

NORTH COUNTY SERENITY HOUSE, INC.

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
REQUIRED BY OMB CIRCULAR A-133 AND
THE CALIFORNIA DEPARTMENT OF EDUCATION**

For The Year Ended June 30, 2011

with

INDEPENDENT AUDITORS' REPORT

NORTH COUNTY SERENITY HOUSE, INC.

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Independent Auditors' Report

Board of Directors
North County Serenity House, Inc.

We have audited the accompanying statement of financial position of North County Serenity House, Inc. (the "Organization") as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North County Serenity House, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated September 28, 2011 on our consideration of North County Serenity House, Inc.'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted primarily for the purpose of expressing an opinion on the basic financial statements taken as a whole. The accompanying California Department of Education supplementary information on pages 20-33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information has been subjected to the audit procedures applied in the audit of the basic financial statements and in conformity with the CDE Audit Guide issued by the California Department of Education. In our opinion, this supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of federal and state awards on pages 38-39 is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KMJ Corbin & Company LLP

KMJ | Corbin & Company LLP

Costa Mesa, California
September 28, 2011

NORTH COUNTY SERENITY HOUSE, INC.

STATEMENT OF FINANCIAL POSITION

ASSETS	<u>June 30, 2011</u>
Current assets:	
Cash and cash equivalents	\$ 279,998
Grants and contracts receivable	246,329
Restricted investments	236,485
Replacement reserves	10,514
Prepaid expenses	<u>46,609</u>
Total current assets	<u>819,935</u>
Other assets:	
Restricted investments	641,847
Property and equipment, net	8,281,886
Financing costs, net	374,593
Deposits	<u>9,251</u>
Total other assets	<u>9,307,577</u>
	<u>\$ 10,127,512</u>
 LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	\$ 50,834
Line of credit borrowings	100,000
Bonds interest payable	126,655
Accrued liabilities	142,279
Current maturities of capital lease payable	8,695
Current maturities of notes payable	43,764
Current maturities of bonds payable	<u>175,000</u>
Total current liabilities	647,227
Interest on notes payable	61,806
Capital lease payable, net of current maturities	13,327
Notes payable, net of current maturities	1,114,137
Bonds payable, net of current maturities and debt discount	4,346,629
Forgivable notes payable	<u>1,598,793</u>
Total liabilities	7,781,919
Commitments and contingencies	
Net assets:	
Unrestricted net assets	<u>2,345,593</u>
	<u>\$ 10,127,512</u>

See accompanying notes to financial statements

NORTH COUNTY SERENITY HOUSE, INC.

STATEMENT OF ACTIVITIES

	For The Year Ended June 30, 2011
Revenue and support:	
Grants and contracts	\$ 3,365,978
Fees	269,966
Rental income	184,841
Contributions	84,681
Interest	<u>9,550</u>
Total revenue and support	<u>3,915,016</u>
Expenses:	
Program services:	
Alcohol and drug rehabilitation:	
Residential	1,638,723
Serenity Village	281,480
Outpatient	370,719
Children and education	<u>969,612</u>
Total program services	3,260,534
Supporting services:	
General and administrative	<u>594,297</u>
Total expenses	<u>3,854,831</u>
Change in net assets	60,185
Unrestricted net assets, beginning of year	<u>2,285,408</u>
Unrestricted net assets, end of year	<u>\$ 2,345,593</u>

See accompanying notes to financial statements

NORTH COUNTY SERENITY HOUSE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended June 30, 2011

