PENINSULA FAMILY CONNECTIONS

(A California Nonprofit Public Benefit Corporation)

Financial Statements

For the years ended
June 30, 2008 and 2007

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SWEENEY ◆ KOVAR
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Peninsula Family Connections
San Carlos, California

We have audited the accompanying statements of assets, liabilities and net assets - cash basis of Peninsula Family Connections (a California nonprofit public benefit corporation) as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets – cash basis, functional expenses – cash basis, and cash flows – cash basis for the years then ended. These financial statements are the responsibility of Peninsula Family Connection's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of Peninsula Family Connections at June 30, 2008 and 2007, and its revenues, expenses, and changes in net assets for the years then ended on the basis of accounting described in Note 2.

Sweeney Kovar LLP

Danville, California
January 5, 2009

PENINSULA FAMILY CONNECTIONS
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS

June 30, 2008 and 2007

ASSETS	2008	2007
Cash and cash equivalents	**$ 207,688**	$ 94,844
Bank certificates of deposit, at market (approximates cost)	**221,691**	212,637
Other assets	**4,300**	-
Furniture and computer equipment, net	**13,579**	11,420
Security deposit	**2,000**	-
Total assets	**$ 449,258**	$ 318,901
LIABILITIES AND NET ASSETS		
Liabilities	**$ -**	$ -
Net Assets:		
Unrestricted	**371,794**	298,690
Temporarily restricted	**77,464**	20,211
Total net assets	**449,258**	318,901
Total liabilities and net assets	**$ 449,258**	$ 318,901

PENINSULA FAMILY CONNECTIONS

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - CASH BASIS

For the years ended June 30, 2008 and 2007

	2008			2007		
	Unrestricted	**Temporarily Restricted**	Total	Unrestricted	Temporarily Restricted	Total
Revenues						
Contributions	**$ 206,446**	**$ 241,121**	**$ 447,567**	$ 192,625	$ 74,962	$ 267,587
Government grants	**64,173**	**-**	**64,173**	61,710	-	61,710
Interest and dividend income	**10,733**	**-**	**10,733**	10,723	-	10,723
Fundraising events, net of $10,148 costs ($11,387-2007)	**37,730**	**-**	**37,730**	28,026	-	28,026
Net assets released from restrictions	**183,868**	**(183,868)**	**-**	61,865	(61,865)	-
Total revenue	**502,950**	**57,253**	**560,203**	354,949	13,097	368,046
Expenses						
Program services	**209,597**	**-**	**209,597**	154,104	-	154,104
Management and general	**119,695**	**-**	**119,695**	95,961	-	95,961
Fundraising	**100,554**	**-**	**100,554**	83,285	-	83,285
Total expenses	**429,846**	**-**	**429,846**	333,350	-	333,350
Increase in Net Assets	**73,104**	**57,253**	**130,357**	21,599	13,097	34,696
Net Assets, beginning of year	**298,690**	**20,211**	**318,901**	277,091	7,114	284,205
Net Assets, end of year	**$ 371,794**	**$ 77,464**	**$ 449,258**	$ 298,690	$ 20,211	$ 318,901

See accompanying notes to financial statements.

