

**FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE**

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

JUNE 30, 2015

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Certified Public Accountants, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Family Service Agency of San Francisco, Inc.
dba Felton Institute

Report on the Financial Statements

We have audited the accompanying financial statements of Family Service Agency of San Francisco, Inc. dba Felton Institute (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2015, and the related Statements of Activities, Functional Expenses, and Cash Flows for the years 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Service Agency of San Francisco, Inc. dba Felton Institute as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Family Service Agency of San Francisco, Inc. dba Felton Institute as a whole. The accompanying Schedule of Expenditures of Federal and Non-federal Awards, as required by Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Summarized Comparative Information

We have previously audited Family Service Agency of San Francisco, Inc. dba Felton Institute's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 9, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015, on our consideration of Family Service Agency of San Francisco, Inc. dba Felton Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Family Service Agency of San Francisco, Inc. dba Felton Institute's internal control over financial reporting and compliance.

Harrington Group

San Francisco, California
December 14, 2015

FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE

STATEMENT OF FINANCIAL POSITION

June 30, 2015

With comparative totals at June 30, 2014

	Unrestricted	Temporarily Restricted	2015	2014
Assets				
Cash and cash equivalents (Note 2)	\$ 781,095	\$ -	\$ 781,095	\$ 291,648
Accounts receivable	1,422,522		1,422,522	1,481,533
Pledges receivable (Note 3)	79,482	185,969	265,451	325,008
Prepaid expenses	98,202		98,202	94,767
Investments (Note 4)	311,975		311,975	351,083
Property and equipment (Note 6)	3,469,408		3,469,408	3,690,451
Total assets	<u>\$ 6,162,684</u>	<u>\$ 185,969</u>	<u>\$ 6,348,653</u>	<u>\$ 6,234,490</u>
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 1,022,446	\$ -	\$ 1,022,446	\$ 1,134,129
Accrued liabilities (Note 7)	704,866		704,866	635,909
Accrued unemployment liability	-		-	85,000
Lines of credit (Note 8)	1,433,392		1,433,392	1,298,000
Note payable (Note 9)	1,684,903		1,684,903	1,737,186
Total liabilities	<u>4,845,607</u>	<u>-</u>	<u>4,845,607</u>	<u>4,890,224</u>
Net assets				
Unrestricted	1,317,077		1,317,077	1,040,200
Temporarily restricted (Note 11)		185,969	185,969	304,066
Total net assets	<u>1,317,077</u>	<u>185,969</u>	<u>1,503,046</u>	<u>1,344,266</u>
Total liabilities and net assets	<u>\$ 6,162,684</u>	<u>\$ 185,969</u>	<u>\$ 6,348,653</u>	<u>\$ 6,234,490</u>

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

FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE

STATEMENT OF ACTIVITIES

For the year ended June 30, 2015

With comparative totals for the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015</u>	<u>2014</u>
Revenue and support				
Fees from government agencies (Note 12)	\$ 18,355,669	\$ -	\$ 18,355,669	\$ 17,093,325
Contributions	275,997	255,000	530,997	602,400
Miscellaneous	428,282		428,282	150,661
Rental income	146,238		146,238	149,838
In-kind contributions	105,952		105,952	32,600
Debt forgiveness			-	100,000
Program service fees	73,305		73,305	66,899
Interest and dividends	1,637		1,637	2,108
Net assets released from purpose restrictions	373,097	(373,097)	-	-
Total revenue and support	<u>19,760,177</u>	<u>(118,097)</u>	<u>19,642,080</u>	<u>18,197,831</u>
Expenses				
Program services	15,708,042		15,708,042	14,491,276
Support services	3,775,258		3,775,258	3,539,501
Total expenses	<u>19,483,300</u>	<u>-</u>	<u>19,483,300</u>	<u>18,030,777</u>
Change in net assets	276,877	(118,097)	158,780	167,054
Net assets, beginning of year	<u>1,040,200</u>	<u>304,066</u>	<u>1,344,266</u>	<u>1,177,212</u>
Net assets, end of year	<u>\$ 1,317,077</u>	<u>\$ 185,969</u>	<u>\$ 1,503,046</u>	<u>\$ 1,344,266</u>