	Program Services				Supporting Services		
	Alcohol and Drug Rehabilitation			Children And Education	Total	General and Administrative	Total
	Residential	Serenity Village	Outpatient				
Building repair/maintenance	\$ 3,624	\$ -	\$ -	\$ -	\$ 3,624	\$ -	\$ 3,624
Building rental/lease	-	-	-	-	-	50,202	50,202
Conferences	12,102	-	1,665	820	14,587	-	14,587
Consultant services	33,741	-	26,832	8,808	69,381	60,127	129,508
Depreciation and amortization	110,259	138,879	8,969	37,945	296,052	3,654	299,706
Disposable goods	90,265	218	6,003	29,033	125,519	5,080	130,599
Equipment rental/lease	2,241	599	1,624	881	5,345	1,249	6,594
Equipment repair/maintenance	16,532	428	-	1,018	17,978	-	17,978
Food	152,008	-	2,598	64,906	219,512	3,739	223,251
Insurance	14,687	13,317	1,745	3,532	33,281	18,390	51,671
Interest	233,539	17,318	5,976	9,763	266,596	39,387	305,983
License and fees	9,781	200	975	923	11,879	15,968	27,847
Office supplies/postage	67,143	3,264	9,464	26,285	106,156	7,759	113,915
Payroll benefits	109,460	10,685	48,045	149,484	317,674	58,236	375,910
Salaries and wages	668,162	57,565	212,321	612,543	1,550,591	306,672	1,857,263
Training/education	2,006	-	16,577	1,014	19,597	1,206	20,803
Travel	8,993	80	1,505	140	10,718	862	11,580
Urinalysis	18,884	-	9,831	548	29,263	-	29,263
Utilities	85,296	38,927	16,589	21,969	162,781	21,766	184,547
Total expenses	\$ 1,638,723	\$ 281,480	\$ 370,719	\$ 969,612	\$ 3,260,534	\$ 594,297	\$ 3,854,831

See accompanying notes to financial statements

NORTH COUNTY SERENITY HOUSE, INC.

STATEMENT OF CASH FLOWS

	<u>For The Year Ended June 30, 2011</u>
Cash flows from operating activities:	
Change in net assets	\$ 60,185
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	299,706
Amortization of financing costs and debt discount	23,381
Changes in operating assets and liabilities:	
Grants and contracts receivable	19,276
Prepaid expenses	23,865
Accounts payable, interest payable and accrued liabilities	(37,253)
Deferred revenue	<u>(56,349)</u>
Net cash provided by operating activities	<u>332,811</u>
Cash flows from investing activities:	
Proceeds from sale of restricted investments	443,550
Purchases of restricted investments	(438,040)
Purchases of property and equipment	<u>(317,406)</u>
Net cash used in investing activities	<u>(311,896)</u>
Cash flows from financing activities:	
Proceeds from line of credit borrowings, net	100,000
Deposits to replacement reserves	(12,127)
Withdrawals from replacement reserves	56,000
Payments on capital leases payable	(8,287)
Payments on notes and bonds payable	<u>(212,472)</u>
Net cash used in financing activities	<u>(76,886)</u>
Net decrease in cash and cash equivalents	(55,971)
Cash and cash equivalents at beginning of year	<u>335,969</u>
Cash and cash equivalents at end of year	\$ <u><u>279,998</u></u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	\$ <u><u>274,823</u></u>

Supplemental disclosure of non-cash investing and financing activities:

The Organization purchased \$30,309 of property and equipment with a capital lease obligation during the year ended June 30, 2011.

See accompanying notes to financial statements

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2011

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

North County Serenity House, Inc. (the "Organization") is a California not-for-profit corporation incorporated on August 3, 1966. By February 1968, the Organization was granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code and California state income taxes under Section 23701(d) of the California Revenue and Taxation Code. For the year ended June 30, 2011, the Organization conducted its activities at eight properties under its ownership, serving clients primarily from San Diego County.

There are three major functions of the Organization, namely:

- a. To provide women, pregnant women and parenting women with intensive drug and alcoholic addiction treatment confined to a residential environment;
- b. To provide women with outpatient intensive drug and alcoholic addiction day treatment, homeless women with day treatment and a residence to live free-of-charge; and
- c. To provide children from infancy to five years old with childcare and development services.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. These assets are available to support the Organization's activities and operations at the discretion of the Board of Directors.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the donor, the Organization, and/or the passage of time. At June 30, 2011, the Organization had no temporarily restricted net assets.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the income or gains earned on related investments for general (unrestricted) purposes or for other specific donor restricted purposes (temporarily restricted). At June 30, 2011, the Organization had no permanently restricted net assets.

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2011

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates embodied in these financial statements include the fair value of investments, the collectibility of receivables and the realizability of long-lived assets. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. The Organization maintains its cash balances at various financial institutions. The total cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution. In addition to the basic insurance coverage, effective December 31, 2010, the FDIC is providing temporary unlimited coverage for noninterest bearing transaction accounts through December 31, 2012. At June 30, 2011, the Organization had no uninsured balances. The Organization periodically reviews the quality of the financial institutions it has deposits with to minimize risk of loss.

