

Employment & Community Options



Financial Statements and Compliance Reports

For the Years Ended June 30, 2012 and 2011



Employment & Community Options

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Mayer Hoffman McCann P.C.

An Independent CPA Firm

10616 Scripps Summit Court
San Diego, California 92131
858-795-2000 ph
858-795-2001 fx
www.mhm-pc.com

Independent Auditors' Report

To the Audit Committee

Employment & Community Options

San Diego, California

We have audited the accompanying statements of financial position of **Employment & Community Options** ("E&CO"), a nonprofit corporation, as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of E&CO'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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of **Employment & Community Options** as of June 30, 2012 and 2011, and the changes in its net assets and cash flows for the years 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 a report dated October 30, 2012, on our consideration of E&CO's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, grants 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 audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 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 audits of the basic 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 basic financial statements taken as a whole.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 9 and 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

Mayer Hoffman McCann P.C.

San Diego, California
October 30, 2012

Employment & Community Options

Statements of Financial Position

<i>June 30,</i>	2012	2011
Assets		
Current Assets		
Cash	\$ 983,199	\$ 952,201
Accounts receivable - net	828,637	846,028
Prepaid expenses	243,537	232,650
Total current assets	2,055,373	2,030,879
Noncurrent Assets		
Furniture and Equipment	39,356	51,584
Deposits	29,337	22,871
Beneficial interest in endowment fund	43,393	-
Investments	25,353	-
Total noncurrent assets	137,439	74,455
Total assets	\$ 2,192,812	\$ 2,105,334
Liabilities and Net Assets		
Current Liabilities		
Current portion of capital lease obligations	\$ 10,372	\$ 9,436
Accrued payroll	283,050	319,927
Accrued vacation benefits	180,536	165,738
Accounts payable and other	34,426	130,193
Deferred rent	20,215	11,693
Total current liabilities	528,599	636,987
Capital Lease Obligations, Less Current Portion	28,380	38,752
Total liabilities	556,979	675,739
Net Assets		
Unrestricted	1,592,440	1,392,978
Temporarily restricted	2,309	547
Permanently restricted	41,084	36,070
Total net assets	1,635,833	1,429,595
Total liabilities and net assets	\$ 2,192,812	\$ 2,105,334

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

Employment and Community Options

Statement of Activities

<i>Year Ended June 30, 2012</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contracts and program revenue	\$ 9,226,196	\$ -	\$ -	\$ 9,226,196
Grants	34,000	-	-	34,000
Special events	65,805	-	-	65,805
Contributions	58,697	-	5,014	63,711
In-kind contributions	18,499	-	-	18,499
Other Income	76,344	-	-	76,344
Interest and investment income	2,931	-	-	2,931
Earnings on beneficial interest in endowment fund	-	1,881	-	1,881
Total revenues	9,482,472	1,881	5,014	9,489,367
Expenses				
Program services	8,221,402	-	-	8,221,402
Supporting services	957,709	-	-	957,709
Fundraising	103,899	119	-	104,018
Total expenses	9,283,010	119	-	9,283,129
Change in net assets	199,462	1,762	5,014	206,238
Net Assets at Beginning of Year	1,392,978	547	36,070	1,429,595
Net Assets at End of Year	\$ 1,592,440	\$ 2,309	\$ 41,084	\$ 1,635,833

The accompanying notes are an integral part of this financial statement.

Employment and Community Options

Statement of Activities

<i>Year Ended June 30, 2011</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contracts and program revenue	\$ 9,046,821	\$ -	\$ -	\$ 9,046,821
Grants	1,100	-	-	1,100
Special events	83,139	-	-	83,139
Contributions	44,491	-	31,073	75,564
Other Income	724	-	-	724
Interest and investment income	840	-	-	840
Earnings on endowment	-	547	-	547
Total revenues	9,177,115	547	31,073	9,208,735
Expenses				
Program services	7,697,854	-	-	7,697,854
Supporting services	1,228,460	-	-	1,228,460
Fundraising	95,318	-	-	95,318
Total expenses	9,021,632	-	-	9,021,632
Change in net assets	155,483	547	31,073	187,103
Net Assets at Beginning of Year	1,237,495	-	4,997	1,242,492
Net Assets at End of Year	\$ 1,392,978	\$ 547	\$ 36,070	\$ 1,429,595

The accompanying notes are an integral part of this financial statement.