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

**FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE**

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2015

With comparative totals for the year ended June 30, 2014

	Program Services					Total Program Services	Support Services			Total Support Services	Total Expenses	
	Felton Institute	Children Youth and Family	Adult Services Division	Elder Services Division	PREP Division		Management and General	Geary Street	Fundraising		2015	2014
Salaries	\$ 198,135	\$ 2,703,718	\$ 1,471,380	\$ 3,131,071	\$ 2,353,380	\$ 9,857,684	\$ 1,338,623	\$ 12,234	\$ 127,973	\$ 1,478,830	\$ 11,336,514	\$ 10,426,226
Employee benefits	25,599	349,320	190,102	404,534	304,687	1,274,242	172,950	1,581	16,534	191,065	1,465,307	1,308,489
Payroll taxes	15,260	208,186	113,296	241,092	182,559	760,393	103,074	942	9,854	113,870	874,263	883,650
Total personnel costs	238,994	3,261,224	1,774,778	3,776,697	2,840,626	11,892,319	1,614,647	14,757	154,361	1,783,765	13,676,084	12,618,365
Professional services	134,682	103,978	168,502	176,719	233,420	817,301	310,954		12,605	323,559	1,140,860	927,774
Occupancy	33,810	140,710	181,235	230,681	186,829	773,265	191,366	127,244	33,809	352,419	1,125,684	1,077,515
Contract services	224,176	26,686	62,494	47,400	218,945	579,701	149,545			149,545	729,246	780,833
Depreciation						-	208,833	168,382		377,215	377,215	371,421
Travel and conference	14,939	20,359	36,996	48,018	129,147	249,459	44,777		5,403	50,180	299,639	265,948
Volunteer expenses		42,207	13,543	234,183		289,933				-	289,933	286,922
Telephone	4,963	31,960	24,362	59,983	60,905	182,173	59,091	1,167	1,417	61,675	243,848	215,834
Program expenses	82	44,133	91,150	48,541	14,259	198,165	38			38	198,203	190,833
Miscellaneous	4,466	22,858	2,584	9,170	9,767	48,845	112,950	18	5,235	118,203	167,048	139,501
Interest						-	39,526	92,953		132,479	132,479	170,699
Equipment rental	4,763	27,331	7,465	41,434	28,964	109,957	14,313		3,452	17,765	127,722	148,398
Insurance		22,865	22,108	39,602	34,893	119,468	6,510			6,510	125,978	96,493
Training	40,439	21,986	613	14,979	17,412	95,429	21,881			21,881	117,310	102,614
Program supplies		114,758				114,758				-	114,758	124,075
Office supplies	2,908	31,510	8,337	12,866	35,288	90,909	21,101		1,971	23,072	113,981	86,409
In-kind expenses						-	104,192			104,192	104,192	32,600
Bad Debt Expenses						-	67,932			67,932	67,932	-
Audit fees		19,888				19,888	45,112			45,112	65,000	64,583
Subscriptions and publications	1,114	5,690	2,870	1,445	7,080	18,199	22,255		9,657	31,912	50,111	32,594
Equipment	80	3,538	227	1,793	13,777	19,415	25,994			25,994	45,409	54,524
Repair and maintenance	445	7,195	4,773	10,446	11,590	34,449	8,797		415	9,212	43,661	34,211
Printing	863	6,015	615	8,238	12,633	28,364	5,191		2,000	7,191	35,555	30,979
Temporary staff					5,333	5,333	25,512			25,512	30,845	83,799
Fees and dues		1,386		2,821		4,207	18,500		547	19,047	23,254	23,185
Management fees						-	6,299	10,348		16,647	16,647	17,766
Postage	984	2,453	516	2,797	2,289	9,039	2,771		827	3,598	12,637	11,864
IT development and maintenance					6,086	6,086			603	603	6,689	18,996
Property taxes			1,380			1,380				-	1,380	22,042
Total 2015 functional expenses	\$ 707,708	\$ 3,958,730	\$ 2,404,548	\$ 4,767,813	\$ 3,869,243	\$ 15,708,042	\$ 3,128,087	\$ 414,869	\$ 232,302	\$ 3,775,258	\$ 19,483,300	
Total 2014 functional expenses	\$ 560,938	\$ 3,634,721	\$ 2,286,940	\$ 4,294,785	\$ 3,713,892	\$ 14,491,276	\$ 2,670,287	\$ 462,985	\$ 406,229	\$ 3,539,501		\$ 18,030,777

