

LIVE OAK ADULT DAY SERVICES

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2013
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2012**

**IZABAL, BERNACIAK & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS**

**LIVE OAK ADULT DAY SERVICES
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013 WITH SUMMARIZED
COMPARATIVE TOTALS FOR 2012**

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
LIVE OAK ADULT DAY SERVICES
San Jose, California

Report on Financial Statements

We have audited the accompanying financial statements of Live Oak Adult Day Services, which comprise the statement of financial position as of June 30, 2013, 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.

Auditor's 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 auditor's 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 Organization'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 Organization'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 Live Oak Adult Day Services as of June 30, 2013, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2013, on our consideration of Live Oak Adult Day Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Live Oak Adult Day Services' internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Live Oak Adult Day Services' 2012 financial statements, and our report dated October 19, 2012, expressed an unqualified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it was derived.



San Francisco, California
October 10, 2013

LIVE OAK ADULT DAY SERVICES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

| Assets | <u>2013</u> | <u>2012</u> |
|--|----------------------------|----------------------------|
| Cash and cash equivalents | \$ 248,554 | \$ 170,329 |
| Program grants receivable | 59,747 | 32,338 |
| Program service fees receivable (net of allowance for doubtful accounts of \$9,000 in 2013 and \$10,000 in 2012) | 87,684 | 72,153 |
| Prepaid expenses | <u>5,322</u> | <u>1,708</u> |
| Total current assets | <u>401,307</u> | <u>276,528</u> |
| Investments | 41,868 | 40,236 |
| Property and equipment, net | <u>1,585,471</u> | <u>1,616,821</u> |
| Total assets | <u>\$ 2,028,646</u> | <u>\$ 1,933,585</u> |
| | | |
| Liabilities and Net Assets | | |
| Accounts Payable and Accrued Liabilities | \$ <u>77,409</u> | \$ <u>73,594</u> |
| Total Liabilities | <u>77,409</u> | <u>73,594</u> |
| | | |
| Net Assets | | |
| Unrestricted | | |
| Board designated | 55,449 | 59,800 |
| Investment in Property and Equipment | 990,299 | 1,021,649 |
| Other | <u>248,878</u> | <u>183,370</u> |
| Total unrestricted | <u>1,294,626</u> | <u>1,264,819</u> |
| Temporarily restricted: | | |
| Investment in Property and Equipment - Construction grant | 595,172 | 595,172 |
| Contributions and Foundation Grants | <u>61,439</u> | <u>0</u> |
| Total temporarily restricted | <u>656,611</u> | <u>595,172</u> |
| Total net assets | <u>1,951,237</u> | <u>1,859,991</u> |
| Total liabilities and net assets | <u>\$ 2,028,646</u> | <u>\$ 1,933,585</u> |

See notes to the financial statements

**LIVE OAK ADULT DAY SERVICES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2012**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>2013 TOTALS</u> | <u>2012 TOTALS</u> |
|--|---------------------|-----------------------------------|------------------------|------------------------|
| REVENUE | | | | |
| Governmental Grants | \$ 233,758 | \$ 0 | \$ 233,758 | \$ 240,617 |
| Individual Contributions | 95,672 | 30,639 | 126,311 | 64,926 |
| Allocated by UWSCC | 50,268 | 0 | 50,268 | 50,596 |
| Corporate and Foundation Grants | 41,630 | 32,800 | 74,430 | 63,627 |
| Special events, net of direct expenses of \$1,397 in 2013 and \$9,027 in 2012 | 11,270 | 0 | 11,270 | 10,273 |
| Program Service Fees | 649,678 | 0 | 649,678 | 614,253 |
| Investment Income | 1,813 | 0 | 1,813 | 2,341 |
| Inkind Revenue | 3,000 | 0 | 3,000 | 0 |
| Miscellaneous | 0 | 0 | 0 | 2,571 |
| Release from restriction | 2,000 | (2,000) | 0 | 0 |
| Total Revenue | <u>1,089,089</u> | <u>61,439</u> | <u>1,150,528</u> | <u>1,049,204</u> |
| EXPENSES | | | | |
| Program Services | 832,148 | 0 | 832,148 | 827,923 |
| Management and General | 217,773 | 0 | 217,773 | 205,547 |
| Fund-raising | 9,361 | 0 | 9,361 | 8,594 |
| Total Expenses | <u>1,059,282</u> | <u>0</u> | <u>1,059,282</u> | <u>1,042,064</u> |
| CHANGES IN NET ASSETS | 29,807 | 61,439 | 91,246 | 7,140 |
| Net Assets, beginning of year | <u>1,264,819</u> | <u>595,172</u> | <u>1,859,991</u> | <u>1,852,851</u> |
| NET ASSETS, END OF YEAR | <u>\$ 1,294,626</u> | <u>\$ 656,611</u> | <u>\$ 1,951,237</u> | <u>\$ 1,859,991</u> |