Grants and Contracts Receivable

Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense. There was no reserve for uncollectible grants and contracts receivable as of June 30, 2011.

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2011

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Restricted Investments

Restricted investments represent sinking fund requirements for the bonds payable determined by the bond lender (see Note 7). Investments consist of government securities, mutual funds and U.S. Treasury bonds with remaining maturities of 1 to 4 years with interest rates ranging from 4.15% to 4.31%. These investments are carried at fair market value (see Note 2).

Replacement Reserves

Replacement reserves represent reserves to fund future repairs and maintenance costs for Serenity Village and other property as specified in the bonds payable (see Note 7) and the note payable to the County of San Diego (see Note 5).

Contributed Goods and Services

Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were no recognizable contributed goods or services for the year ended June 30, 2011.

Support and Revenue Recognition

The Organization receives its grant and contract support primarily from the County of San Diego, the California Department of Education and the Federal Government. Support received from grants and contracts is recognized net of contractual allowances or adjustments. The Organization receives client fees and childcare income for billable client services and recognizes these fees as income when earned.

Property and Equipment

Property and equipment are stated at cost. Repairs and maintenance to these assets are charged to expense as incurred; major improvements in excess of \$5,000 enhancing the function of these assets are capitalized. When items are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gains or losses arising from such transactions are recognized.

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2011

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Property and equipment are depreciated over their estimated useful lives using the straight-line method as follows:

Buildings	39 years
Building improvements	15 years
Furniture and equipment	7 years
Motor vehicles	5 years

Long-Lived Assets

Management assesses the recoverability of its long-lived assets upon the occurrence of a triggering event by determining whether the depreciation of long-lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment, if any, is measured based on fair value and is charged to operations in the period in which impairment is determined by management. At June 30, 2011, management believes there is no impairment of its long-lived assets. There can be no assurance however, that market conditions will not change or demand for the Organization's services will continue, which could result in impairment of long-lived assets in the future.

Financing Costs

Costs incurred in obtaining mortgage loans, bond financing and bond insurance are capitalized at cost and are being amortized over the term of the financing through January 1, 2028. Amortization during the year ended June 30, 2011 totaled \$20,461 and is recorded in interest expense in the statement of functional expenses.

Income Taxes

The Organization is a public charity that has obtained an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California state income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for Federal or state income taxes. The Organization is subject, however, to Federal and California income taxes on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the year ended June 30, 2011, the Organization had no unrelated business net income.

Deferred Revenue

Deferred revenue represents money received prior to being expended within specific contractual requirements.

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2011

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Allocated Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon estimated usage.

Risks and Uncertainties

Certain of the Organization's services are governed by grant agreements with governmental agencies. All such grant agreements to which the Organization currently is a party are for fixed terms and expire on a contract-by-contract basis. There can be no assurances that the Organization will be able to obtain future grant agreements as deemed necessary by management. The loss of some of the current grants or the inability to obtain future grants could have an adverse effect on the Organization's financial position and results of activities. Failure of the Organization to comply with applicable regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions, civil penalties and could potentially have an adverse effect on the Organization's financial position and results of operations.

The Organization performs periodic credit evaluations of its grantors and maintains allowances for potential credit losses as deemed necessary. The Organization generally does not require collateral to secure its receivables. The Organization estimates credit losses based on management's evaluation of historical experience and current industry trends. Although the Organization expects to collect amounts due, actual collections may differ from the estimated amounts.

The Organization has several direct and pass-through grants from one agency that comprise 58% of the Organization's outstanding grants and contracts receivable balance at June 30, 2011. For the year ended June 30, 2011, grants from this agency comprise 52% of total grants and contracts revenue.

NOTE 2 - RESTRICTED INVESTMENTS

The Organization has \$878,332 in restricted investments in mutual funds and U.S. Treasury bonds. Of these, \$421,725 are restricted for the bonds payable (see Note 7) reserves, \$236,485 are restricted for future bond payments due within one year and \$220,122 are from proceeds from the sale of properties restricted for bond repayment when the bonds first become available for redemption in 2013.