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

FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.

DBA FELTON INSTITUTE

STATEMENT OF CASH FLOWS

For the year ended June 30, 2015

With comparative totals for the year ended June 30, 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 158,780	\$ 167,054
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	377,215	371,421
Debt forgiveness	-	(100,000)
Stock Donation	-	(49,480)
Unrealized Loss	-	10
Changes in operating assets and liabilities:		
Decrease in accounts receivable	59,011	313,228
Decrease (increase) in pledges receivable	59,557	(104,234)
(Increase) decrease in prepaid expenses	(3,435)	27,186
(Decrease) in accounts payable	(111,683)	(178,666)
Increase (decrease) in accrued liabilities	68,957	(39,467)
(Decrease) in accrued unemployment liability	(85,000)	-
Net cash provided by operating activities	<u>523,402</u>	<u>407,052</u>
Cash flows from investing activities:		
Purchases of property and equipment	(156,172)	(341,335)
Proceeds from sale of investments	39,108	52,113
Net cash (used) by investing activities	<u>(117,064)</u>	<u>(289,222)</u>
Cash flows from financing activities:		
Borrowings on lines of credit	2,960,000	2,923,000
Payments on lines of credit	(2,824,608)	(2,993,392)
Principal payments on notes payable	(52,283)	(57,721)
Net cash provided (used) by financing activities	<u>83,109</u>	<u>(128,113)</u>
Net increase (decrease) in cash and cash equivalents	489,447	(10,283)
Cash and cash equivalents, beginning of year	<u>291,648</u>	<u>301,931</u>
Cash and cash equivalents, end of year	<u><u>\$ 781,095</u></u>	<u><u>\$ 291,648</u></u>
Supplemental disclosure:		
Operating activities reflects interest paid of:	<u><u>\$ 132,479</u></u>	<u><u>\$ 170,699</u></u>

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

FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC. DBA FELTON INSTITUTE

NOTES TO FINANCIAL STATEMENTS

1. Organization

Family Service Agency of San Francisco, Inc. dba Felton Institute (“Felton Institute”) is a private, non-sectarian, not-for-profit, social service agency receiving funding from a number of sources, including individuals, private foundations and corporations, and local, state, and federal government. The mission of Felton Institute is to strengthen families by providing effective, caring human services, with a special emphasis on service to low-income individuals and families, children, elderly, and the disabled. Services are provided in seven languages at five principal sites and numerous outstation locations throughout San Francisco and the greater Bay Area. Felton Institute services are organized under five divisions:

The Child, Youth, and Family Division – Felton Institute operates a range of services for at-risk children and adolescents. These include teen pregnancy and parenting programs, counseling and case management for children with emotional issues and their families, and a high school for youth on juvenile probation.

Felton Institute also operates a Family Development Center (“FDC”) that provides developmental services to children who have special needs, are disabled or emotionally disturbed, who have language barriers, or whose parents require subsidized childcare because of schooling or work. FDC emphasizes mainstreaming children with developmental challenges, preparation of all children for educational success, and training and support for parents.