PENINSULA FAMILY CONNECTIONS

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES - CASH BASIS

For the years ended June 30, 2008 and 2007

	2008				2007			
	Program Services	**Management and General**	**Fundraising**	**Total**	Program Services	Management and General	Fundraising	Total
Salaries and Wages	**$ 131,033**	**$ 81,532**	**$ 78,620**	**$ 291,185**	$ 107,864	$ 67,037	$ 64,880	$ 239,781
Payroll Taxes	**11,326**	**7,047**	**6,796**	**25,169**	9,557	5,946	5,734	21,237
Classroom Materials	**8,229**	**-**	**-**	**8,229**	3,505	-	-	3,505
Printed Materials	**-**	**-**	**8,786**	**8,786**	-	-	3,586	3,586
Insurance	**4,492**	**2,795**	**2,696**	**9,983**	6,117	3,806	3,670	13,593
Office Supplies	**-**	**9,378**	**-**	**9,378**	-	3,078	-	3,078
Postage and Delivery	**-**	**1,050**	**450**	**1,500**	-	1,795	769	2,564
Janitorial Services	**2,075**	**-**	**-**	**2,075**	1,575	-	-	1,575
Volunteer and Staff	**625**	**-**	**-**	**625**	290	-	-	290
Sequoia Adult School Fees	**1,200**	**-**	**-**	**1,200**	1,500	-	-	1,500
Accounting and Legal	**-**	**5,830**	**-**	**5,830**	-	5,620	-	5,620
Miscellaneous	**791**	**-**	**-**	**791**	2,272	-	-	2,272
Depreciation Expense	**1,299**	**3,697**	**-**	**4,996**	1,011	2,917	-	3,928
Contract Services	**13,270**	**-**	**-**	**13,270**	4,866	-	-	4,866
Travel	**2,256**	**-**	**-**	**2,256**	-	1,022	-	1,022
Maintenance and Repair	**5,075**	**-**	**-**	**5,075**	784	-	-	784
Telephone	**2,162**	**270**	**270**	**2,702**	2,073	261	260	2,594
Rent Expense	**7,500**	**-**	**-**	**7,500**	-	-	-	-
Facility Usage Fees	**3,657**	**-**	**-**	**3,657**	2,500	-	-	2,500
Field Trips	**-**	**-**	**-**	**-**	1,480	-	-	1,480
Marketing	**-**	**-**	**1,127**	**1,127**	-	-	4,386	4,386
Parent Involvement	**2,182**	**-**	**-**	**2,182**	4,313	-	-	4,313
Professional Development	**2,044**	**-**	**-**	**2,044**	2,439	-	-	2,439
Computer Maintenance	**8,570**	**-**	**-**	**8,570**	1,958	-	-	1,958
Bank & Payroll Charges	**-**	**3,457**	**-**	**3,457**	-	2,970	-	2,970
Recruiting	**-**	**156**	**-**	**156**	-	562	-	562
Consultant	**1,809**	**3,618**	**1,809**	**7,235**	-	-	-	-
Staff Recognition	**-**	**864**	**-**	**864**	-	947	-	947
	$ 209,597	**$ 119,695**	**$ 100,554**	**$ 429,846**	$ 154,104	$ 95,961	$ 83,285	$ 333,350

See accompanying notes to financial statements,

PENINSULA FAMILY CONNECTIONS
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS - CASH BASIS
For the years ended June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Increase in net assets	**$ 130,357**	$ 34,696
Adjustments to reconcile change in net assets to		
net cash flows provided by (used in) operating activities:		
Depreciation	**4,996**	3,928
Unrealized gain on certificates of deposit	**(54)**	(29)
Changes in operating assets and liabilities:		
Other assets	**(4,300)**	-
Security deposit	**(2,000)**	-
Net cash flows provided by (used in) operating activities	**128,999**	38,595
Cash Flows From Investing Activities		
Investment in bank certificates of deposit	**(9,000)**	(28,000)
Acquisition of furniture and computer equipment	**(7,155)**	(2,695)
Net cash flows provided by (used in) investing activities	**(16,155)**	(30,695)
Cash Flows From Financing Activities	**-**	-
Increase in Cash and Cash Equivalents	**112,844**	7,900
Cash and Cash Equivalents, beginning of year	**94,844**	86,944
Cash and Cash Equivalents, end of year	**$ 207,688**	$ 94,844

See accompanying notes to financial statements.

PENINSULA FAMILY CONNECTIONS

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2008 and 2007

1. Organization and Nature of Activities

Peninsula Family Connections (the Organization), located in San Carlos, California, is a California nonprofit public benefit corporation formed in 1998 for educational purposes, specifically to enhance and strengthen family life in the community and to educate preschool age children and their parents for family living. The Organization operates three parent participation preschools.

2. **Summary of Significant Accounting Policies**

Method of Accounting

The Organization's policy is to prepare its financial statements on the cash basis of accounting which includes the recording of depreciation. Consequently, revenues are recognized when received rather than when earned, and expenses and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred. This method of accounting is a comprehensive basis of accounting other than generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to up to three classes of net assets, as applicable; unrestricted, temporarily restricted, and permanently restricted.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity date that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates of three months or less.