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2011

NOTE 2 - RESTRICTED INVESTMENTS, continued

In relation to these investments, the Organization has adopted accounting guidance related to fair value measurements. This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market, or in the absence of a principal market, the most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date. This guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs in priority that may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities;

Level 2—Observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves, credit risks, and default rates) or other inputs that are principally derived from or corroborated by observable market data by correlation or by other means; and

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Mutual Funds

The fair value of investments in mutual funds is based upon quoted prices in active markets. The quoted prices of the mutual fund shares represent their closing net asset values. These investments have been classified within Level 1 of the valuation hierarchy.

U.S. Treasury Bonds

U.S. Treasury bonds are generally valued by using pricing models (e.g., discounted cash flows), quoted prices of securities with similar characteristics or broker quotes. These investments have been included in Level 2 of the valuation hierarchy.

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2011

NOTE 2 - RESTRICTED INVESTMENTS, continued

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2011:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual funds – government securities	\$ 658,210	\$ -	\$ -	\$ 658,210
U.S. Treasury bonds	-	220,122	-	220,122
	\$ 658,210	\$ 220,122	\$ -	\$ 878,332

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2011 are comprised of the following:

	Cost	Accumulated Depreciation	Net
Land	\$ 2,027,812	\$ -	\$ 2,027,812
Building and building improvements	7,857,764	(1,897,625)	5,960,139
Real property	9,885,576	(1,897,625)	7,987,951
Furniture and equipment	423,035	(129,100)	293,935
Motor vehicles	55,131	(55,131)	-
	\$ 10,363,742	\$ (2,081,856)	\$ 8,281,886

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2011

NOTE 3 - PROPERTY AND EQUIPMENT, continued

With public support, the Organization operates eight properties in the City of Escondido in fulfilling its mission of providing women with residential and non-residential alcoholic and drug rehabilitation programs, childcare and development services, as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Serenity Center	\$ 4,617,336	\$ (877,245)	\$ 3,740,091
Serenity Village	3,292,856	(309,391)	2,983,465
Serenity Too	400,498	(65,440)	335,058
Serenity House	144,783	(81,814)	62,969
Natalie's House	130,762	(43,502)	87,260
Edna's House	122,835	(43,858)	78,977
Discovery and Learning Centers	731,000	(151,119)	579,881
Child Development Center	<u>445,506</u>	<u>(325,256)</u>	<u>120,250</u>
	<u>\$ 9,885,576</u>	<u>\$ (1,897,625)</u>	<u>\$ 7,987,951</u>

The residential program utilizes Serenity Center and Serenity Village plus four residential homes to provide a total of 227 beds for patients. The non-residential program utilizes an outpatient clinic as its operating facility. The Discovery Center, Child Development Center and Learning Center serve as the centers for childcare and development programs.

All of the Organization's properties have been pledged as collateral to secure indebtedness on certain notes payable (see Notes 5 and 6) and bonds payable (see Note 7).

Effective July 1, 2010, a three-year lease was entered into for Serenity House with an unaffiliated non-profit organization ("Tenant") with similar goals, after obtaining approval from oversight agencies. During the year ended June 30, 2011, the Organization received \$72,000 of payments from the Tenant, which is recorded as rental income in the accompanying statement of activities. The Tenant is obligated for monthly lease payments of \$6,000 and all repairs and utilities during the lease term.

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2011

NOTE 4 - FINANCING COSTS

Unamortized financing costs at June 30, 2011 are comprised of the following:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Bond issuance costs	\$ 452,144	\$ (150,714)	\$ 301,430
Financing costs	<u>115,706</u>	<u>(42,543)</u>	<u>73,163</u>
	<u>\$ 567,850</u>	<u>\$ (193,257)</u>	<u>\$ 374,593</u>

NOTE 5 - NOTES PAYABLE

Notes payable outstanding at June 30, 2011 are as follows:

Note payable to the County of San Diego, bearing interest at 3% per annum, secured by a deed of trust on Serenity Village. Principal and interest are due June 5, 2058. The Organization has recorded accrued interest of \$61,806 as of June 30, 2011, which is payable annually to the extent Serenity Village generates residual revenues, as defined. There were no residual revenues as of June 30, 2011.