The Adult Division – Includes a variety of services for disabled adults with a special focus on services to adults who are severely challenged by mental illness and/or substance abuse. These programs include CARE, ACM, MAP, and RAMP. Felton Institute also provides mental health services for the Back on Track program which serves eligible first-time, low-level felony drug offenders, ages 18-24.

Felton Institute has recently began operating the Deaf Community Counseling Services program, which is dedicated to serving deaf and hard-of-hearing clients in San Francisco with culturally sensitive providers and all needed communication assistance.

The Senior Division – Through its various Geriatric Treatment Programs, Felton Institute provides treatment and case management to older adults with chronic and severe mental health issues. Senior Peer Recovery Center is a drop-in resource and recovery center for seniors, providing peer-based support and services. The Foster Grandparent and Senior Companion Programs train and place senior volunteers at childcare programs, and at programs serving frail, isolated elderly. The Ombudsman Program receives, investigates, and resolves complaints about resident care in facilities. Senior Community Services Economic Program provides workforce training for older adults 55 years and older in community service organizations and government departments, leading to permanent job placements, including the private sector.

The Prevention and Recovery in Early Psychosis (“PREP”) Division – PREP is a breakthrough community partnership program for early intervention and treatment of psychosis and schizophrenia. Felton Institute operates this program in multiple counties through-out the greater Bay Area, including San Francisco, San Mateo and Alameda.

continued

FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC. DBA FELTON INSTITUTE

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

The Felton Institute – provides intensive clinical training in evidence-based treatments to address the most complex mental-health issues. The Felton Institute serves as Family Service Agency's central resource in the implementation of evidence-based practices in every element of our service delivery, to maximize client recovery.

Felton Institute receives its funding from private contributions and from county and state government agencies, with certain portions of its funding originating from the federal government.

2. **Summary of Significant Accounting Policies**

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

Basis of Presentation

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

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Felton Institute are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. Felton Institute reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions. Felton Institute has temporarily restricted net assets of \$185,969 at June 30, 2015 (see Note 11).

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Felton Institute to expend all of the income (or other economic benefits) derived from the donated assets. Felton Institute had no permanently restricted net assets at June 30, 2015.

continued

**FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

Felton Institute has defined cash and cash equivalents as cash in banks and certificates of deposits with an original maturity of three months or less.

Accounts Receivable

Accounts receivable are receivables from governmental agencies. Therefore, no allowance for doubtful accounts has been provided.

Contributions and Pledges Receivable

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

Concentration of Credit Risks

Felton Institute places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Felton Institute has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2015, consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of Felton Institute's receivables consist of earned fees from contract programs granted by governmental agencies.

Approximately 93% of total revenues generated at June 30, 2015 are derived from government grants and contracts.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than one year.

continued

**FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the year ended June 30, 2015, Felton Institute received in-kind contributions of \$105,952.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

Felton Institute is required to measure certain investments, pledges receivable and in-kind contributions at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Income Taxes

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

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Felton Institute in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Felton Institute's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing Felton Institute's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Felton Institute uses total direct costs to allocate indirect costs.

continued

**FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Felton Institute's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through December 14, 2015 the date which the financial statements were available.

3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at the estimated fair present value at June 30, 2015 and are all deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2015. Total amount of pledges receivable at June 30, 2015 of \$265,451, is expected to be collected within a year.

4. Investments

Investments at June 30, 2015 consist of the following:

Investments in related entity	<u>\$311,975</u>
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continued

**FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE**

NOTES TO FINANCIAL STATEMENTS

5. Fair Value Measurements

The table below presents Felton Institute's investments in related entity measured at fair value at June 30, 2015 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fair value at June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$311,975</u>	<u>\$311,975</u>

The fair value of investments in related entity has been measured on a recurring basis based on contributions paid to related entity using the best information available when there is little or no market (Level 3 inputs).