See notes to the financial statements

**LIVE OAK ADULT DAY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2012**

| | Program Services | Supportive Services | | | 2013 TOTAL | 2012 TOTAL |
|-------------------------|-------------------|------------------------|-----------------|-------------------|---------------------|---------------------|
| | | Management and General | Fund Raising | Subtotal | | |
| Salaries & Wages | \$ 493,444 | \$ 132,850 | \$ 6,326 | \$ 139,176 | \$ 632,620 | \$ 605,951 |
| Employee Benefits | 20,264 | 5,456 | 260 | 5,716 | 25,980 | 28,223 |
| Payroll Taxes, etc. | 47,919 | 12,901 | 614 | 13,515 | 61,434 | 59,734 |
| | <u>561,627</u> | <u>151,207</u> | <u>7,200</u> | <u>158,407</u> | <u>720,034</u> | <u>693,908</u> |
| Professional Services | 53,321 | 15,039 | 0 | 15,039 | 68,360 | 71,044 |
| Supplies | 64,140 | 17,269 | 822 | 18,091 | 82,231 | 36,157 |
| Telephone | 9,125 | 2,457 | 117 | 2,574 | 11,699 | 11,366 |
| Postage & Shipping | 1,440 | 388 | 18 | 406 | 1,846 | 2,788 |
| Occupancy | 45,442 | 12,234 | 583 | 12,817 | 58,259 | 68,720 |
| Equip & Repairs | 12,138 | 3,424 | 0 | 3,424 | 15,562 | 5,929 |
| Printing & Publications | 9,924 | 2,672 | 127 | 2,799 | 12,723 | 1,232 |
| Conferences | 83 | 22 | 0 | 22 | 105 | 668 |
| Travel / Mileage | 286 | 81 | 0 | 81 | 367 | 1,503 |
| Insurance | 9,828 | 0 | 0 | 0 | 9,828 | 13,403 |
| Client Meals | 23,816 | 0 | 0 | 0 | 23,816 | 74,357 |
| Miscellaneous | 10,411 | 2,330 | 130 | 2,460 | 12,871 | 8,099 |
| Inkind Expense | 0 | 3,000 | 0 | 3,000 | 3,000 | 0 |
| Bad Debts | 2,155 | 0 | 0 | 0 | 2,155 | 16,343 |
| Depreciation | 28,412 | 7,650 | 364 | 8,014 | 36,426 | 36,547 |
| | <u>\$ 832,148</u> | <u>\$ 217,773</u> | <u>\$ 9,361</u> | <u>\$ 227,134</u> | <u>\$ 1,059,282</u> | <u>\$ 1,042,064</u> |

See notes to the financial statements

**LIVE OAK ADULT DAY HEALTH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013 AND 2012**

| | 2013 | 2012 |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in Net Assets | \$ 91,246 | \$ 7,140 |
| <i>Adjustments to reconcile net expenditures over net revenue to net cash used by operations</i> | | |
| Depreciation | 36,426 | 36,547 |
| Unrealized Gain, U.S. Treasury Bonds | (1,632) | (1,560) |
| <i>(Increase)/Decrease in:</i> | | |
| Program Grants Receivable | (27,409) | 11,294 |
| Program Services Receivable | (15,531) | 4,559 |
| Prepaid Expenses | (3,614) | 0 |
| <i>Increase/(Decrease) in:</i> | | |
| Accounts Payable and Accrued Liabilities | 3,815 | (5,959) |
| Net Cash Used By Operating Activities | 83,301 | 52,021 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of Fixed Assets | (5,076) | (1,252) |
| Net Cash Used By Investing Activities | (5,076) | (1,252) |
| Net Increase (decrease) in cash and cash equivalents | 78,225 | 50,769 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 170,329 | 119,560 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 248,554 | \$ 170,329 |
| Supplementary Disclosures: | | |
| Interest paid | \$ 0 | \$ 0 |

**LIVE OAK ADULT DAY SERVICES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Note 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

Live Oak Adult Day Services (the Organization) is a nonprofit public benefit corporation established in 1985. It provides day care services for frail and disabled elderly adults, generally living in Santa Clara County, California. A substantial portion of the Organization's support is from units of government and private foundations.

