

**Family Care Network, Inc.**

**Financial Statements**

**Year Ended June 30, 2010**

**Family Care Network, Inc.**  
**Financial Statements**  
**Year Ended June 30, 2010**

**Table of Contents**

	<b>Page</b>
<i>Financial Statements</i>	
Independent Auditors' Report	3-4
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7-8
Statement of Cash Flows	9
Notes to Financial Statements	10-17
<i>Other Independent Auditors' Reports</i>	
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 <i>Government Auditing Standards</i>	19-20
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on Schedule of Expenditures of Federal Awards	21-22
Schedule of Expenditures of Federal Awards	23
Schedule of Findings and Questioned Costs	24
Status of Prior Year's Findings – June 30, 2009	25

**Principals:**

David W. Phillips, CPA  
David A. Bryson, CPA  
Jeanne A. Potter, CPA  
Daniel J. O'Hare, CPA  
Kathi Niffenegger, CPA  
Fred W. Bogart, CPA  
Allen E. Eschenbach, CPA  
Michael T. Glaudel, CPA  
R. Lance Cowart, CPA  
David J. Merlo, CPA



**CERTIFIED PUBLIC ACCOUNTANTS**  
**TAX AND BUSINESS ADVISORS**

**Emeritus:**

Fred L. Glenn  
Stephen A. Burdette  
Bradford M. Hair, CPA

Keith V. Lapp (1932-2008)

---

**Independent Auditors' Report**

**Board of Directors**

Family Care Network, Inc.  
San Luis Obispo, CA 93401

We have audited the accompanying statement of financial position of Family Care Network, Inc. (a nonprofit agency) as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Care Network, Inc. as of June 30, 2010, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2010 on our consideration of Family Care Network Inc.'s internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors  
Family Care Network, Inc.  
Page 2

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Family Care Network, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Glenn, Burdette, Phillips & Bryson

Certified Public Accountants

A Professional Corporation

San Luis Obispo, California

September 30, 2010

**Family Care Network, Inc.**  
**Statement of Financial Position**  
**June 30, 2010**

**Assets**

**Current assets:**

Cash and cash equivalents	\$ 906,666
Accounts receivable, net of allowance	558,198
Prepaid expenses	168,083
Certificates of deposit	1,991,004
Total current assets	<u>3,623,951</u>

**Property and equipment:**

Property and equipment	2,460,579
Accumulated depreciation	(611,446)
Net property and equipment	<u>1,849,133</u>

**Other assets:**

Miscellaneous deposits	<u>31,401</u>
Total assets	<u>\$ 5,504,485</u>

**Liabilities and Net Assets**

**Current liabilities:**

Accounts payable and accrued expenses	\$ 363,629
Payroll taxes payable	24,772
Salaries and wages payable	261,268
Vacation payable	206,297
Contracts and grants refundable advances	1,626,867
Notes payable, current portion	17,964
Total current liabilities	<u>2,500,797</u>

**Long-term liabilities:**

Notes payable, net of current portion	<u>1,474,086</u>
Total liabilities	<u>3,974,883</u>

**Net assets**

Unrestricted net assets:

Designated for economic uncertainty	300,000
Designated for facilities	500,000
Undesignated	729,602
Total net assets	<u>1,529,602</u>

Total liabilities and net assets	<u>\$ 5,504,485</u>
----------------------------------	---------------------

*See independent auditors' report.*

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

**Family Care Network, Inc.**  
**Statement of Activities**  
**Year Ended June 30, 2010**

<b>Unrestricted revenues:</b>	
Therapeutic foster care	\$ 3,655,507
Family support services	5,484,187
Transitional housing services	1,681,584
Prevention and school based service	208,737
Miscellaneous programs	24,031
Donations and fundraising	430,022
Investment income	8,126
Total unrestricted revenues	<u>11,492,194</u>
<b>Expenses:</b>	
Program services:	
Therapeutic foster care	3,694,073
Family support services	5,484,187
Transitional housing services	1,690,496
Prevention and school based service	208,737
Miscellaneous programs	91,540
Total program services	<u>11,169,033</u>
Donations and fundraising	<u>104,303</u>
Total expenses	<u>11,273,336</u>
Change in net assets	218,858
<b>Unrestricted net assets - beginning of year</b>	<u>1,310,744</u>
<b>Unrestricted net assets - end of year</b>	<u><u>\$ 1,529,602</u></u>

