HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

FOOTHILL FAMILY SERVICE

FINANCIAL STATEMENTS
and
SUPPLEMENTAL SCHEDULE

JUNE 30, 2018

C O N T E N T S

HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Foothill Family Service

Report on the Financial Statements

We have audited the accompanying financial statements of Foothill Family Service (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2018, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 from 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 Foothill Family Service as of June 30, 2018, 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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Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Functional Expenses by Program is presented for 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.

Prior Period Financial Statements

The financial statements of Foothill Family Service as of June 30, 2017, were audited by other auditors whose report dated December 20, 2017, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018, on our consideration of Foothill Family Service'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 solely 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 effectiveness of Foothill Family Service's 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 Foothill Family Service's internal control over financial reporting and compliance.

Harrington Group

Pasadena, California
November 28, 2018

FOOTHILL FAMILY SERVICE

STATEMENT OF FINANCIAL POSITION
June 30, 2018
With comparative totals at June 30, 2017

		2018		2017
ASSETS				
Cash and cash equivalents (Note 2)	**$**	**3,869,434**	$	2,431,775
Accounts receivables (Note 3)		**2,269,229**		2,150,554
Pledges receivable (Note 4)		**901,096**		656,413
Prepaid expenses and other current assets		**406,261**		297,291
Investments (Note 5)		**2,562,310**		2,248,766
Property and equipment (Note 7)		**8,417,288**		8,869,262
TOTAL ASSETS	**$**	**18,425,618**	$	16,654,061
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable (Note 8)	**$**	**4,188,497**	$	3,379,760
Accrued and other current liabilities (Note 9)		**3,112,489**		1,923,620
Notes payable (Note 11)		**3,830,452**		3,947,214
TOTAL LIABILITIES		**11,131,438**		9,250,594
NET ASSETS				
Unrestricted		**6,643,572**		6,601,197
Temporarily restricted (Note 12)		**5,896**		225,123
Permanently restricted (Note 13)		**644,712**		577,147
TOTAL NET ASSETS		**7,294,180**		7,403,467
TOTAL LIABILITIES AND NET ASSETS	**$**	**18,425,618**	$	16,654,061

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

FOOTHILL FAMILY SERVICE

STATEMENT OF ACTIVITIES
For the year ended June 30, 2018
With comparative totals for the year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018	2017
REVENUE AND SUPPORT					
Program and contract	$ 21,410,481	$ -	$ -	**$ 21,410,481**	$ 20,447,849
Contributions	1,318,071		67,565	**1,385,636**	1,549,956
In-kind	302,702			**302,702**	266,375
Special events (net of expenses of $92,116)	144,592			**144,592**	156,676
Investment income	142,748			**142,748**	193,234
Net assets released from restriction (Note 12)	219,227	(219,227)		**-**	-
TOTAL REVENUE AND SUPPORT	23,537,821	(219,227)	67,565	**23,386,159**	22,614,090
EXPENSES					
Program services	19,776,965			**19,776,965**	18,847,276
Management and general	3,011,006			**3,011,006**	2,893,331
Fund development	707,475			**707,475**	781,839
TOTAL EXPENSES	23,495,446	-	-	**23,495,446**	22,522,446
CHANGE IN NET ASSETS	42,375	(219,227)	67,565	**(109,287)**	91,644
NET ASSETS, BEGINNING OF YEAR	6,601,197	225,123	577,147	**7,403,467**	7,311,823
NET ASSETS, END OF YEAR	$ 6,643,572	$ 5,896	$ 644,712	**$ 7,294,180**	$ 7,403,467

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

FOOTHILL FAMILY SERVICE

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2018
With comparative totals for the year ended June 30, 2017