The following table provides further details of the Level 3 fair value measurements:

Beginning balance at July 1, 2014	\$351,083
Purchases, sales, issuances, and settlements – net	<u>(39,108)</u>
Ending balance at June 30, 2015	<u>\$311,975</u>

The table below presents transactions measured at fair value on a non-recurring basis during the year ended June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	\$ -	\$104,192	\$ -	\$104,192
Contributed materials		1,760		1,760
Pledged contributions – new			<u>390,821</u>	<u>390,821</u>
Fair value at June 30, 2015	<u>\$ -</u>	<u>\$105,952</u>	<u>\$390,821</u>	<u>\$496,773</u>

The fair value of contributed services and materials (in-kind contributions) has been measured on a non-recurring basis using quoted prices for similar services and assets in inactive markets (Level 2 inputs).

The fair value of pledged contributions are measured on a recurring basis based on the value provided by the donor at the date of pledge (Level 3 inputs).

continued

FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE

NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment at June 30, 2015 consist of the following:

Land	\$ 1,000,000
Buildings	2,665,248
Equipment and furnishings	142,534
Facility improvements	748,004
Software	162,332
Other fixed assets	<u>1,043,309</u>
	5,761,427
Less: accumulated depreciation	<u>(2,292,019)</u>
	<u>\$ 3,469,408</u>

Depreciation expense for the years ended June 30, 2015 was \$377,215.

7. Accrued Liabilities

Accrued liabilities at June 30, 2015 consist of the following:

Accrued vacation	\$300,894
Accrued salaries	330,278
Other accrued liabilities	71,806
California Department of Education Reserve	<u>1,888</u>
	<u>\$704,866</u>

8. Lines of Credit

Felton Institute has a variable rate non-disclosable revolving line of credit with a bank, in the amount of \$1,000,000, with interest payments payable monthly at the bank's reference rate plus 1%, resulting in an initial interest rate of 5% per annum. At June 30, 2015, there was an outstanding balance of \$983,392 on the line of credit with an interest rate of 4.75%.

Felton Institute has a variable rate non-disclosable revolving line of credit with a bank, in the amount of \$500,000, with interest payments payable monthly at the bank's reference rate plus 1%, resulting in an initial interest rate of 5.25% per annum. At June 30, 2015, there was an outstanding balance of \$450,000 on the line of credit with an interest rate of 4.5%.

continued

**FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE**

NOTES TO FINANCIAL STATEMENTS

9. Note Payable

Note payable at June 30, 2015 consist of the following:

Note payable to a bank, secured by real property, monthly payments of \$12,103 with a current interest rate of 5.35%, due November, 2023. \$1,684,903

Maturities for notes payable are as follows:

<u>Year ended June 30,</u>	
2016	\$ 60,463
2017	59,780
2018	63,058
2019	66,516
2020	70,163
Thereafter	<u>1,364,923</u>
	<u>\$1,684,903</u>

10. Commitments and Contingencies

Obligations Under Operating Leases

Felton Institute leases various facilities and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30</u>	
2016	\$434,065
2017	77,412
2018	78,409
2019	51,825
2020	<u>39,449</u>
	<u>\$681,160</u>

Rent expense under operating leases for the year ended June 30, 2015 was \$841,282.

continued

**FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE**

NOTES TO FINANCIAL STATEMENTS

10. Commitments and Contingencies, continued

Contracts

Felton Institute's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, Felton Institute has no provisions for the possible disallowance of program costs on its financial statements. Mental health cost settlement notifications are recognized as cost settlement expenses in the year the notification is received.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets of \$185,969 at June 30, 2015 is restricted for the Family Development Center.

For the year ended June 30, 2015 net assets released from purpose restrictions were \$373,097.