Employment & Community Options

Statements of Cash Flows

<i>Years Ended June 30,</i>	2012	2011
Cash Flows From Operating Activities		
Change in net assets from operations	\$ 206,238	\$ 187,103
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,228	16,925
Net realized and unrealized gain on beneficial interest in endowment	(1,762)	-
Net realized and unrealized gain on investments	(353)	-
Gain on disposition of fixed assets	-	(202)
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	17,391	73,463
Prepaid expenses	(10,887)	(24,021)
Deposits	(6,466)	(112)
Accrued payroll	(36,877)	(24,894)
Accrued vacation benefits	14,798	4,456
Accounts payable and other	(95,767)	90,710
Deferred rent	8,522	(3,440)
Net cash provided by operating activities	107,065	319,988
Cash Flows From Investing Activities		
Purchases of beneficial interest in endowment	(41,631)	-
Purchases of investments	(25,000)	-
Proceeds from sales of fixed assets	-	1,835
Net cash provided by (used in) investing activities	(66,631)	1,835
Cash Flows From Financing Activities		
Payments on capital lease obligations	(9,436)	(13,902)
Net cash used in financing activities	(9,436)	(13,902)
Net Increase in Cash	30,998	307,921
Cash at Beginning of Year	952,201	644,280
Cash at End of Year	\$ 983,199	\$ 952,201
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	\$ 4,231	\$ 3,501
Noncash Investing and Financing Activities:		
The Organization acquired approximately \$54,000 of fixed assets under capital lease agreements during 2011.		
The Organization acquired approximately \$5,000 of fixed assets in donated equipment during 2011.		

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

Employment & Community Options

Schedule of Revenue and Expenses by Activity

<i>Year Ended June 30, 2012</i>	Program Costs	Fundraising	Support Services	Total
Operating Revenue				
Contracts and program revenue	\$ 9,226,196	\$ -	\$ -	\$ 9,226,196
Grants	-	34,000	-	34,000
Special events	-	65,805	-	65,805
Contributions	-	82,210	-	82,210
Other Income	56,961	362	19,021	76,344
Interest and investment income	-	-	2,931	2,931
Earnings on endowment	-	1,881	-	1,881
Total operating revenue	9,283,157	184,258	21,952	9,489,367
Operating Expenses				
Salaries	5,772,726	27,920	494,424	6,295,070
Employee benefits	1,508,840	6,860	135,977	1,651,677
Mileage, travel and meetings	471,319	3,013	36,959	511,291
Occupancy	229,290	4,834	83,530	317,654
Employment costs	83,409	171	11,863	95,443
Communications	62,024	968	8,517	71,509
Other expenses	3,614	29,530	11,593	44,737
Marketing	22	(105)	40,889	40,806
Equipment	19,063	316	21,364	40,743
Accounting and legal fees	3,428	-	30,058	33,486
Supplies	25,713	197	7,518	33,428
Insurance	-	-	24,099	24,099
In-kind	-	18,499	-	18,499
Consulting and contract fees	25	2,844	14,856	17,725
Software	11,186	2,768	3,713	17,667
Bad debt	15,685	-	-	15,685
Dues	3,567	685	10,792	15,044
Depreciation	-	-	12,228	12,228
Printing and reproduction	5,384	2,876	2,830	11,090
Postage	3,214	2,463	5,340	11,017
Total operating expenses	8,218,509	103,839	956,550	9,278,898
Operating Surplus (Deficit)	1,064,648	80,419	(934,598)	210,469
Interest expense	2,893	179	1,159	4,231
Total expenses	8,221,402	104,018	957,709	9,283,129
Net Surplus (Deficit)	\$ 1,061,755	\$ 80,240	\$ (935,757)	\$ 206,238
% of total expense by activity	89%	1%	10%	100%

The accompanying notes are an integral part of this schedule.