	Program Services	Management and General	Fund Development	Total Expenses 2018	Total Expenses 2017
Salaries	$ 11,373,078	$ 1,941,483	$ 460,694	**$ 13,775,255**	$ 13,410,782
Employee benefits	2,853,136	487,223	115,679	**3,456,038**	3,340,218
Total personnel costs	14,226,214	2,428,706	576,373	**17,231,293**	16,751,000
Subcontracts	1,048,560			**1,048,560**	1,227,409
Occupancy	821,261	135,088	37,159	**993,508**	907,818
Supplies and printing	730,263	115,383	31,834	**877,480**	942,382
Professional fees	649,597	113,484	41,998	**805,079**	671,784
Other expenses	524,281	26,919	3,392	**554,592**	404,895
Contract services	549,646			**549,646**	440,741
Travel and training	541,633	32	4,201	**545,866**	394,904
Depreciation	337,570	130,491	3,290	**471,351**	457,305
Telephones	177,365	30,026	2,452	**209,843**	186,342
Insurance	147,848	28,003	2,760	**178,611**	100,405
Postage	15,858	2,870	422	**19,150**	21,133
Advertising	6,869	4	3,594	**10,467**	16,328
TOTAL 2018 FUNCTIONAL EXPENSES	**$ 19,776,965**	**$ 3,011,006**	**$ 707,475**	**$ 23,495,446**	
TOTAL 2017 FUNCTIONAL EXPENSES	$ 18,847,276	$ 2,893,331	$ 781,839		$ 22,522,446

FOOTHILL FAMILY SERVICE

STATEMENT OF CASH FLOWS
For the year ended June 30, 2018
With comparative totals for the year ended June 30, 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (109,287)	$ 91,644
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	471,347	457,305
Investment income	(135,825)	(189,727)
(Gain) on sale of property and equipment	(1,000)	-
(Increase) decrease in operating assets:		
Accounts receivables	(118,675)	688,804
Pledge receivables	(244,683)	(307,453)
Prepaid expense and other current assets	(108,970)	(122,756)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	808,737	282,090
Accounts accrued wages	1,188,869	402,187
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,750,513	1,302,094
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(178,010)	(21,464)
Proceeds from sale of property and equipment	1,000	-
Purchase of property and equipment	(19,373)	(175,021)
NET CASH (USED) BY INVESTING ACTIVITIES	(196,383)	(196,485)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable/line of credit	(116,471)	(116,457)
NET CASH (USED) BY FINANCING ACTIVITIES	(116,471)	(116,457)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,437,659	989,152
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,431,775	1,442,623
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,869,434	$ 2,431,775
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflects interest paid of:	$ 155,212	$ 159,761

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

1. Organization

For more than 90 years, Foothill Family Service (the "Agency") has served Southern California in its mission to empower children and families to achieve success in relationships, school, and work through community-based services that advance growth and development. The Agency has earned a reputation for providing high-quality services that establish the foundation for brighter futures in which individuals and families thrive, communities are strengthened, and generations are enriched.

The Agency has adapted to meet the needs of the community for which -- and from which -- it was founded. Grown from a grassroots effort of collecting food and clothing in Pasadena to an organization reaching more than 23,000 of the Greater Los Angeles region's community members annually, the Agency has emerged as a leader in mental health care, early childhood development and school-based behavioral health programs, as well as youth and family services including child abuse prevention and treatment, domestic violence prevention and treatment, and services for pregnant and parenting teens.

The Agency's decades of advancement, expansion, and innovation underscores its proficiency and agility in responding to a complex, shifting landscape of the ever-changing human condition. It is an illustration of deep roots cultivated by a significant past, and far-reaching branches supporting a promising future. With each individual we help, we promote lasting change in the present that will ripple outward into communities and forward through generations.

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 the Agency 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.

continued

2. Summary of Significant Accounting Policies, continued

Temporarily Restricted. The Agency 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 restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Agency to expend all of the income (or other economic benefits) derived from the donated assets. The Agency had permanently restricted net assets $644,712 at June 30, 2018.

Cash and Cash Equivalents

The Agency has defined cash and cash equivalents as time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Pledged Contributions

Unconditional promises to give that are expected to be collected within one year are recognized at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at amounts approximating fair value, and measured using the present value of 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 discounts is included in contributions revenue. Conditional promises to give are not included as support until the conditions are substantially met. An allowance for uncollectible pledges will be estimated by management based on such factors as prior collection history, type of contribution and the nature of the fund-raising activity.