12. Fees from Government Agencies

Fees from government agencies for the year ended June 30, 2015 consist of the following:

Mental health services	\$12,877,516
Child day care	2,838,041
Senior Community Service Employment Program	1,123,512
Teenage pregnancy and parenting	439,168
Senior services	414,947
Foster grandparents	375,709
Food nutrition	153,454
Other	78,322
Eviction assistance	<u>55,000</u>
	<u>\$18,355,669</u>

SUPPLEMENTAL SCHEDULE

**FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE**

SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
For the year ended June 30, 2015

Program Name	Contract Number	Federal CFDA Number	Contract Term	Program Award	Governmental Revenue Federal	Governmental Revenue Non-federal	Expenditures From Governmental Revenue
Federal Awards							
U.S. Department of Health and Human Services ("DHHS"):							
Pass-through, City and County of San Francisco Department of Public Health ("DPH"):							
Medical Assistance Program - Mental Health Program (a)	DPHM15000102	93.778	07/01/14 - 06/30/15	\$ 8,038,318	\$ 2,194,290	\$ 5,662,335	\$ 7,856,625
Medical Assistance Program - Deaf Community Counseling Services (a)	DPHM15000103	93.778	07/01/14 - 06/30/15	416,858	107,599	220,150	327,749
Affordable Care Act (ACA) Maternal, Infant and Early Childhood Home Visiting Program - San Francisco Nursing Partnership Program	DPHM15000102	93.505	07/01/14 - 06/30/15	112,000	65,840		65,840
Sub-total pass-through, City and County of San Francisco DPH				<u>8,567,176</u>	<u>2,367,729</u>	<u>5,882,485</u>	<u>8,250,214</u>
Pass-through, State of California Department of Health Services:							
Block Grant for Maternal and Child Protection	12-10065	93.994	07/01/14 - 06/30/15	111,632	79,433	15,104	94,537
Medical Assistance Program (a)	12-10065	93.778	07/01/14 - 06/30/15	32,621	27,625		27,625
Sub-total pass-through, California Department of Health Services				<u>144,253</u>	<u>107,058</u>	<u>15,104</u>	<u>122,162</u>
Directly from DHHS, Health Care Innovation Awards	1C1CMS330991-01-00	93.610	07/01/14 - 06/30/15	1,740,774	1,762,884		1,762,884
City and County of San Francisco Human Services Agency ("HSA"):							
Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	DPAG15000164	93.042	07/01/14 - 06/30/15	78,070	32,144		32,144
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	DPAG15000164	93.044	07/01/14 - 06/30/15	347,272	25,195	297,733	322,928
Medical Assistance Program (a)	DPAG14000135	93.778	07/01/14 - 06/30/15	1,579	1,579		1,579
Medical Assistance Program (a)	DPAG15000154	93.778	07/01/14 - 06/30/15	6,302	6,302		6,302
State Long Term Care Ombudsman Initiative	DPAG15000165		07/01/14 - 06/30/15	25,022		25,022	25,022
State Long Term Care Ombudsman - Skilled Nursing Facility Quality Assurance	DPAG15000165		07/01/14 - 06/30/15	26,972		26,972	26,972