Employment & Community Options

Schedule of Revenue and Expenses by Activity

<i>Year Ended June 30, 2011</i>	Program Costs	Fundraising	Support Services	Total
Operating Revenue				
Contracts and program revenue	\$ 9,046,821	\$ -	\$ -	\$ 9,046,821
Grants	-	1,100	-	1,100
Special events	-	83,139	-	83,139
Contributions	-	75,564	-	75,564
Other Income	-	724	-	724
Interest and investment income	-	-	840	840
Earnings on endowment	-	547	-	547
Total operating revenue	9,046,821	161,074	840	9,208,735
Operating Expenses				
Salaries	5,618,162	18,007	605,446	6,241,615
Employee benefits	1,272,847	4,195	152,277	1,429,319
Mileage, travel and meetings	412,883	3,326	44,991	461,200
Occupancy	251,003	3,773	80,950	335,726
Consulting and contract fees	1,415	19,000	75,472	95,887
Employment costs	21,508	3	56,805	78,316
Communications	52,358	600	14,903	67,861
Accounting and legal fees	3,209	-	47,250	50,459
Marketing	-	1,331	43,199	44,530
Other expenses	383	36,079	6,315	42,777
Insurance	-	-	39,359	39,359
Supplies	25,716	640	11,171	37,527
Dues	831	310	17,194	18,335
Depreciation	-	-	16,925	16,925
Equipment	9,483	308	5,708	15,499
Printing and reproduction	4,884	1,928	5,907	12,719
Bad debt	16,631	50	(4,600)	12,081
Postage	4,278	1,778	4,964	11,020
Software	-	3,978	3,200	7,178
Total operating expenses	7,695,591	95,306	1,227,436	9,018,333
Operating Surplus (Deficit)	1,351,230	65,768	(1,226,596)	190,402
Gain on disposition of fixed assets	-	-	(202)	(202)
Interest expense	2,263	12	1,226	3,501
Total expenses	7,697,854	95,318	1,228,460	9,021,632
Net Surplus (Deficit)	\$ 1,348,967	\$ 65,756	\$ (1,227,620)	\$ 187,103
% of total expense by activity	85%	1%	14%	100%

The accompanying notes are an integral part of this schedule.

Employment & Community Options

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Nature of operations

A summary of **Employment & Community Options'** significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Employment & Community Options ("E&CO") is a 501(c) (3) nonprofit corporation that primarily assists adults with disabilities and economically disadvantaged seniors in finding and retaining employment. Its overall mission is to create and support opportunities for adults with disabilities and disadvantaged seniors to lead independent lives in their home communities. To enable program participants to achieve all of these goals, E&CO focuses its efforts on three key areas:

- Finding and retaining employment;
- Assisting individuals in meeting personally established goals enabling them to live, work, and play more independently in their community and;
- Learning local transportation systems.

Due to the significant budget deficit, the State of California had reduced payments made through its Regional Centers by 4.25% starting on July 1, 2010 with a plan to sunset the reduction on June 30, 2012. This resulted in a reduction in the Organization's revenue of approximately \$337,000 and \$315,000 for the fiscal years ended June 30, 2012 and 2011, respectively. The State of California reduced the rate cut by 3% effective July 1, 2012, continuing with a 1.25% reduction through June 30, 2013. This rate reduction has required the Organization to adjust operations, impacting the level of employment services that it was able to provide to its clients.

Although based in San Diego, E&CO offers services throughout the state of California, including the counties of San Diego, San Bernardino, Santa Cruz and Santa Clara. Approximately 1,000 people are served by E&CO on an annual basis. Primary funding for E&CO is derived through reimbursements from the California Department of Developmental Services and the California Department of Rehabilitation. Additional funding is generated through fundraising, individualized private contracts, and a reimbursement contract with the U.S. Department of Labor via a reimbursement contract with the County of San Diego.

Employment & Community Options

Notes to Financial Statements

Nature of operations, cont'd

E&CO is governed by a nine-member Board of Directors. The Board sets general policies, maintains fiduciary responsibility, and oversees the activities of the organization.

Basis of presentation

The financial statements of E&CO have been presented in accordance with authoritative guidance which requires that net assets, revenue, gains, expenses, and losses be classified as unrestricted, temporarily restricted, and permanently restricted. Unconditional promises to give are recorded as receivables and revenues in the period received. Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and other assets that must be used to acquire long-lived assets are reported as temporarily restricted contributions. Absent explicit donor stipulation about how long these long-lived assets must be maintained, E&CO reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of E&CO, and changes therein, are classified and reported as follows:

Unrestricted Net Assets – All net assets that are not subject to donor-imposed restrictions are reported as unrestricted net assets.