Investments

The Agency values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain or loss on investments. Short-term highly liquid money market deposits that are not used for operations are treated as investments.

Endowment Investments

Endowment investments consist of investments purchased with the following resources:

- Donor-restricted permanent endowments, which are contributions restricted by donors to investment in perpetuity with only investment income and appreciation being used to support the Agency's activities.

continued

2. Summary of Significant Accounting Policies, continued

Endowment investments are reported at fair value. The fair value for investments in equity securities traded on national securities exchanges is determined by the closing price on the last business day of the fiscal year; securities traded on the over-the-counter market are valued at the last reported bid price. The fair value of shares in exchange-traded funds is determined by the closing price on the last business day of the fiscal year. The fair value of open-end mutual fund units is determined by the published net asset value per unit at the end of the last trading day of the fiscal year.

The investment and spending policies for the Endowment Fund are discussed in Note 13.

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

The Agency is required to measure its investments, pledged contributions, and in-kind contributions at fair value. The specific techniques used to measure the fair value for these financial statement elements are described in the notes below.

Concentration of Credit Risks

The Agency 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. The Agency has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2018, 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 the Agency's receivables consist of earned fees from contract programs granted by governmental agencies.

Approximately 92% of the Agency's total revenue and support is derived from program and contract revenue.

continued

2. Summary of Significant Accounting Policies, continued

Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Agency reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

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.

Income Taxes

The Agency 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 the Agency in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Agency's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Third Party Reimbursements

Program service fees and contract reimbursements, including retroactive adjustments under reimbursement agreements, are reported at the estimated net realizable amounts from third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined.

continued

2. Summary of Significant Accounting Policies, continued

Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. Grant revenue from federal agencies (including pass-through grant revenue) is subject to independent audit under the Uniform Guidance and review by grantor agencies. In addition, the Agency receives grant revenue from local government agencies which is also subject to independent audit and review by the grantor agencies. These audits or reviews could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Agency's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Agency.

Functional Allocation of Expenses

Costs of providing the Agency'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. The Agency uses full-time equivalents to allocate indirect costs.

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 the Agency's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Reclassification

Certain accounts from the June 30, 2017 financial statements have been reclassified for comparative purposes to conform to the June 30, 2018 presentation.

Subsequent Events

Management has evaluated subsequent events through November 28, 2018, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

continued

3. Accounts Receivables

Accounts receivables at June 30, 2018 and 2017, consist of the following:

	2018	2017
Contract receivables	**$ 690,661**	$ 567,573
Patient receivables	**2,649**	6,536
Due from L.A. County Department of Mental Health	**1,577,594**	1,577,595
	2,270,904	2,151,704
Less: allowance for uncollectible accounts	**(1,675)**	(1,150)
	$2,269,229	$2,150,554

4. 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, 2018 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2018. Using a rate of 3%, the discount on pledges receivable is immaterial, accordingly unamortized discount on pledges receivable is not recorded. Pledges receivable of $901,096 at June 30, 2018 are expected to be collected as follows:

Within one year	$501,096
One to five years	400,000
	$901,096

5. Investments

Investments at June 30, 2018 and 2017, consist of the following:

	2018	2017
Unrestricted net assets		
Mutual funds	**$1,997,704**	$1,835,726
Permanently restricted net assets		
Mutual funds	**564,606**	413,040
	$2,562,310	$2,248,766

continued

6. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2018 on a recurring basis:

	Level 1	Level 2	Level 3	Total
Mutual funds	$2,562,310	$ -	$ -	**$2,562,310**
Money market and cash equivalents	61,010			**61,010**
Total investments	$2,623,320	$ -	$ -	**$2,623,320**

The fair value of investments has been measured on a recurring basis using quoted prices for identical assets in active market (Level 1 inputs).

The table below presents transactions measured at fair value on a non-recurring basis during the year ended June 30, 2018:

	Level 1	Level 2	Level 3	Total
Pledged contributions - new	$ 718,438	$ -	$ -	**$ 718,438**
Donated materials and services	302,702			**302,702**
Total investments	$1,021,140	$ -	$ -	**$1,021,140**

7. Property and Equipment

Property and equipment at June 30, 2018 consist of the following:

Land	$ 4,535,124
Building	3,559,196
Leasehold improvements	3,380,420
Equipment	2,055,328
	13,530,068
Less: accumulated depreciation	(5,112,780)
	$ 8,417,288

Depreciation expense for the year ended June 30, 2018 was $471,347.