\$ 525,000

Notes payable to the State of California through the California Health Facilities Financing Authority ("CHFFA"), secured by deeds of trust on real property, bearing interest at 3% per annum, due August 1, 2023, payable in monthly installments of principal and interest of \$5,179.

632,901
1,157,901

Less current portion

(43,764)

\$ 1,114,137

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2011

NOTE 5 - NOTES PAYABLE, continued

The following are maturities on notes payable for the next five years and thereafter:

<u>For The Years</u> <u>Ending June 30,</u>	
2012	\$ 43,764
2013	45,095
2014	46,467
2015	46,823
2016	49,336
Thereafter	<u>926,416</u>
	<u>\$ 1,157,901</u>

NOTE 6 - FORGIVABLE NOTES PAYABLE

In support of the Serenity Village project, the City of Escondido and the State of California Department of Housing and Community Development financed the Organization by extending construction advances forgivable at maturity, as long as the related property continues to be used for its current charitable purpose:

Note payable to the State of California Department of Housing and Community Development due September 30, 2017, bearing forgivable interest at 3% per annum. In the event of noncompliance with the note, accrued interest of approximately \$121,000 becomes due and payable. As management believes the Organization will stay in compliance with the note, no amounts have been recorded for accrued interest as of June 30, 2011.	\$ 998,793
Note payable to California Health Facilities Financing Authority due November 16, 2021, non-interest bearing, subordinated to County of San Diego loan (see Note 5).	300,000
Note payable to California Health Facilities Financing Authority due December 20, 2023, non-interest bearing, subordinated to County of San Diego loan (see Note 5).	<u>300,000</u>
	<u>\$ 1,598,793</u>

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2011

NOTE 7 - BONDS PAYABLE

On January 1, 2003, California Statewide Communities Development Authority, on behalf of the Organization, issued Insured Health Facility Revenue 2003 Series A Bonds (the "Bonds") at a face amount of \$5,795,000. The Bonds carry a 25-year term maturing at various dates through January 1, 2028.

The Organization has several loan covenants related to the Bond Payable Regulatory Agreement. As of June 30, 2011, the Organization was in compliance with its financial and non-financial covenants.

The Bonds were originally issued and sold to an underwriter at a discount of \$79,657. The balance at June 30, 2011 consists of the following:

Bond principal balance	\$ 4,575,000
Less unamortized original issue discount	<u>(53,371)</u>
	4,521,629
Less current portion	<u>(175,000)</u>
	\$ <u>4,346,629</u>

The Bonds are secured by collateral, consisting of all real properties owned by the Organization and all Revenue Accounts set aside for the Bonds, as defined in various bond agreements. Amortization of the original issue discount totaled \$2,920 for the year ended June 30, 2011 and is recorded as part of interest expense in the accompanying statement of activities.

The Bonds' principal payments and interest rates for the remaining term are as follows:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
January 1, 2012	\$ 175,000	4.25%	4.35%
January 1, 2013	185,000	4.40%	4.50%
January 1, 2014	190,000	4.55%	4.65%
January 1, 2015	200,000	4.70%	4.80%
January 1, 2016	210,000	4.80%	4.90%
January 1, 2028	<u>3,615,000</u>	5.50%	5.50%
	\$ <u>4,575,000</u>		

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2011

NOTE 8 - LINE OF CREDIT

The Organization maintains a line of credit agreement with a financial institution, which matures on April 1, 2013. Borrowings under the line of credit agreement are limited to \$400,000. The line of credit bears interest at the LIBOR rate plus 4.50% (totaling 5.23% at June 30, 2011). The line of credit is secured by the Organization's accounts receivable and deposit accounts. As of June 30, 2011, outstanding balances totaled \$100,000. The line of credit agreement contains non-financial covenants, with which the Organization was in compliance as of June 30, 2011.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Operating Leases

The administrative building is leased under a non-cancelable operating lease that expires in October 2011. Monthly rental payments are currently \$4,238. Rent expense for the year ended June 30, 2011 was \$56,796, which consists of \$50,202 for buildings and \$6,594 for equipment.

