,306	113,884
Maintenance and repairs	69,978	3,939	-	3,939	73,917	89,386
Advertising	29,128	16,688	20,455	37,143	66,271	25,113
Supplies	40,840	21,630	2,996	24,627	65,467	63,144
Donated services	-	58,450	-	58,450	58,450	34,625
Telephone	33,678	19,946	3,965	23,911	57,588	56,664
Bank charges	39,588	3,055	9,228	12,283	51,871	49,325
Training	18,282	8,561	517	9,079	27,361	33,676
Professional fees	-	27,139	-	27,139	27,139	41,017
Equipment	16,465	8,187	1,038	9,225	25,689	30,407
Insurance	4,000	10,521	4,688	15,209	19,209	25,939
Technology	4,480	8,200	4,999	13,199	17,679	21,487
Miscellaneous	7,474	1,790	7,207	8,997	16,471	23,086
Postage	824	6,696	6,643	13,339	14,163	15,134
Awards and recognitions	1,857	10,975	304	11,280	13,137	10,978
Dues and publications	1,315	2,242	5,950	8,192	9,507	6,293
Bad debt	5,644	-	-	-	5,644	23,740
Interest	-	-	4,135	4,135	4,135	1,853
Taxes and licenses	1,622	1,767	-	1,767	3,389	4,235
Printing	-	-	-	-	-	41,074
Total cxpenses before depreciation	4,713,853	751,038	453,309	1,204,347	5,918,200	5,731,799
Depreciation	63,659	30,352	4,393	34,745	98,404	88,292
Total functional expenses	$ 4,777,512	$ 781,389	$ 457,702	$ 1,239,091	$ 6,016,604	$ 5,820,091
Percentage of total	79.4%	13.0%	7.6%	20.6%	100.0%	100.0%

The accompanying notes are an integral part of these financial statements

ABILITIES UNITED

Statement of Functional Expenses (Details of Program Services)

Year ended June 30,2013

	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	$ 645,192	$ 623,288	$ 238,286	$ 73,907	$ 53,874	$ 198,605	36,308	$ 342,578	$ 696,494	$ 206,164	$ 206,524	$ 3,321,219
Employee benefits	86,988	113,963	34,276	6,247	12,257	25,993	3,404	77,908	126,549	39,054	61,097	587,737
Payroll taxes	42,554	43,045	16,257	5,230	3,642	13,456	2,015	23,280	47,913	13,612	14,120	225,124
Total salaries and related expenses	774,734	780,296	288,819	85,384	69,772	238,054	41,727	443,766	870,956	258,830	281,742	4,134,079
Travel/ lodging/ meals	1,225	6,701	371	-	188	42,370	-	14,552	77,924	11,408	2,159	156,897
Occupancy	60,129	6,919	6,335	1,457	4,345	-	1,007	10,171	-	4,191	-	94,555
Maintenance and repairs	69,842	136	-	-	-	-	-	-	-	-	-	69,978
Consulting fees	19,060	13,616	683	4,459	-	-	-	-	-	15,331	-	53,149
Supplies	6,325	2,022	5,875	790	512	94	-	9,599	7,677	454	7,491	40,840
Bank charges	21,927	2,520	767	1,153	468	4,048	177	928	964	6,450	187	39,588
Telephone	7,920	5,550	80	1,435	2,080	1,413	668	2,953	5,456	3,334	2,787	33,678
Advertising	10,703	4,271	3,511	175	1,399	1,332	-	3,003	2,041	749	1,944	29,128
Training	12,448	35	243	217	-	240	46	1,647	1,560	255	1,589	18,282
Equipment	5,512	2,696	-	-	1,831	910	983	1,944	1,291	1,105	192	16,465
Miscellaneous	4,212	1,028	1,071	705	20	103	(130)	187	195	82	-	7,474
Bad debt	-	603	-	-	213	1,637	-	541	729	1,657	265	5,644
Technology	4,460	-	-	-	-	-	-	20	-	-	-	4,480
Insurance	(18,174)	6,184	1,693	149	897	1,814	70	3,794	1,812	3,138	2,623	4,000
Awards and recognitions	976	-	-	-	-	-	-	-	375	56	450	1,857
Taxes and licenses	-	-	330	-	440	-	-	852	-	-	-	1,622
Dues and publications	690	-	300	-	-	-	-	275	-	-	50	1,315
Postage	692	55	-	-	-	40	-	37	-	-	-	824
Total expenses before depreciation	982,682	832,629	310,078	95,924	82,167	292,055	44,549	494,269	970,981	307,040	301,478	4,713,853
Depreciation	35,543	5,032	958	-	1,598	958	1,198	15,975	799	1,598	-	63,659
Total functional expenses	$ 1,018,226	$ 837,661	$ 311,036	$ 95,924	$ 83,765	$ 293,014	$ 45,747	$ 510,243	$ 971,780	$ 308,638	$ 301,478	$ 4,777,512
Percentage of total	21.3%	17.5%	6.5%	2.0%	1.8%	6.1%	1.0%	10.7%	20.3%	6.5%	6.3%	100.0%