The useful lives of property and equipment for purposes of computing depreciation are:

Buildings and improvements	10-40 years
Furniture and fixtures	5-10 years

The Hudson Ave property is pledged as collateral in connection with a line of credit (Note 10).

7. Property and Equipment, continued

In March 2017 the Agency entered into an agreement to sell its two Pasadena properties located at 111 S. Hudson Ave and 118 S. Oak Knoll Ave. for $10,175,000. The contract is non-cancelable with a limit on liquidated damages of $500,000. As of June 30, 2018 the Agency has received $1,600,000 towards the purchase price and it is included in other liabilities (see Note 9). The final sale will be complete no sooner than January 2019 and no later than May 2020. After November 2018, the Agency can close on the sale by delivery of a 60 days' notice of its intent to close. It is the Agency's intention to secure a suitable size replacement location either through a lease or purchase for its Pasadena operations.

In February 2017 the Agency entered into an agreement to sell its West Covina property located at 1530 Cameron Ave for $6,200,000. The final sale will be completed on November 16, 2018. It is the Agency's intention to secure a suitable size replacement location either through a lease or purchase for its West Covina operations. (See Note 11 for corresponding loan disclosure)

8. Accounts Payable

Accounts payable at June 30, 2018 and 2017, consist of the following:

	2018	2017
Trade payable	**$ 673,258**	$ 538,660
Due to L.A. County Department of Mental Health*	**3,515,239**	2,841,100
	$4,188,497	$3,379,760

*Represents the Agency's calculation of liabilities over multiple contract years pending settlement with L.A. County DMH.

9. Accrued and Other Current Liabilities

Following is a summary of accrued and other current liabilities at June 30, 2018 and 2017:

	2018	2017
Accrued payroll, compensated absences, and related taxes	**$1,367,178**	$1,390,252
Escrow deposit	**1,600,000**	500,000
Other current liabilities	**108,668**	16,378
Deferred revenue	**32,355**	12,702
Accrued contractual allowances	**4,288**	4,288
	$3,112,489	$1,923,620

10. Line of Credit

At June 30, 2018, the Agency had two unused lines of credit of $600,000 and $2,250,000 totaling $2,850,000 with a bank to be drawn upon as needed, with interest at prime plus .5%, with a minimum rate of 4.00%.

The Hudson Ave property is pledged as collateral in connection with the $2,250,000 line of credit.

continued

11. Notes Payable

Notes payable at June 30, 2018 consist of the following:

Note payable to a financial institution, 7-year term, 25-year amortization, secured by real property (West Covina), due in monthly installments of $13,891.16 in principal, and interest at the fixed rate of 3.95% due in October 2021. (See Note 7)	$2,382,181
Note payable to a financial institution, 7-year term, 25-year amortization, secured by real property (Duarte), due in monthly payments of $8,749.18 in principal, and interest at the fixed rate of 3.90% paid off in July 2020.	1,448,271
	$3,830,452

Principal payments on the note payable are as follows:

Year ended June 30,	
2019	$ 120,974
2020	1,474,748
2021	78,394
Thereafter	2,156,336
	$3,830,452

12. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 consist of the following:

Program restrictions	$5,896

For the year ended June 30, 2018, net assets released from restrictions were $219,227, all of which was released from purpose restrictions.