*See independent auditors' report*

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

**Family Care Network, Inc.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2010**

	<u>Therapeutic Foster Care</u>	<u>Family Support Services</u>	<u>Transitional Housing Services</u>	<u>Prevention and School Based Services</u>
Administration	\$ 21,302	\$ 14,662	\$ 12,348	\$ 121
Advertising	4,081	2,212	223	20
Audit expense	1,434	7,570	890	81
Bank charges	23	124	15	2
Conferences and meetings	4,931	21,553	2,179	82
Consultants	2,577	3,050	239	19
Employee benefits	148,410	285,913	78,296	14,555
Equipment expense	15,146	47,948	17,891	513
Payment adjustments	1,997			
Foster care expense	1,314,935	153,350		
Insurance	10,027	52,434	6,491	560
Interest			9,310	
Legal				
Maintenance	8,219	9,617	9,590	103
Memberships	1,739	8,244	950	86
Miscellaneous child costs	45,694	123,830	438,204	
Payroll	1,422,017	3,221,346	745,955	146,788
Payroll taxes	110,315	259,507	60,390	11,794
Postage	1,365	4,562	827	50
Printing and publications	66	350	41	4
Rent	96,826	175,430	29,579	1,883
Supplies	2,477	8,205	1,495	87
Telephone	36,736	81,419	17,230	2,271
Utilities	4,572	23,858	14,788	256
Vehicle operating expense	129,040	238,724	46,415	854
Worker's compensation expense	18,446	37,607	14,185	2,505
<b>Total expenses before depreciation and supporting services</b>	<b>3,402,375</b>	<b>4,781,515</b>	<b>1,507,531</b>	<b>182,634</b>
Depreciation	16,993	88,162	35,394	945
Supporting services allocation	274,705	614,510	147,571	25,158
<b>Total expenses</b>	<b>\$ 3,694,073</b>	<b>\$ 5,484,187</b>	<b>\$ 1,690,496</b>	<b>\$ 208,737</b>

*See independent auditors' report.*

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

<u>Miscellaneous Programs</u>	<u>Donations and Fundraising</u>	<u>Supporting Services</u>	<u>Agency Total</u>
\$ 6,913	\$ 29,775	\$ 38,313	\$ 123,434
	5,425	559	12,520
		2,076	12,051
		34	198
810	1,024	7,078	37,657
	635	997	7,517
408	956	67,139	595,677
748	33,993	17,586	133,825
			1,997
			1,468,285
		14,380	83,892
			9,310
5,000		5,000	10,000
	1,550	2,637	31,716
	65	8,754	19,838
37,419	100		645,247
9,725	11,612	730,657	6,288,100
771	907	58,930	502,614
	947	1,574	9,325
		166	627
20,878	710	48,103	373,409
92	448	2,362	15,166
17	76	16,238	153,987
31		6,542	50,047
6,222	5,365	7,788	434,408
135	220	13,721	86,819
89,169	93,808	1,050,634	11,107,666
		24,176	165,670
2,371	10,495	(1,074,810)	-
<u>\$ 91,540</u>	<u>\$ 104,303</u>	<u>\$ -</u>	<u>\$ 11,273,336</u>