Temporarily Restricted Net Assets – Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met and funds for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently Restricted Net Assets – Permanently restricted net assets include gifts, which require by donor-imposed restrictions, that the corpus be invested in perpetuity.

Fair value measurements

E&CO measures fair value at the price that would be received upon sale of an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Employment & Community Options

Notes to Financial Statements

Fair value measurements, cont'd

Authoritative guidance establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values, requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2: Unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Significant unobservable inputs for the asset or liability.

The following tables summarize the valuation of the E&CO's fair value measurements in accordance with authoritative guidance at June 30, 2012:

	Level 1	Level 2	Level 3	Total
Domestic equities	\$ 15,954	\$ -	\$ -	\$ 15,954
Domestic fixed income	9,399	-	-	9,399
Beneficial interest in endowment fund	-	-	43,393	43,393
Total	\$ 25,353	\$ -	\$ 43,393	\$ 68,746

Changes in Level 3 fair value measurements during the year ended June 30, 2012 were as follows:

	Beneficial interest in endowment fund
July 1, 2011	\$ -
Purchases	41,631
Realized and unrealized gains - net	1,762
June 30, 2012	\$ 43,393

E&CO Level 1 assets are equity securities and fixed income securities. The fair value of these Level 1 assets are determined based on quoted market prices.

E&CO classifies the fund held at The San Diego Foundation ("TSDF") as a perpetual trust restricted under an irrevocable beneficial interest

Employment & Community Options

Notes to Financial Statements

Fair value measurements, cont'd

agreement. E&CO's beneficial interest in the fund is best valued using the income approach, however, present value of perpetual future distributions cannot be calculated. Generally accepted accounting principles in the United States of America indicate that the fair value of the beneficial interest can be approximated by the fair value of the fund, unless specific circumstances indicate otherwise. E&CO's Board of Directors believes no such circumstances exist, therefore, the beneficial interest is valued using the fair value of the fund. Although the fair value of investments held in the fund would qualify as Level 1 inputs, use of the fund value as an approximation for the value under the income approach constitutes a Level 3 input.

Furniture and equipment

Equipment, furniture, and fixtures are stated at historical cost, if purchased, or at estimated fair value as of the date of receipt, if acquired by gift. Depreciation is calculated using the straight-line method and is based upon estimated useful lives of the assets, up to 30 years. Maintenance, repairs, and renewals, which neither materially add to the value of the furniture or equipment nor appreciably prolong its life, are charged to expense as incurred. Acquisitions of property and equipment in excess of \$2,000 are capitalized.

Donations of furniture and equipment are recorded at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. E&CO has not received any restricted donations.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in computing accounts receivable and the functional allocation of expenses.

Tax-exempt status

E&CO is exempt from federal income and California franchise taxes under Sections 501(c) (3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code, respectively.

All tax-exempt entities are subject to review and audit by federal, state, and other applicable agencies. Such agencies may review the taxability

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Notes to Financial Statements

Tax-exempt status, cont'd

of unrelated business income, or the qualification of the organization as a tax-exempt entity under Internal Revenue Code Section and applicable state statutes.

At June 30, 2012, the federal statute of limitations remains open for the 2009 through 2012 tax years. The statute of limitations for the state income tax returns remains open for the 2008 through 2012 tax years.

As of July 1, 2009, E&CO adopted the guidance related to uncertain tax positions and it did not result in an adjustment to the financial statements.

Accounts receivable and revenue recognition

Accounts receivable primarily consist of reimbursements due from contracted services pursuant to contractual agreements and arrangements. The allowance for doubtful accounts represents management's estimate of uncollectible accounts based upon historical information and examination of specific individual accounts. It is E&CO's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Revenues from cost-reimbursement contracts are recognized as expenditures when incurred. Revenues from fixed-fee service contracts are recognized as contract requirements are met and as services are performed.

Functional expenses

The costs of providing the various general services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated on a direct cost basis, among the program services, fundraising, and supporting services classifications.

Reclassifications

Certain reclassifications have been made to the 2011 balances to conform to the 2012 financial statement presentation. These reclassifications have no affect on total reported net assets or change in net assets.