13. Accounting for Endowments

The Agency's endowment consists of one Endowment Fund established by donors (referred to as donor-restricted endowment funds). As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

continued

13. Accounting for Endowments, continued

The state of California enacted the Uniform Prudent Management of Institutional Fund Act ("UPMIFA") effective January 1, 2009. UPMIFA establishes law for the management and investment of donor-restricted endowment funds. The Board of Directors of the Agency has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted permanent endowment funds unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to all donor-restricted permanent endowments, (b) the original value of any subsequent gifts to donor-restricted permanent endowments, and (c) the original value of accumulations to donor-restricted permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

UPMIFA permits the Agency to appropriate for expenditure or accumulate as much of a donor-restricted endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. In making its determination to appropriate or accumulate, the Agency must act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and it must consider, if relevant, the following factors:

- The duration and preservation of the endowment fund
- The purposes of the Agency and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Agency
- The investment policy of the Agency

The net asset composition of the endowment for the year ended June 30, 2018, is as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted funds endowments	$497,201	$ -	$644,712	**$1,141,913**

continued

13. Accounting for Endowments, continued

The Agency has an investment policy specific to its Endowment Fund, which is monitored by the Investment Committee of its Board of Directors. The investment policy describes the objective for the fund and sets ranges for asset allocation. The objective of the Endowment Fund is to earn an absolute return on the Endowment Fund that will provide a sustainable and increasing level of endowment income to support the Agency's annual operating budget, while increasing the real economic value of the Endowment Fund. The Investment Manager will be evaluated based on their performance relative to an appropriate benchmark and against a universe of similarly managed funds. This evaluation will examine a rolling three and five year period. The return goal of the Investment Fund, measured over a full market cycle, shall be the performance of an appropriate blended benchmark, net of fees, plus 25 to 50 basis points. Currently, the Investment Committee is using Morgan Stanley's "Basic Benchmark" in assessing long term performance. Actual returns in any given year may vary from this amount. In light of this return requirement, the portfolio is constructed using a total return approach with significant portion of the funds invested to seek growth of principal over time. The assets are invested for the long term, and a higher short term volatility in these assets is to be expected and accepted.

The following is a summary of the asset allocation guidelines, with allowable ranges for each asset type:

Asset category	Minimum	Maximum
Equity	35%	65%
Fixed income	10%	60%
Alternative strategies	0%	30%
Cash equivalents	2%	25%

It is expected that, in general, the Portfolio shall be well diversified with respect to sector, industry, and issuer in accordance with the stated guidelines. If the Investment Committee chooses to invest in a mutual fund in order to meet the investment objectives of the Investment Funds, the fund shall be an open-end mutual fund and registered under the Investment Agency Act of 1940. Although it is recognized that a mutual fund's policies, guidelines, and techniques may not be consistent in all aspects with those outlined in this policy, it is expected that the mutual fund's policies and techniques will agree substantially with those of this policy. Any policy or technique of the mutual fund, which is not consistent with this investment policy, shall be reviewed by the Investment Manager and accepted by the Investment Committee.

continued

13. Accounting for Endowments, continued

The Board of Directors recognizes that reinvesting income and capital gains are an important factor in the growth of the Endowment Fund. It is therefore the policy of the Agency to reinvest all income and capital gains from the Endowment Fund until such later date as it may be prudent to spend such income or capital gains. However, annually up to 5% of the last three year's average valuation (the "Spending Rate"), based on audited financial statements, of the unrestricted board designated net assets and permanent endowment may be transferred to the Agency's operating budget. There will be no other capital transfers by the Investment Committee without prior approval of the full Board of Directors. The Spending Rate may range from 3-5% and will be determined annually by the Board upon the recommendation of the Investment Committee.

In establishing this policy, the Agency considered the long term expected return on its Endowment Fund investments and set the rate with the objective of maintaining the purchasing power of its donor-restricted permanent endowment funds over time.

The changes in endowment net assets for the year ended June 30, 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2017	$444,897	$ -	$577,147	**$1,022,044**
Net appreciation (net realized and unrealized gain/losses)	52,304			**52,304**
Donation			67,565	**67,565**
Endowment net assets, June 30, 2018	$497,201	$ -	$644,712	**$1,141,913**

14. Concentrations

The Agency's two largest funding sources during the years ended June 30, 2018 and 2017, Early Head Start and Department of Mental Health, represent 73% and 76% of total revenue, respectively.

continued

15. Commitments and Contingencies

Obligations Under Operating Leases

The Agency leases two facilities under non-cancelable operating lease agreements. Future minimum lease payments for all leases with initial terms of one year or more are as follows at June 30, 2018:

Year ended June 30,	
2019	$ 458,587
2020	314,253
2021	256,724
2022	263,766
Thereafter	-
	$1,293,330

Rental expense on all operating leases for the years ended June 30, 2018 and 2017 was $359,875 and $337,945, respectively.