**Family Care Network, Inc.**  
**Statement of Cash Flows**  
**Year Ended June 30, 2010**

**Cash flows from operating activities:**

Change in net assets	\$	218,858
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	\$	165,670
Changes in operating assets and liabilities:		
Accounts receivable	364,349	
Prepaid expenses	(9,743)	
Miscellaneous deposits	26,598	
Accounts payable and accrued expenses	(70,970)	
Payroll taxes payable	(26,358)	
Salaries and wages payable	(13,225)	
Vacation payable	(15,652)	
Contracts and grants refundable advances	669,956	
Total adjustments		<u>1,090,625</u>
Net cash provided by operating activities		<u>1,309,483</u>

**Cash flows from investing activities:**

Purchase of certificates of deposits	(1,244,626)	
Purchase of property and equipment	<u>(134,665)</u>	
Net cash used in investing activities		(1,379,291)

**Cash flows from financing activities:**

Repayment of notes payable	<u>(17,124)</u>	
Net cash used in financing activities		<u>(17,124)</u>

Net decrease in cash and cash equivalents (86,932)

Cash and cash equivalents - beginning of year 993,598

Cash and cash equivalents - end of year \$ 906,666

**Supplemental disclosure of cash flow information:**

Payments for interest	\$	9,310
-----------------------	----	-------

*See independent auditors' report.*

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

**Family Care Network, Inc.**  
**Notes to Financial Statements**  
**June 30, 2010**

**Note 1: Summary of Significant Accounting Policies**

**Organization**

Family Care Network, Inc. (the Agency) was established in 1987 for the purpose of placing children in foster homes and providing these children with intensive counseling and therapeutic services in San Luis Obispo and Santa Barbara Counties. The Agency has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Agency is also exempt from California franchise taxes and, therefore, has made no provision for federal or California income taxes. Family Care Network, Inc. is accredited through the California Alliance of Child and Family Services as a Foster Family Agency, Mental Health and Family Services Provider.

**Basis of Accounting**

The financial statements of the Agency have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

The accounts of the Agency are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined and presented for the Agency as a whole in accordance with the provisions of Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 – Not for Profit Entities.

**Financial Statement Presentation**

Under Non-for-Profit Entities, Presentation of Financial Statements Subtopic of FASB ASC, the Agency is required to classify its financial position and activities for accounting and reporting purposes into three classes of net assets according to externally (donor) imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of June 30, 2010, the Agency has only unrestricted net assets.

In accordance with Non-for-Profit Entities, Revenue Recognition Subtopic of FASB ASC, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. The Agency's policy is to record unrestricted support for restrictions that are fulfilled in the same time period as contributions are received. All gifts granted to the Agency are recorded at fair market value at the time of receipt.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Donated Materials and Services**

The Agency receives donations of time and services from members of the community and volunteers which are recorded in the financial statements if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. However, the value of these donations is not reflected in the accompanying financial statements since they do not meet the two recognition criteria described above. In-kind donations of fixed assets and supplies used directly by the Agency are valued at their appraised values at the time of the bequest.

**Fair Value Measurements**

Effective April 1, 2009, the Agency records its financial assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of FASB Accounting Standards Codification (the "Topic"). This Topic provides a framework for measuring fair value, clarifies the definition of fair value and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The Topic also establishes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

*Level 1:* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Agency has the ability to access.

*Level 2* Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**Note 1: Summary of Significant Accounting Policies (Continued)**

This hierarchy requires the Agency to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Certificates of deposit and money market funds classified as cash and cash equivalents are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices; however realized and unrealized gains and losses were immaterial to the financial statements and were not recorded.

**Income Taxes**

The Agency is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Agency is also exempt from state income taxes.

Income Taxes Topic of FASB Accounting Standards Codification requires, among other things, the recognition and measurement of tax positions based on a "more likely than not" (likelihood greater than 50%) approach. As of June 30, 2010, the Agency did not maintain any tax positions that did not meet the "more likely than not" threshold. However, tax returns remain subject to examination by the Internal Revenue Service for fiscal years ending on or after June 30, 2007 and by the California Franchise Tax Board for fiscal years ending on or after June 30, 2006. As noted above, the Agency does not currently pay income taxes.