ABILITIES UNITED

Statements of Cash Flows

	For the Year Ended June 30, 2013	For the Year Ended June 30, 2012
Cash flows from operating activities:		
Change in net assets	$ 448,150	$ (321,872)
Adjustments to reconcile change in net assets to net cash		
Provided by (used in) operating activities:		
Depreciation and amortization	98,404	88,292
Net realized and unrealized losses on investments	-	4,910
Changes in operating assets and liabilities:		
Accounts receivable, net	(38,328)	(1,338)
Pledges receivable	(134,881)	6,952
Prepaid expenses	(5,078)	86,110
Board designated 457 (f) plan assets	(14,378)	(14,504)
Accounts payable	91,417	92,707
Accrued expenses	(58,156)	15,745
Deferred revenue	(1,078)	11,084
457 (f) plan payable	14,378	1,004
Net cash provided by (used in) operating activities	400,450	(30,910)
Cash flows from investing activities:		
Acquisition of property and equipment	(158,849)	(415,299)
Acquisition of investments	(40,984)	(14,792)
Proceeds from sale of investments	-	38,661
Sale (Purchase) of certificates of deposit	259,092	(3,826)
Net cash provided by (used in) investing activities	59,259	(395,256)
Net change in cash and cash equivalents	459,709	(426,166)
Cash and cash equivalents at beginning of year	433,407	859,573
Cash and cash equivalents at end of year	$ 893,116	$ 433,407

Supplemental disclosure of cash flow information:

	2013	2012
Cash paid during the year for interest	$ 4,135	$ 1,853

The accompanying notes are an integral part of these financial statements

ABILITIES UNITED
Notes to Financial Statements
Year Ended June 30, 2013

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 champions people with developmental and physical challenges and provides the training, education and support they need to lead the lives they choose.

Program services:

Children's Development Services is comprised of the Early Intervention and the Milestones Preschool programs and a Therapy Clinic program for children from birth to 5 years of age.

Early Intervention - The Early Intervention Program offers in-home and center-based services for children from birth to three years old that have development delays or are at risk of delay. 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 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.

Adult Services is comprised of the Adult Day Activities, Community Connections, Independent Living Skills, and Employment Services programs.

ABILITIES UNITED

Notes to Financial Statements

Year Ended June 30, 2013

Note 1 - Organization and operations (continued):

Adult Day Activities - At Adult Day Activities, clients choose from a variety of activities to experience new opportunities and learn. Clients 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 most important thing is that the clients 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, clients have access to many free public resources and activities. Clients 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 clients 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 - Clients 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), clients work one-on-one with their ILS coach to learn the additional daily living skills they need to be as independent as possible.

Employment Services - If clients would like to be employed, The Organization is here to support them. The Organization will help their clients attain work skills to complement those they already have. The Organization wants their clients to have a job that they like and value. That is why the Organization spends a lot of time with their clients to determine what skills they already have and which ones they need to develop to get the job they want. Each client's coach will work with them to apply for the job they choose, and when they're hired, their coach will be there until they are ready to go solo.

Family Support is comprised of After School Socialization, Computer Lab Education, Respite, and New Initiatives programs.

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.

Note 1 - Organization and operations (continued):

Computer Lab Education - The Organization's Computer Lab Education offers accessible computer classes to help clients develop their everyday living skills and increase their level of independence through training in computer access, academic and daily living skills. Each computer 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.

Respite - Respite services provide highly trained home companions for people caring for a family member with a developmental 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.

New Initiatives - This program includes horticulture therapy and cardiopulmonary resuscitation (CPR) classes for outside members.