Contracts

The Agency'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, the Agency has no provisions for the possible disallowance of program costs on its financial statements.

16. Benefit Plans

The Agency sponsors a noncontributory defined contribution pension plan that covers all full time employees with more than one year of service. Contributions to the plan are based on a percentage of gross wages. All contributions to the plan are through salary reduction agreements between the Agency and its employees. the Agency also sponsors a flexible premium deferred annuity compensation agreement under IRS Section 457(b) for all eligible highly compensated employees, the assets and liabilities of which are recorded on the Statements of Financial Position. As of June 30, 2018 and 2017, $88,155 and $83,950, respectively, has been deferred based on elections made by the Agency.

For 2018 and 2017, the total pension expense was $489,714 and $471,200, respectively.

17. Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606): An Amendment of the FASB Accounting Standards Codification. The amendments in this ASU affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease

continued

17. Recently Issued Accounting Pronouncements, continued

contracts). This ASU will supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606 Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the full retrospective or retrospective with cumulative effect transition method. The Agency is currently evaluating the impact of adopting this guidance on the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Agency is currently evaluating the effect this standard will have on the financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions," and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Agency is currently evaluating the impact the adoption of this guidance will have on its financial statements.

SUPPLEMENTAL SCHEDULE

FOOTHILL FAMILY SERVICE

STATEMENT OF FUNCTIONAL EXPENSES BY PROGRAM

For the year ended June 30, 2018

	Program									
	Mental Health Services	**Early Child Development (ages 0-5)**	**Teen Parent Families & Youth Development**	**Child Abuse Child Welfare**	**Domestic Violence**	**Family Counseling**	**Total Program Services**	**Management and General**	**Fund Development**	**Total**
Salaries	$ 7,098,323	$ 2,432,273	$ 336,661	$ 816,595	$ 381,793	$ 307,433	$ 11,373,078	$ 1,941,483	$ 460,694	**$ 13,775,255**
Employee benefits	1,776,799	609,554	84,004	208,511	95,889	78,379	2,853,136	487,223	115,679	**3,456,038**
Total personnel costs	8,875,122	3,041,827	420,665	1,025,106	477,682	385,812	14,226,214	2,428,706	576,373	**17,231,293**
Subcontracts		1,013,624		34,936			1,048,560			**1,048,560**
Occupancy	430,228	242,323	34,067	60,306	27,864	26,473	821,261	135,088	37,159	**993,508**
Supplies and printing	342,284	281,894	30,649	37,881	21,682	15,873	730,263	115,383	31,834	**877,480**
Professional fees	248,402	331,396	17,379	28,101	11,456	12,863	649,597	113,484	41,998	**805,079**
Other expenses	74,766	239,904	1,067	189,139	10,737	8,668	524,281	26,919	3,392	**554,592**
Contract services	549,646						549,646			**549,646**
Travel and training	219,502	214,568	23,817	34,576	46,055	3,115	541,633	32	4,201	**545,866**
Depreciation	174,523	43,311	34,424	51,537	21,682	12,093	337,570	130,491	3,290	**471,351**
Telephones	105,295	34,648	7,424	16,745	7,597	5,656	177,365	30,026	2,452	**209,843**
Insurance	42,249	90,945	2,990	6,257	2,813	2,594	147,848	28,003	2,760	**178,611**
Postage	7,379	3,994	1,075	2,019	815	576	15,858	2,870	422	**19,150**
Advertising	3,600	1,449	808	601	212	199	6,869	4	3,594	**10,467**
Total expenses	**$ 11,072,996**	**$ 5,539,883**	**$ 574,365**	**$ 1,487,204**	**$ 628,595**	**$ 473,922**	**$ 19,776,965**	**$ 3,011,006**	**$ 707,475**	**$ 23,495,446**

See independent auditors' report.