2. Accounts Receivable - Net

Accounts receivable consisted of the following at June 30:

	2012	2011
Accounts receivable	\$ 832,168	\$ 849,559
Less allowance for doubtful accounts	(3,531)	(3,531)
	<u>\$ 828,637</u>	<u>\$ 846,028</u>

Employment & Community Options

Notes to Financial Statements

3. Prepaid Expenses

Prepaid expenses consisted of the following at June 30:

	2012	2011
Prepaid insurance expense	\$ 157,993	\$ 176,639
Prepaid bus passes	50,929	56,011
Other prepaid expenses	34,615	-
	\$ 243,537	\$ 232,650

4. Furniture and Equipment

Furniture and equipment consisted of the following at June 30:

	2012	2011
Computers and software	\$ 60,464	\$ 121,605
Equipment	72,720	84,510
Furniture and fixtures	2,908	44,198
	136,092	250,313
Less accumulated depreciation	(96,736)	(198,729)
	\$ 39,356	\$ 51,584

Depreciation expense was approximately \$12,000 and \$17,000 for 2012 and 2011, respectively.

5. Beneficial Interest in Endowment Fund

E&CO's endowment fund, including accumulated net earnings totaled approximately \$43,000 and \$37,000 at June 30, 2012 and 2011, respectively. At June 30, 2011 the endowment funds were held in E&CO's cash account. During 2012 these funds were transferred to TSDF to establish the "Employment & Community Options Legacy Circle Endowment Fund". Donations to the fund at TSDF are irrevocable gifts to TSDF for the benefit of E&CO. Distributions made from the fund at TSDF are at the direction of TSDF's Board of Trustees. E&CO's asset is its irrevocable beneficial interest in the fund held at TSDF, which is recorded at the fair value of the fund.

E&CO's Board of Directors interprets the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as enacted by the State of California in 2009, as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, E&CO classifies as permanently restricted net assets, (a) the value of the gifts donated to the endowment fund as of the gift date, and (b) earnings on the endowment fund assets so designated by applicable donor gift instruments. The remaining portion of the

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Notes to Financial Statements

5. Beneficial Interest in Endowment Fund, Cont'd

endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by E&CO's Board of Directors.

A small portion of the endowment is donor restricted, where earnings on that portion of the endowment are to be used for program enrichment materials. As noted above, the endowment earnings are classified as temporarily restricted net assets until they are appropriated for expenditure via resolution of the Board of Directors. No such resolutions were made during the year ended June 30, 2012.

During the year ended June 30, 2012, E&CO adopted a formal investment policy. The policy for the endowment funds are as described in the TSDF Endowment Investment Policy Statement. The objective of the endowment fund is that the asset value, exclusive of contributions or withdrawals, to grow over the long run and earn, through a combination of investment income and capital appreciation, a rate of return (time-weighted total return) in excess of the benchmarks established for the medium term (3 years) and long term (5 years). The total fund is to produce, after investment expenses, a minimum annual compounded total rate of return of 5% in excess of the rate of inflation.

TSDF is expected to disburse 5%, annually, of the 36-month average endowment principal market value. These calculations are made on a monthly basis. If the market value of the Endowment Principal of any fund, at the end of each month, is less than the initial value of all the contributions made to Endowment Principal, then distributions will be limited to interest and dividends received.

Endowment net asset composition by the type of fund for the year ended June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,309	\$ 41,084	\$ 43,393

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Notes to Financial Statements

5. Beneficial Interest in Endowment Fund, Cont'd

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2011	\$ -	\$ 547	\$ 36,070	\$ 36,617
Contributions	-	-	5,014	5,014
Realized and unrealized gain	-	1,881	-	1,881
Fees	-	(119)	-	(119)
Endowment net assets, June 30, 2012	\$ -	\$ 2,309	\$ 41,084	\$ 43,393

Endowment net asset composition by the type of fund for the year ended June 30, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 547	\$ 36,070	\$ 36,617

Changes in endowment net assets for the year ended December 31, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2010	\$ -	\$ -	\$ 4,997	\$ 4,997
Contributions	-	-	31,073	31,073
Net realized and unrealized gain	-	547	-	547
Endowment net assets, June 30, 2011	\$ -	\$ 547	\$ 36,070	\$ 36,617