**Cash and Cash Equivalents**

The Agency considers demand deposits with financial institutions, money market funds and certificates of deposits with an original maturity date of three months or less to be cash equivalents for the statement of cash flows.

**Concentration of Credit Risk**

The Agency maintains cash balances with Federal Deposit Insurance Corporation (FDIC) insured financial institutions. At times the balances may exceed federally insured limits. The FDIC insures interest-bearing transaction accounts and certificates of deposit up to \$250,000 at each financial institution with temporary unlimited insurance coverage for non-interest bearing transaction accounts. At June 30, 2010, the Agency had no cash on deposit that exceeded the insured limit. The Agency also maintains a U.S. Treasury money market fund balance of \$494,406 that is not FDIC-insured; however, this fund only invests in securities backed by the full faith and credit of the United States Government.

**Accounts Receivable**

The Agency provides an allowance for uncollectible account receivable based upon prior experience and management's assessment of the collectability of specific existing accounts. Payment adjustments expense was \$1,997 during the year ended June 30, 2010.

**Note 1: Summary of Significant Accounting Policies (Continued)**

Based on a review of accounts receivable, management has determined that an allowance for doubtful accounts is unnecessary at June 30, 2010. Any bad debts in the future would be charged off as incurred. As of June 30, 2010, one agency accounted for 32% of accounts receivable and three agencies accounted for 96% of total revenue.

**Certificates of Deposit**

Certificates of deposit are comprised of several certificates of deposit with original maturities greater than three months and are reported at fair value. Certificates of deposits' fair values are based on quoted market prices from independent sources. Investment income and gains and losses on certificates of deposits are recorded as increases or decreases in unrestricted net assets. At June 30, 2010, realized and unrealized gains and losses were immaterial to the financial statements and were not recorded.

**Property and Equipment**

Property and equipment is recorded at historical cost when purchased or estimated fair market value when donated. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets. Repairs and maintenance costs are expensed when incurred. Capital expenditures over \$1,000 are recorded as property and equipment.

Estimated useful lives of assets are as follows:

	<u>Years</u>
Leasehold improvements	7-15
Database	3-5
Furniture	3-7
Computer/office equipment	3-7
Buildings	27.5-55
Transportation equipment	3-5

**Designated Net Assets**

The Board of Directors has designated \$300,000 for "economic uncertainty" which is intended to support the viability, quality and efficacy of agency programs and services to children and families in fulfillment of its mission during difficult economic times. Additionally, the Board of Directors has designated \$500,000 for future administrative and/or direct service facilities. These Net Asset designations by the Board of Directors may be re-designated at the pleasure of the Board as circumstances, agency needs or financial conditions change.

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Foster Care Revenue**

The Agency receives a fee, which is based on established rates set by the State Foster Care Rates Bureau, from the County Department of Social Services for each child placed in a home. The Agency places children primarily in San Luis Obispo County, as well as Santa Barbara County. These fees are a combination of Federal, State and County monies that are regulated by the County. The fees received by the Agency are used to cover the costs for foster care placements. Foster care revenue totaling \$3,817,487 is included in Therapeutic Foster Care Services revenue and Transitional Housing Services revenue for the year ended June 30, 2010.

**Functional Allocations**

The cost of providing the various program services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services.

**Advertising Costs**

Advertising costs are expensed as incurred. Advertising costs for the year ended June 30, 2010 totaled \$12,521.

**Litigation**

The Agency is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Agency's financial position, statement of activities or cash flows.

**Subsequent Events**

Subsequent events have been evaluated through September 30, 2010, which is the date the financial statements were available to be issued.