Aquatic Services - Warm-water exercise can benefit people of all ages and ability levels. The 93 degree warm-water, wheelchair-accessible pool at the Organization's Betty Wright Swim Center offers many exercise benefits. When clients submerge their body into warm-water, the nearly weight-free environment allows muscle relaxation, joint lubrication, nerve integration and increased range of motion. For more than 2,000 years, humans have benefited from therapeutic baths and centers for pain relief and tranquility.

When clients exercise in the warm-water of the Betty Wright Swim Center they experience:

- Relief from pain caused by injuries, disorders or physical ailments such as arthritis, spinal cord injuries, Multiple Sclerosis, Cerebral Palsy, Fibromyalgia
- A safe water environment to learn to swim
- A comfortable indoor, water-based alternative to land exercise
- A pleasant, friendly, supportive environment with skilled, empathetic and collaborative staff who will help clients progress through their rehabilitation, fitness or recreational program
- A professional, collaborative team of aquatic professionals which works with medical and health professionals to refer clients to appropriate services
- A diverse and supportive community of students, patients, and visitors which helps accelerate client's recovery and shares their interests

Note 1 - Organization and operations (continued):

For maximum enjoyment and safety during any aquatic recreational activity, it is critical that children learn water safety, drowning survival and swimming techniques. Swim lessons benefit children in a multitude of ways. Swim school is often a child's first social experience out of the home that involves their peers. They learn to relate and interact with each other and their teachers. They develop a sense of independence and self-confidence, all in a fun, safe and educational environment available to them year round. This service is available to all children with and without disabilities. A special adaptive aquatics service for children with developmental disabilities is also part of the swim school.

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, 2012, 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 promisor. There were no conditional promises to give at June 30, 2013 and 2012.

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, 2013, 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, 2013 and 2012. Bad debt expense for years ended June 30, 2013 and 2012 totaled $5,644 and $22,412, respectively.

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, 2013 and 2012.

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.

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

Fair value of financial instruments - Financial instruments included in the Organization's statements of financial position as of June 30, 2013 and 2012 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.

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, 2013 and 2012.

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. No such impairments have been identified to date.

Accrued vacation - Accrued vacation represents vacation earned, but not taken as of June 30, 2013 and 2012. The accrued vacation balance as of June 30, 2013 and 2012 was $194,501 and $181,335, respectively.

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

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Notes to Financial Statements

Year Ended June 30, 2013

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

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, 2013 and 2012, approximately 67% and 68%, respectively, of the Organization's revenue is derived from contracts from two governmental entities. These same two governmental entities accounted for 89% and 85% of accounts receivable balance for June 30, 2013 and 2012, respectively.

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, 2013 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, 2010 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years June 30, 2009 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, 2013 and 2012 totaled $66,271 and $25,113, 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.

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

Recent accounting pronouncements - In October 2012, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update ("ASU") 2012-05, "*Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*." This ASU requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which cash those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the not-for-profit entity. ASU 2012-05 is effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. Retrospective application to all periods presented upon the date of adoption is permitted.

In April 2013, FASB issued FASB ASU 2013-06, "Not-for-Profit Entities: Services Received from Personnel of an Affiliate." This ASU requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The ASU is effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. A modified retrospective approach may also be used and early application is permitted.

The Organization does not expect the adoption of either of these ASUs to have a material impact on the financial statements.

Subsequent events - Subsequent events are evaluated through October 3, 2013, 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, 2013.

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Notes to Financial Statements

Year Ended June 30, 2013

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:

	2013	2012
Community Foundation pool	$ 812,444	$ 771,460

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

	2013	2012
Realized gains	$ 36,493	$ 6,710
Unrealized gains (loss)	43,099	(11,620)
Interest and dividends	9,105	8,428
Total investment income	88,697	3,518
Investment related expenses	(9,233)	(9,466)
Total investment returns net of management fees	79,464	(5,948)
Operating interest income	3,630	8,398
Total investment income	$ 83,094	$ 2,450

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.