The following is a schedule by year of future non-cancelable minimum operating lease payments for the administrative office as of June 30, 2011:

For the year ending June 30, 2012	\$ <u>17,000</u>
-----------------------------------	------------------

Capital Lease

The Company leases certain equipment under a capital lease agreement. This lease agreement expires October 2013. The following summarizes property and equipment acquired through capital lease agreements at June 30, 2011:

Equipment	\$ 30,309
Accumulated depreciation	<u>(3,247)</u>
	\$ <u>27,062</u>

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2011

NOTE 9 - COMMITMENTS AND CONTINGENCIES, continued

Future minimum lease payments under the capital lease and the net present value of the future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	<u>Total</u>
2012	\$ 10,863
2012	10,863
2013	<u>3,621</u>
	25,347
Less amounts representing interest	<u>(3,325)</u>
Present value of future minimum lease payments	22,022
Less current portion	<u>(8,695)</u>
	<u>\$ 13,327</u>

Guarantees and Indemnities

During the normal course of business, the Organization has made certain indemnities and guarantees under which it may be required to make payments in relation to certain transactions. These indemnities include certain agreements with the Organization's officers, under which the Organization may be required to indemnify such person for liabilities arising out of their employment relationship. The Organization has also indemnified lenders and the lessor of the administrative building for certain environmental liability losses which may be incurred related to the corresponding land, building and improvements. The duration of these indemnities and guarantees varies and, in certain cases, is indefinite. The majority of these indemnities and guarantees do not provide for any limitation of the maximum potential future payments the Organization could be obligated to make. The Organization hedges some of the risk associated with these potential obligations by carrying general liability insurance. Historically, the Organization has not been obligated to make significant payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying statement of financial position.

NOTE 10 – SUBSEQUENT EVENTS

The Organization has evaluated and determined that no events have occurred subsequent to the balance sheet date of June 30, 2011 through September 28, 2011, the date the financial statements were issued, which would require inclusion or disclosure in the financial statements.

NORTH COUNTY SERENITY HOUSE, INC.

COMBINING STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2011

	California Department of Education Programs				
	Facility Renovation and Repair CRPM8125	General Child Care and Development CCTR0259 and California State Preschool Program CSPP0473	Total CDE CD Contracts	Non-CDE Programs	Total
Revenue and support:					
Grants and contracts:					
Child care programs	\$ 2,231	\$ 790,739	\$ 792,970	\$ 2,545,164	\$ 3,338,134
Transfers from CD reserves	-	27,844	27,844	-	27,844
Fees:					
Child nutrition programs	-	67,463	67,463	-	67,463
Family fees – certified children	-	32,990	32,990	-	32,990
Family fees – noncertified children	-	2,532	2,532	-	2,532
Other fees	-	-	-	166,981	166,981
Rental income	-	-	-	184,841	184,841
Contributions	-	100	100	84,581	84,681
Interest	-	-	-	9,550	9,550
Total revenue and support	<u>2,231</u>	<u>921,668</u>	<u>923,899</u>	<u>2,991,117</u>	<u>3,915,016</u>
Expenses:					
Salaries	-	597,099	597,099	1,260,164	1,857,263
Employee benefits	-	127,325	127,325	248,585	375,910
Books and supplies	-	116,692	116,692	351,073	467,765
Rents and leases	-	-	-	56,796	56,796
Other operating expenses	-	79,874	79,874	695,915	775,789
Building repairs and maintenance	-	-	-	3,624	3,624
Equipment expense	2,231	-	2,231	15,747	17,978
Depreciation and amortization	-	30,897	30,897	268,809	299,706
Total expenses	<u>2,231</u>	<u>951,887</u>	<u>954,118</u>	<u>2,900,713</u>	<u>3,854,831</u>
Change in net assets	<u>\$ -</u>	<u>\$ (30,219)</u>	<u>\$ (30,219)</u>	<u>\$ 90,404</u>	<u>\$ 60,185</u>

See independent auditors' report

NORTH COUNTY SERENITY HOUSE, INC.