**Family Care Network, Inc.**  
**Notes to Financial Statements**  
**June 30, 2010**  
**Page 6**

**Note 2: Property and Equipment**

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

Land	\$	675,000
Leasehold improvements		15,525
Database		397,911
Furniture		38,420
Computer/office equipment		335,353
Building		887,213
Transportation equipment		111,157
Total		<u>2,460,579</u>
Less accumulated depreciation		<u>(611,446)</u>
Net property and equipment	\$	<u>1,849,133</u>

Depreciation expense for the year ended June 30, 2010 was \$165,670.

**Note 3: Operating Leases**

The Agency leases an office in San Luis Obispo ending May 31, 2011.

The Agency leases an office in Santa Maria ending February 28, 2013.

The Agency leases an office in Atascadero ending November 30, 2010.

The Agency leases two offices in San Luis Obispo, which are on a month-to-month basis.

The Agency leases an office in Santa Barbara ending April 30, 2011.

The Agency leases five copiers to use in program activities under four separate, non-cancellable operating lease agreements. The leases expire through April 21, 2013.

Additionally, the Agency leases apartments for use in the Transitional Housing Placement Programs. One lease is a six month lease ending October 31, 2010. All other apartment leases are on a month-to-month basis. These apartments are funded through San Luis Obispo County Department of Social Services and Santa Barbara County Department of Social Services under the THPP and THP-Plus programs. A total of fourteen leases for apartments were active at June 30, 2010.

**Family Care Network, Inc.**  
**Notes to Financial Statements**  
**June 30, 2010**  
**Page 7**

**Note 3: Operating Leases (Continued)**

Future minimum lease payments were as follows:

<u>Year Ending June 30</u>	
2011	\$ 292,654
2012	90,192
2013	<u>52,557</u>
	<u>\$ 435,403</u>

Lease expense under these agreements was \$418,760 for the year ended June 30, 2010.

**Note 4: Notes Payable**

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

Mortgage loan payable, interest only (4.25% at June 30, 2010), due in 30 years with call options at 10 years and every 5 years thereafter. Principal payments due in the amount of 50% of prior year's excess income over expenditures for 201 South Halycon property. Secured by 201 South Halycon property.	\$ 198,952
No payment loan, forgivable March 2015 if continued use as low income transitional housing, secured by an apartment building.	348,098
No payment loan, forgivable March 2035 if continued use as low income transitional housing, secured by an apartment building.	200,000
No payment loan, forgivable March 2060 if continued use as low income transitional housing, secured by an apartment building.	50,000
No payment loan, forgivable September 2017 if continued use as low income transitional housing, secured by an apartment building.	<u>695,000</u>
	1,492,050
Less current portion	<u>(17,964)</u>
Notes payable, net of current portion	<u>\$ 1,474,086</u>

**Family Care Network, Inc.**  
**Notes to Financial Statements**  
**June 30, 2010**  
**Page 8**

**Note 4: Notes Payable (Continued)**

Maturities of notes payable were as follows:

<u>Year Ending June 30,</u>	
2011	\$ 17,964
2012	-
2013	-
2014	-
2015	348,098
Thereafter	<u>1,125,988</u>
Total	<u>\$ 1,492,050</u>

**Note 5: Line of Credit**

The Agency has a revolving line of credit agreement with a financial institution in the amount of \$500,000 with an interest rate of 1.0% per annum in excess of the bank's prime rate, not to be less than 6%, which at June 30, 2010 was 6%. The line of credit was extended from July 26, 2010 to November 2, 2010. At June 30, 2010, there was no outstanding balance.

**Note 6: Retirement Plan**

The Agency has a 403(b) retirement plan for all employees with American Funds. Beginning in 2007, the Board of Directors, at its discretion, has approved an annual match for employees with at least one year of continuous service. The current year match is equal to 100% of employee contributions up to 2% of the employee's income for the 403(b) Plan Year. All employer contributions are fully vested immediately. Total employer contributions by the Agency for the current year were \$60,916.