Basis of Preparation and Presentation

The Organization's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Temporarily restricted net assets include non-governmental grants that were designated by the donor as relating to future periods. In addition, the Organization is required to present a Statement of Cash Flows.

Tax Exempt Status

The Organizations is a private foundation, and is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code, and is also exempt from California state franchise tax under Section 23701d of the state's Revenue and Taxation Code.

Management believes that the Organization has no uncertain tax positions as of June 30, 2013.

Summarized Financial Information for Prior Year

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2012, from which the summarized information was derived. Certain prior year amounts in the financial statements are subject to reclassification to conform to the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**LIVE OAK ADULT DAY SERVICES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Note 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and held in banks, highly liquid money market funds, commercial paper and other short-term investments with original maturities of three months or less.

Program Grants Receivable

Program Grants Receivable are considered to be fully collectible; accordingly no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Program Service Fees Receivable

Program Service Fees Receivable at June 30, 2013 consists of amounts due from participants of the adult day program, net of an allowance for doubtful accounts of \$9,000.

Property and Equipment

Property and equipment are stated at cost, except donated property and equipment, which are recorded as support at estimated fair market value as of the date gifted. Expenditure on the Organization's real estate is added to the cost of buildings when it relates to enhancement; otherwise it is expensed. Interest on mortgage debt is capitalized during the construction period, otherwise it is expensed.

Depreciation and amortization expense is calculated using the straight-line method. Depreciation is provided over the estimated useful lives of the assets and amortization of leasehold improvements is provided over the remaining lease term or the estimated useful lives of the assets, whichever is shorter. No depreciation is charged on land, and depreciation does not commence until the asset is brought into use.

Estimated useful lives are:

| | |
|-----------------------------|--------------|
| Real property and buildings | 50 years |
| Furniture and equipment | 3 to 7 years |
| Vehicles | 5 years |

**LIVE OAK ADULT DAY SERVICES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Note 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions received, including unconditional promises to give (pledges), are recognized as revenue at their fair value in the period in which the contribution or pledge is made. Contributions may be classified as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. To date, the Organization has never received any permanently restricted contributions.

Advertising Expenses

The costs of advertising are expensed as incurred. During the year ended June 30, 2013, advertising costs charged to expense totaled \$112.

Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications based on estimates made by the Organization's management.

Note 2: PROGRAM GRANTS RECEIVABLE

Grants Receivable represents the excess of grant expenditures over grant receipts for the year ended June 30, 2013 and 2012 and consists of the following:

| | 2013 | 2012 |
|-----------------------------------|------------------|------------------|
| Town of Los Gatos | \$ 3,273 | \$ 4,177 |
| Catholic Charities of Santa Clara | 10,725 | 0 |
| City of Campbell | 5,512 | 0 |
| City of Cupertino | 3,773 | 3,594 |
| City of Gilroy | 408 | 2,103 |
| City of Milpitas | 1,250 | 1,250 |
| City of Morgan Hill | 0 | 1,500 |
| City of San Jose – Other | 0 | 2,034 |
| City of Santa Clara | 4,762 | 2,507 |
| City of Sunnyvale | 9,804 | 4,504 |
| SC County | 14,372 | 5,072 |
| Council on Aging | 1,667 | 1,667 |
| State of CA – Meals Reimbursement | 4,201 | 3,930 |
| Total | <u>\$ 59,747</u> | <u>\$ 32,338</u> |

**LIVE OAK ADULT DAY SERVICES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Note 3: INVESTMENTS

The Organization invested in Series EE U.S. Treasury Bonds (all Level 1 measurements) in 1993 at a cost of \$15,000. These bonds accrued monthly interest at 0.0583%, and matured in 2004, but presently continue to accrue interest at 4.00%. Their value at June 30, 2013 and 2012 was as follows:

| | <u>2013</u> | <u>2012</u> |
|--------------------------|------------------|------------------|
| Face Amount | \$ 30,000 | \$ 30,000 |
| Original Discount | (15,000) | (15,000) |
| Amortized Discount | 15,000 | 15,000 |
| Premium Over Face Amount | 11,868 | 10,236 |
| Net | <u>\$ 41,868</u> | <u>\$ 40,236</u> |

The Organization continues to classify these bonds as non-current assets, as there is no intention to redeem them within the next year.