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Notes to Financial Statements

6. Investments

At June 30, 2012 investments consisted of:

Domestic equities	\$	15,954
Domestic fixed income		9,399
Total Investments	\$	25,353

Total investment return for the year ended June 30, 2012 was as follows:

Interest and dividends	\$	117
Realized and unrealized gains		420
Fees		(184)
Total investment return - net	\$	353

7. Debt

E&CO had a \$1,000,000 revolving line of credit with a bank with interest at a rate equal to the greater of 3.50% or the Prime Rate, as determined by the bank, plus 0.50%. The revolving line of credit had a first position lien on all assets as collateral. The line of credit matured annually in February. In February 2012, the line was not renewed.

In August 2012 a new \$750,000 revolving line of credit was secured with a bank with interest at a rate equal to the greater of 3.50% or the Prime Rate, as determined by the bank, plus 0.50%. The line of credit matures annually in August and contains certain non-financial covenants.

8. Commitments and Contingencies

Operating leases

E&CO leases certain equipment and office space under non-cancelable operating leases.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

<i>Years Ending June 30,</i>	
2013	\$ 278,900
2014	285,500
2015	201,800
2016	165,100
2017	115,200
Thereafter	19,700
	\$ 1,066,200

Employment & Community Options

Notes to Financial Statements

Operating leases, cont'd Rent expense for 2012 and 2011 was approximately \$278,000 and \$290,000, respectively.

Capital leases E&CO leases certain equipment under non-cancelable capital leases, which were included in fixed assets as follows:

<i>June 30,</i>	2012	2011
Copiers	\$ 54,000	\$ 54,000
Less accumulated depreciation	(18,000)	(7,200)
	\$ 36,000	\$ 46,800

Depreciation expense related to these capital lease obligations was approximately \$11,000 and \$7,000 for 2012 and 2011, respectively.

Following is a summary of future minimum payments under capital leases:

<i>Years Ending June 30,</i>	
2013	\$ 13,608
2014	13,608
2015	13,608
2016	4,536
Total minimum lease payments	45,360
Less amount representing interest	(6,608)
Present value of minimum lease payments	38,752
Less current portion	(10,372)
Long-term portion	\$ 28,380

Litigation In the normal course of business, E&CO is occasionally named as a defendant in various lawsuits. It is the opinion of management and of legal counsel that the outcome of any pending lawsuits will not materially affect the operations or the financial position of E&CO.

9. Employee Benefit Plan

In September 2008, E&CO established a defined contribution plan under Section 403(b) of the Internal Revenue Code. Employer contributions are discretionary and may range between 0% and 3% of each employee's base compensation. E&CO's Board of Directors annually determines if this contribution shall be made based upon the financial position of the organization. Should a contribution be made, employees become vested after three years of service. E&CO's Board of Directors did not authorize a contribution during 2012 or 2011.

Employment & Community Options

Notes to Financial Statements

10. Concentrations

Credit risk E&CO maintains cash balances and accounts at two financial institutions. Currently, cash balances are held in non-interest bearing/low interest bearing accounts. At this time, management believes that E&CO is not exposed to any significant credit risk with respect to its cash. E&CO has not experienced any losses in such accounts.

Customers In 2012 three major customers, which are governmental agencies, accounted for approximately \$3,971,000, \$3,217,000, and \$1,082,000 of revenues, which represents approximately 43%, 35%, and 12% of E&CO's total revenues, respectively. At June 30, 2012, receivables for these three customers amounted to approximately \$352,000, \$274,000, and \$95,000, respectively. In the event state funding is significantly decreased, E&CO's ability to continue as a viable organization would be severely impacted. However, since services to people with disabilities are an entitlement in California, management believes a significant loss of funding is unlikely.

In 2011 the same customers accounted for \$3,813,000, \$2,947,000, and \$991,000 of revenues, which represents approximately 42%, 32%, and 11% of E&CO's total revenues, respectively. At June 30, 2011, receivables for these three customers amounted to approximately \$345,000, \$264,000, and \$88,000, respectively.

11. Subsequent Events

E&CO has evaluated subsequent events through October 30, 2012, which is the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to the financial statement date that would require adjustment to, or disclosure in, the financial statements.