## **Other Independent Auditors' Reports**

**Principals:**

David W. Phillips, CPA  
David A. Bryson, CPA  
Jeanne A. Potter, CPA  
Daniel J. O'Hare, CPA  
Kathi Niffenegger, CPA  
Fred W. Bogart, CPA  
Allen E. Eschenbach, CPA  
Michael T. Glaudel, CPA  
R. Lance Cowart, CPA  
David J. Merlo, CPA



**CERTIFIED PUBLIC ACCOUNTANTS**  
**TAX AND BUSINESS ADVISORS**

**Emeritus:**

Fred L. Glenn  
Stephen A. Burdette  
Bradford M. Hair, CPA

Keith V. Lapp (1932-2008)

---

**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***

**Board of Directors**

Family Care Network, Inc.  
San Luis Obispo, CA 93401

We have audited the financial statements of Family Care Network, Inc. (a nonprofit agency) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

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

**Compliance and Other Matters**

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

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



Glenn, Burdette, Phillips & Bryson

Certified Public Accountants

A Professional Corporation

San Luis Obispo, California

September 30, 2010

**Principals:**

David W. Phillips, CPA  
David A. Bryson, CPA  
Jeanne A. Potter, CPA  
Daniel J. O'Hare, CPA  
Kathi Niffenegger, CPA  
Fred W. Bogart, CPA  
Allen E. Eschenbach, CPA  
Michael T. Glaudel, CPA  
R. Lance Cowart, CPA  
David J. Merlo, CPA



**CERTIFIED PUBLIC ACCOUNTANTS**  
**TAX AND BUSINESS ADVISORS**

**Emeritus:**

Fred L. Glenn  
Stephen A. Burdette  
Bradford M. Hair, CPA

Keith V. Lapp (1932-2008)

---

**Independent Auditors' Report on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on  
Internal Control Over Compliance in Accordance with OMB Circular A-133  
and on Schedule of Expenditures of Federal Awards**

**Board of Directors**

Family Care Network, Inc.  
San Luis Obispo, CA 93401

**Compliance**

We have audited the compliance of Family Care Network, Inc. (a nonprofit agency) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2010. Family Care Network, Inc.'s major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Family Care Network, Inc.'s management. Our responsibility is to express an opinion on Family Care Network Inc.'s compliance based on our audit.

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

In our opinion, Family Care Network, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

**Internal Control over Compliance**

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

*A deficiency in internal control over compliance* 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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



Glenn, Burdette, Phillips & Bryson  
Certified Public Accountants  
A Professional Corporation  
San Luis Obispo, California

September 30, 2010

**Family Care Network, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2010**

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services Passed through County of San Luis Obispo: Foster Care	93.658	0879.01.01	\$ 837,636

The Agency receives its funding through the County of San Luis Obispo. The federal expenditures reported above for the program are included in Family Support Services and Transitional Housing Services expenditures in the Statement of Activities. Family Support Services and Transitional Housing Services expenditures consist of federal, state and county supported activities. Only the federal portion of that amount is included on this schedule.

**Family Care Network, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2010**

**Section I: Summary of Auditors' Results**

**Financial Statements**

- (a) Type of auditors' report issued on financial statements: **Unqualified.**
- (b) Internal control over financial reporting:
- Material weakness(es) identified: **No.**
  - Significant deficiencies identified not considered to be material weaknesses: **No.**
- (c) Noncompliance material to financial statements noted: **No.**

**Federal Awards**

- (d) Internal control over major programs:
- Material weakness(es) identified: **No.**
  - Significant deficiencies identified not considered to be material weaknesses: **No.**
- (e) Type of auditors' report issued on compliance for major programs: **Unqualified.**
- (f) Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a): **No.**
- (g) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000.**
- (h) Major Programs:
- Foster Care (CFDA Number 93.658)
- (i) Auditee qualified as low-risk auditee: **Yes.**

**Section II: Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance With *Government Auditing Standards***

We noted no findings in the current year.

**Section III: Findings and Questioned Costs for Federal Awards**

We noted no findings or questioned costs in the current year.