Investment return for the year ended June 30, 2013 and 2012 are as follows:

| | <u>2013</u> | <u>2012</u> |
|-------------------------|-----------------|-----------------|
| Interest Income | \$ 1,661 | \$ 2,339 |
| Unrealized Gain | 152 | 2 |
| Total Investment Return | <u>\$ 1,813</u> | <u>\$ 2,341</u> |

Note 4: PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2013 and 2012, comprises the following:

| | <u>2013</u> | <u>2012</u> |
|--------------------------------|---------------------|---------------------|
| Furniture and Equipment | \$ 84,908 | \$ 79,832 |
| Leasehold Improvements | 13,963 | 13,963 |
| | <u>93,795</u> | <u>93,795</u> |
| Real Property: | | |
| Land | 352,684 | 352,684 |
| Buildings | 1,676,971 | 1,676,971 |
| | <u>2,128,526</u> | <u>2,123,450</u> |
| Total Cost | 2,128,526 | 2,123,450 |
| Less: Accumulated Depreciation | (543,055) | (506,629) |
| Property and Equipment, Net | <u>\$ 1,585,471</u> | <u>\$ 1,616,821</u> |

In July 1996, the Organization purchased real property in San Jose, California, for \$352,684. To date, the Organization has capitalized further expenditures totaling \$1,676,971. This property was developed to house the Organization's headquarters and Willow Glen operations, for which its use commenced on October 1, 1999. Property expenditures capitalized since then are being amortized over the balance of the expected life of the property, over the remainder of the period ending September 30, 2049.

**LIVE OAK ADULT DAY SERVICES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Note 5: LEASES

The Organization conducts its operations in its owned headquarters, and in three facilities leased under operating leases. All of the operating leases are on a month to month basis. Rent expense (which does not include assessments for janitorial fees) for the years ended June 30, 2013 and 2012, was \$19,404 and \$22,879, respectively.

Note 6: RELATED PARTY TRANSACTIONS

The Organization received contributions from various members of its Board of Directors totaling approximately \$4,000 and \$1,225 during the years ended June 30, 2013 and 2012, respectively.

Note 7: BOARD DESIGNATED FUND

The Board of Directors set aside funds for future maintenance requirements, including painting, car park resurfacing, and a replacement roof, with the intention that sufficient funds will be available to cover these expenditures when they become necessary. The Organization used \$4,351 for painting in the year ended June 30, 2013 bringing the total reserve to \$55,449 and \$59,800 at June 30, 2013 and 2012, respectively.

Note 8: TEMPORARILY RESTRICTED NET ASSETS

The conditional grant of \$595,172 from the City of San Jose towards real estate construction has been recorded as temporarily restricted income. Under the terms of the grant award (the Agreement), the building must continue to be owned by the Organization and used as a care facility until June 30, 2014, failing which the entire sum received will revert to the City of San Jose. Pending fulfillment of these conditions, the grant amount is indemnified by a non-interest-bearing promissory note. Since the Organization's management believes the likelihood of the conditions of the Agreement not being met to be remote, the contributions are shown in the financial statements as temporarily restricted income, which will be released to unrestricted when the conditions have been met on June 30, 2014.

Temporarily restricted net assets at June 30, 2013 are as follows:

| | | |
|---|----|----------------|
| City of San Jose – Construction grant | \$ | 595,172 |
| Contributions | | 29,605 |
| Foundation Grants | | 30,800 |
| Equipment Purchase | | 1,034 |
| Total Temporarily restricted net assets | \$ | <u>656,611</u> |

**LIVE OAK ADULT DAY SERVICES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 9: CONTINGENT LIABILITIES

Grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. 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 provision for the possible disallowance of program costs on their financial statements.

Note 10: SUBSEQUENT EVENTS

The Organization's management has evaluated its subsequent events through October 10, 2013, the date the financial statements were available to be issued.

IZABAL, BERNACIAK & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Live Oak Adult Day Services
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Live Oak Adult Day Services, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Jacob L. Bernhardt" followed by a stylized flourish.

San Francisco, California
October 10, 2013