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	$ 771,460	$ 800,239
Realized gains	36,493	6,710
Unrealized gains (losses)	43,099	(11,620)
Interest and dividends	9,105	8,428
Fees	(9,233)	(9,466)
Contributions	2,500	15,830
Disbursements	(40,980)	(38,661)
Transfers in and/or out of Level 3	-	-
Ending balance	$ 812,444	$ 771,460

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, 2013, 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 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, 2013. Contributions receivable were as follows:

	2013	2012
Receivables in less than one year	$ 29,536	$ 14,036
Receivables in one to five years	122,000	-
	151,536	14,036
Less: discount to net present value	(2,619)	-
	148,917	14,036
Less: current portion	(29,536)	(14,036)
Non-current portion	$ 119,381	$ -

Note 5 - Property and equipment:

Property and equipment consists of the following at June 30:

	2013	2012
Leasehold improvements:		
Buildings	$ 998,649	$ 998,649
Building improvements	978,750	916,454
Furniture and equipment	277,052	254,536
Transportation equipment	270,683	282,647
	2,525,134	2,452,286
Less: accumulated depreciation and amortization	(1,610,587)	(1,598,184)
Property and equipment, net	$ 914,547	$ 854,102

Depreciation and amortization expense was approximately $98,000 and $88,000 for the years ended June 30, 2013 and 2012, 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, 2013

Note 6 - Line of credit:

The Organization renewed a $250,000 line of credit agreement with Wells Fargo in February 2013 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, 2013 and 2012 there were no amounts outstanding.

Note 7 - Board designated net assets:

Operating Reserve - The Organization has established an operating reserve that will permit the Organization to continue to operate during difficult financial times. The primary investment objective of this policy is capital preservation and liquidity.

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

The temporarily restricted net asset activity for the years ended June 30, 2013 and 2012 were 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	(144,719)	109,336
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

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Notes to Financial Statements
Year Ended June 30, 2013

Note 9 - Temporarily restricted net assets and net assets released from restrictions (continued):

	2011	Additions	Releases	2012
Time Restrictions:				
Pledges receivable	$ 20,816	$ 14,036	$ (20,816)	$ 14,036
Endowment accumulated earnings -	10,658	-	(10,658)	-
Purpose Restrictions:				
Aquatic services	379,807	159,933	(312,685)	227,055
Early intervention	28,539	473	(10,264)	18,748
Adult day activities	54,576	23,932	(61,487)	17,021
Employment services/ independent	5,452	4,617	(69)	10,000
Fund development	20,964	13,139	(28,007)	6,096
Community connections	10,256	(49)	(5,694)	4,513
Milestones preschool	13,443	17,710	(28,548)	2,605
After school socialization	2,482	(1,123)	(946)	413
Respite	87	(87)	-	-
Computer lab education	81	(81)	-	-
Total temporarily restricted net assets	$ 547,161	$ 232,500	$ (479,174)	$ 300,487

Note 9 - Permanently restricted net assets:

At June 30, 2013 and 2012, permanently restricted net assets consist of the Organization’s endowment funds (see Note 12).

Note 10 - Donated services:

During the years ended June 30, 2013 and 2012, volunteers donated 362 and 417 hours, respectively, 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, 2013 and 2012 to be $58,450 and $34,625, respectively.

Note 10 - Donated services (continued):

During the years ended June 30, 2013 and 2012, volunteers also donated 10,634 and 15,092 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, 2013 and 2012 to be $227,142 and $322,365, respectively. 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, 2013 and 2012 totaled $2 for each year.

Equipment lease - The Organization leases two pieces of office equipment which expire in 2015. The minimum lease obligations are as follows:

Year ending June 30,		
2014	$	20,226
2015		7,210
Total	$	27,436

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.

Note 12 - Endowment (continued):

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.

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.

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Notes to Financial Statements

Year Ended June 30, 2013

Note 12 - Endowment (continued):

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, 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

Changes in endowment net assets for the fiscal year ended June 30, 2012 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 10,658	$ 789,581	$ 800,239
Contributions	-	-	15,830	15,830
Investment income	-	3,518	-	3,518
Fees	-	(9,466)	-	(9,466)
Amounts appropriated for expenditure	(33,951)	(4,710)	-	(38,661)
Endowment net assets, end of year	$ (33,951)	$ -	$ 805,411	$ 771,460

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. Total contributions recognized as an expense by the Organization for the Plan for the years ended June 30, 2013 and 2012 were $0 and $11,760, respectively.

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, 2013 and 2012 principal amounts credited to the deferral account under the plan were $14,175 for each year.