Employment & Community Options

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Pass-Through Agency/Program	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
Department of Labor:			
Passed-through County of San Diego:			
Senior Community Service Employment Program (SCSEP)			
CDE grant, Older American Act of 1965, Title V			
County of San Diego and Senior Service America, Inc.	17.235	536117	\$ 513,764
Total Expenditures			\$ 513,764

See accompanying notes to Schedule of Expenditures of Federal Awards.

Employment & Community Options

Notes to Schedule of Expenditures of Federal Awards

- 1. Scope of Presentation**

The accompanying Schedule of Expenditures of Federal Awards presents only the expenditures incurred by E&CO that are reimbursable under programs of federal agencies providing financial assistance. For purposes of this Schedule, federal awards include both federal financial assistance received from a federal agency, as well as federal funds received indirectly by E&CO from a non-federal agency or other organizations. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying Schedule.
- 2. Basis of Accounting**

The expenditures included in the accompanying Schedule were presented on the accrual basis of accounting.
- 3. Catalog of Federal Domestic Assistance (“CFDA”) Number**

The program titles and CFDA numbers were obtained from the 2012 Catalog of Federal Domestic Assistance.
- 4. Funds Provided to Subrecipients**

E&CO did not provide any funds received through the Department of Labor to subrecipients during the fiscal year ended June 30, 2012.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

10616 Scripps Summit Court

San Diego, California 92131

858-795-2000 ph

858-795-2001 fx

www.mhm-pc.com

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

To the Audit Committee
Employment & Community Options
San Diego, California

We have audited the financial statements of **Employment & Community Options** ("E&CO") as of and for the year ended June 30, 2012, and have issued our report thereon dated DATE. 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 E&CO'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 E&CO's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of E&CO'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 by the entity 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be 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 E&CO'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*.

We noted certain other matters that we reported to management of E&CO in a separate letter dated October 30, 2012.

This report is intended solely for the information and use of the Audit Committee and Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

October 30, 2012



Mayer Hoffman McCann P.C.

An Independent CPA Firm

10616 Scripps Summit Court

San Diego, California 92131

858-795-2000 ph

858-795-2001 fx

www.mhm-pc.com

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

To the Audit Committee

Employment & Community Options

San Diego, California

Compliance

We have audited the compliance of **Employment & Community Options** ("E&CO") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. E&CO's major federal programs are 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 each of its major federal programs is the responsibility of E&CO's management. Our responsibility is to express an opinion on E&CO'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 E&CO'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 E&CO's compliance with those requirements.

In our opinion, E&CO complied, in all material respects, with the requirements referred to above that that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of E&CO 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 E&CO's



internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of E&CO's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of E&CO's internal control over compliance.

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

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 the Audit Committee and Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

October 30, 2012

Employment & Community Options

Schedule of Findings and Questioned Costs Year Ended June 30, 2012

I. Summary of Independent Auditors' Results

Financial Statements

- (a) The type of auditors' report issued on the basic financial statements:
Unqualified opinion

Internal Control Over Financial Reporting:

- (b) Material weakness(es) identified? **No**
- (c) Significant deficiency(ies) identified that are not considered to be material weaknesses? **No**
- (d) Noncompliance, material to the financial statements: **No**

Federal Awards

Internal Control Over Major Programs:

- (e) Material weakness(es) identified? **No**
- (f) Significant deficiency(ies) identified that are not considered to be material weaknesses? **No**
- (g) The type of auditors' report issued on compliance for major programs:
Unqualified opinion
- (h) Any audit findings that are required to be reported under Section .510(a) of *OMB Circular A-133*: **No**
- (i) Major Programs:
- | <u>CFDA Numbers</u> | <u>Name of Federal Program</u> | <u>Amount Expended</u> |
|---------------------|--|------------------------|
| 17.235 | Senior Community Service
Employment Program (SCSEP) | \$513,764 |
- (j) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
- (k) Auditee qualified as a low-risk auditee under Section 530 of *OMB Circular A-133* **Yes**

Employment & Community Options

Schedule of Findings and Questioned Costs Year Ended June 30, 2012

II. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

None.

III. Findings Relating to the Federal Awards and Questioned Costs:

None.

IV. Summary Schedule of Prior Audit Findings:

None.