Bank Certificates of Deposit

Investments in bank certificates of deposit, held by Morgan Stanley, are recorded at market which approximates cost. Changes in unrealized gain or loss are included in interest income. These investments are generally held to maturity. At June 30, 2008, the Organization held $221,691 in certificates of deposit maturing between August 2008 and January 2009 and earning 3.05% to 3.25%.

2. **Summary of Significant Accounting Policies (continued)**

Furniture and Computer Equipment
Furniture and computer equipment are carried at cost. Depreciation is computed using the straight-line method over estimated useful lives of three to seven years. Expenditures for maintenance, repairs, and minor equipment purchases are charged to expense as incurred.

Income Taxes
The Organization is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Codes, and as such, files annual exempt organization information returns with the Internal Revenue Service and the California Franchise Tax Board. Management believes that there is no unrelated business income.

Restricted and Unrestricted Revenue Support
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions.

Volunteer Services
The Organization receives many hours of donated services which are not recorded as revenue or expense herein. The value of such services has not been estimated.

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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional Expenses
The cost of providing the Organization's programs has been summarized by natural classification in these financial statements. Based on management estimates, costs have been allocated between programs, management and general, and fundraising as they relate to those functions.

Reclassifications
Certain 2007 balances have been reclassified to conform to the 2008 presentation.

PENINSULA FAMILY CONNECTIONS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(continued)
For the years ended June 30, 2008 and 2007

3. **Furniture and Computer Equipment**

Furniture and equipment at June 30, 2008 and 2007 were as follows:

	2008	2007
Computer equipment and software	$ 14,123	$ 12,118
Furniture	24,183	19,033
	38,306	31,151
Less: Accumulated depreciation	(24,727)	(19,731)
	$ 13,579	$ 11,420

Depreciation expense totaled $4,996 in 2008 and $3,928 in 2007.

4. **Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2008 and 2007 are available for the following purposes:

	2008	2007
Kickoff to Kindergarten	$ 34,897	$ 13,742
Capacity Building Activities	25,067	-
Preschool program in East Palo Alto	17,500	-
Saturday Preschool	-	5,321
Children's Health Council training	-	1,148
	$ 77,464	$ 20,211

5. **Facility Obligations**

The Organization uses certain local school and other nonprofit facilities for its programs at nominal charges as of June 30, 2007. The Organization however signed a lease agreement for a new location in East Palo Alto. The term of the lease is for 3 years beginning March 1, 2008 and ending June 30, 2011 in which the Organization has two (2) one-year options to extend the lease. The monthly rent for the first 6 months of the lease term is $1,500. Commencing September 1, 2008, the monthly rent increases to $2,000 and beginning on March 1, 2009 and on each subsequent March 1 (including any term extensions granted under the options) thereafter until the expiration of the lease, the monthly rent shall be increased to an amount that is 104% of the rent paid in the month immediately preceding the anniversary date. Effective March 1, 2008, the Organization sub-leased part of its new office space at $500 per month starting September 1, 2008. The sub-lease term follows the same terms as that of the master lease.

The future lease commitments as of June 30, 2008 are as follows:

	Gross Obligation	Future Sublease Income	Net Obligation
2009	$ 21,820	$ (5,080)	$ 16,740
2010	25,293	(6,323)	18,970
2011	26,305	(6,576)	19,729
Total	$ 73,418	$ (17,979)	$ 55,439

Rent expense totaled $7,500 in 2008 and $ 0 in 2007.

6. **Concentrations of Credit Risk**

The Organization maintains checking and savings accounts at a major national bank insured by the FDIC up to $100,000 in 2008 which subsequently increased to $250,000 in October 2008. At June 30, 2008 and 2007, the balances on deposit were below the FDIC limit.

The Organization has investments on account at a major national brokerage company insured by the SIPC up to $500,000. At June 30, 2008 and 2007, the balances invested were below the SIPC limit. In addition, each of the bank certificates of deposit is covered by FDIC insurance at June 30, 2008 and 2007.