Sub-total pass-through, City and County of San Francisco HSA				<u>485,217</u>	<u>65,220</u>	<u>349,727</u>	<u>414,947</u>
Pass-through, California Department of Education ("CDE"):							
Child Care Development Fund Cluster:							
Child Care and Development Block Grant, General Center Child Care (a)	CCTR-4229	93.575	07/01/14 - 06/30/15	557,955	123,684	412,928	536,612
Child Care Mandatory and Matching Funds of the Child Care and Development Fund, General Center Child Care (a)	CCTR-4229	93.596	07/01/14 - 06/30/15	233,751	224,810		224,810
Child Care and Development Block Grant, California State Preschool (a)	CSPP-4456	93.575	07/01/14 - 06/30/15	441,203	40,429	400,686	441,115
Child Care Mandatory and Matching Funds of the Child Care and Development Fund, California State Preschool (a)	CSPP-4456	93.596	07/01/14 - 06/30/15	73,483	73,483		73,483
Child Care and Development Block Grant, General Center Child Care (a)	CRPM-2064	93.575	07/01/12 - 06/30/15	14,649	8,163		8,163
Sub-total pass-through, California Department of Education				<u>1,321,041</u>	<u>470,569</u>	<u>813,614</u>	<u>1,284,183</u>
Pass-through, Alameda County Behavioral and Health Services:							
Block Grants for Community Mental Health Services							
Prevention and Recovery in Early Psychosis ("PREP") - Alameda	900709-10095	93.958	07/01/14 - 06/30/15	697,798	78,995	520,697	599,692
Deaf Community Counseling Services - Alameda	900709-10095	93.958	07/01/14 - 06/30/15	230,694	14,302	118,273	132,575
Total Alameda Contracts				<u>928,492</u>	<u>93,297</u>	<u>638,970</u>	<u>732,267</u>
Total DHHS				<u>13,186,953</u>	<u>4,866,757</u>	<u>7,699,900</u>	<u>12,566,657</u>
U.S. Department of Labor ("DOL"):							
Pass-through, National Council on Aging:							
Senior Community Service Employment Program	AD-20013-AA-0-79	17.235	07/01/14 - 06/30/15	1,138,282	1,123,512		1,123,512
Pass-through, Goodwill Industries of San Francisco, San Mateo and Marin Counties:							
WIA Adult Program, Transitions San Francisco Program		17.258	07/01/14 - 06/30/15	12,000	12,482		12,482
Total DOL				<u>1,150,282</u>	<u>1,135,994</u>	<u>-</u>	<u>1,135,994</u>
Corporation for National and Community Service ("CNCS"):							
Directly from CNCS Foster Grandparent Program (a)	12SFPCA005	94.011	04/01/14 - 03/31/15	263,379	187,198		187,198
Directly from CNCS Foster Grandparent Program (a)	12SFPCA005	94.011	04/01/15 - 03/31/16	263,379	164,116		164,116
Directly from CNCS Senior Companion	12SCPCA008	94.016	07/01/14 - 06/30/15	55,817	24,395		24,395
Total CNCS				<u>582,575</u>	<u>375,709</u>	<u>-</u>	<u>375,709</u>
U.S. Department of Agriculture ("USDA"):							
Pass-through, California Department of Education:							
Child and Adult Care Food Program	38-1580-9A	10.558	07/01/14 - 06/30/15		153,454		153,454
Total USDA				<u>-</u>	<u>153,454</u>	<u>-</u>	<u>153,454</u>

See independent auditors' report.

**FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE**

SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
For the year ended June 30, 2015
continued

Program Name	Contract Number	Federal CFDA Number	Federal CFDA Number	Program Award	Governmental Revenue Federal	Non-federal	Expenditures From Governmental Revenue
Federal Awards, continued							
U.S. Department of Education ("ED"): Pass-through, Mission Economic Development Agency	U215N120046	84.215N	01/01/15 - 12/31/15	67,363	33,681		33,681
Total ED				67,363	33,681	-	33,681
Total federal awards				14,987,173	6,565,595	7,699,900	14,265,495
Non-federal Awards							
San Mateo County: PREP - San Mateo			07/01/14 - 06/30/15	824,000		824,000	824,000
Bipolar Early Assessment and Management (BEAM) - San Mateo County			07/01/14 - 06/30/15	400,000		400,000	400,000
Total San Mateo Contracts				1,224,000	-	1,224,000	1,224,000
Children's Council of San Francisco ("CCSF"): C-WAGES			07/01/14 - 06/30/15	666,432		677,520	677,520
Voucher Families Program			07/01/14 - 06/30/15	100,000		145,392	145,392
Pre-school For All			07/01/14 - 06/30/15	45,977		28,770	28,770
Total CCSF				812,409	-	851,682	851,682
Regents of the University of New Mexico Patient-Centered Outcomes Research Institute (PCORI)	CE-12-11-4309		07/01/14 - 06/30/15	451,590		418,075	418,075
Golden Gate Regional Center ("GGRC"): Child Care Program			07/01/14 - 06/30/15	317,638		317,638	317,638
In-Home Respite Services/Programs			07/01/14 - 06/30/15	54,111		54,111	54,111
Total GGRC				371,749	-	371,749	371,749
City and County of San Francisco Department of Children, Youth and Families: Young Family Resource Center			07/01/14 - 06/30/15	318,852		317,006	317,006
San Francisco Unified School District: Childcare and Parenting Education Services	1212-11K3		07/01/14 - 06/30/15	224,730		223,673	223,673
City and County of San Francisco Department of Children, Human Services Agency ("HSA") Backfill Child Care Contract			07/01/14 - 06/30/15			130,865	130,865
Case Management Training			10/01/13 - 09/30/14	130,000		47,638	47,638
Case Management Training			10/01/14 - 09/30/15	130,000		83,573	83,573
Total San Francisco HSA				260,000	-	262,076	262,076
City and County of San Francisco Mayor's Office of Criminal Justice: Back on Track Program	DPOCH14000292		07/01/14 - 06/30/15	214,180		174,699	174,699
TODCO Counseling for Ceatrice and Wolf House Building Residents			07/01/14 - 06/30/15	147,483		147,484	147,484
City and County of San Francisco Sheriff's Department: Eviction Assistance Program	DPSH14000100		07/01/14 - 06/30/15	55,000		55,000	55,000
First 5 San Francisco Dual Language Learners			07/01/14 - 06/30/15	45,000		30,000	30,000
Other Grants						14,730	14,730
Total non-federal awards				4,124,993	-	4,090,174	4,090,174
Total Federal and Non-federal Awards				\$ 19,112,166	\$ 6,565,595	\$ 11,790,074	\$ 18,355,669

(a) Audited as a major program

Summary of Significant Accounting Policies

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

See independent auditors' report.

ADDITIONAL INFORMATION



Certified Public Accountants, LLP

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Board of Directors
Family Service Agency of San Francisco, Inc.
dba Felton Institute

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Family Service Agency of San Francisco, Inc. dba Felton Institute ("Felton Institute"), which comprise the Statement of Financial Position as of June 30, 2015, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report dated December 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Felton Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Felton Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of Felton Institute's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

San Francisco, California
December 14, 2015

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Certified Public Accountants, LLP

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors
Family Service Agency of San Francisco, Inc.
dba Felton Institute

Report on Compliance for Each Major Federal Program

We have audited Family Service Agency of San Francisco, Inc. dba Felton Institute's ("Felton Institute") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Felton Institute's major federal programs for the year ended June 30, 2015. Felton Institute's major federal programs for the year ended June 30, 2015 are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Felton Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Felton Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Felton Institute's compliance.

Opinion on Each Major Federal Program

In our opinion, Felton Institute complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**
continued

Report on Internal Control Over Compliance

Management of Felton Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered Felton Institute's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Felton Institute's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Harrington Group

San Francisco, California
December 14, 2015

FAMILY SERVICE AGENCY OF SAN FRANCISCO, INC.
DBA FELTON INSTITUTE
Schedule of Findings and Questioned Costs
For the year ended June 30, 2015

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiencies identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiencies identified? None reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

Identification of Major Programs:

U.S. Department of Health and Human Services:

Child Care and Development Block Grant 93.575

Child Care Mandatory and Matching Funds of the Child Care and Development Fund 93.596

Medical Assistance Program 93.778

Corporation for National and Community Service:

Foster Grandparent Program 94.011

Section II – Financial Statements Findings

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

Section III – Federal Award Findings and Questioned Costs

There are neither findings nor questioned costs for Federal awards as defined in OMB Circular A-133.

Section IV – Summary Schedule of Prior Year Findings

None.