SCHEDULE OF EXPENDITURES BY STATE CATEGORIES

For The Year Ended June 30, 2011

	Facility Renovation and Repair CRPM8125	General Child Care and Development CCTR0259 and California State Preschool Program CSPP0473	Total
Expenditures:			
1000 Certificated salaries	\$ -	\$ 492,961	\$ 492,961
2000 Classified salaries	-	104,138	104,138
3000 Employee benefits	-	127,325	127,325
4000 Books and supplies	-	116,692	116,692
5000 Services and other operating expenses	-	79,874	79,874
6500 Replacement equipment	2,231	-	2,231
Depreciation on assets not purchased with CDE funds	<u>-</u>	<u>30,897</u>	<u>30,897</u>
Total expenditures	<u>\$ 2,231</u>	<u>\$ 951,887</u>	<u>\$ 954,118</u>

KMJ | Corbin and Company LLP has examined the claims filed for reimbursement and the original records supporting the transactions recorded under the contracts listed above to an extent considered necessary to assure ourselves that the amounts claimed by the contractor were eligible for reimbursement, reasonable, necessary, and adequately supported, according to governing laws, regulations, and contract provisions.

NORTH COUNTY SERENITY HOUSE, INC.

SCHEDULE OF REIMBURSABLE EQUIPMENT EXPENDITURES

For The Year Ended June 30, 2011

	Facility Renovation and Repair CRPM8125	General Child Care and Development CCTR0259 and California State Preschool Program CSPP0473	Total
Unit cost under \$7,500 per item:			
Classroom wallpaper	\$ 2,231	\$ -	\$ 2,231
Unit cost over \$7,500 per item with prior written approval:			
None	-	-	-
Unit cost over \$7,500 per item without prior written approval:			
None	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,231</u>	<u>\$ -</u>	<u>\$ 2,231</u>

Note: See Note 1 for the Organization's capitalization threshold.

NORTH COUNTY SERENITY HOUSE, INC.

**SCHEDULE OF REIMBURSABLE EXPENDITURES FOR
RENOVATIONS AND REPAIRS**

For The Year Ended June 30, 2011

	Facility Renovation and Repair CRPM8125	General Child Care and Development CCTR0259 and California State Preschool Program CSPP0473	Total
Unit cost under \$10,000 per item: None	\$ -	\$ -	\$ -
Unit cost over \$10,000 per item with prior written approval: None	-	-	-
Unit cost over \$10,000 per item without prior written approval: None	_____ -	_____ -	_____ -
Total	\$ _____ -	\$ _____ -	\$ _____ -

Note: See Note 1 for the Organization's capitalization threshold.

NORTH COUNTY SERENITY HOUSE, INC.

SCHEDULE OF REIMBURSABLE ADMINISTRATIVE COSTS

For The Year Ended June 30, 2011

	Facility Renovation and Repair CRPM8125	General Child Care and Development CCTR0259 and California State Preschool Program CSPP0473	Total
Reimbursable administrative costs:			
Salaries	\$ -	\$ 79,743	\$ 79,743
Employee benefits	-	-	-
Services and other operating expenses	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ -</u>	<u>\$ 79,743</u>	<u>\$ 79,743</u>

See independent auditors' report

**AUDITED ATTENDANCE AND FISCAL REPORT
for California State Preschool Programs**

Agency Name: North County Serenity House, Inc. Vendor No. V235

Fiscal Year Ended: June 30, 2011 Contract CSPP0473

Independent Auditor's Name: KMJ | Corbin and Company LLP

SECTION I - CERTIFIED CHILDREN ENROLLMENT	DAYS OF	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
		CUMULATIVE FISCAL YEAR PER FORM CDFS 8501	AUDIT ADJUSTMENTS	CUMULATIVE FISCAL YEAR PER AUDIT	ADJUSTMENT FACTOR	ADJUSTED DAYS OF ENROLLMENT PER AUDIT
<i>Three and Four Year Olds</i>						
	Full-time-plus	165		165	1.1800	194.700
	Full-time	10,575		10,575	1.0000	10,575.000
	Three-quarters-time	629		629	0.7500	471.750
	One-half-time	-		-	0.6172	-
<i>Exceptional Needs</i>						
	Full-time-plus	-		-	1.4160	-
	Full-time	-		-	1.2000	-
	Three-quarters-time	-		-	0.9000	-
	One-half-time	-		-	0.6172	-
<i>Limited and Non-English Proficient</i>						
	Full-time-plus	-		-	1.2980	-
	Full-time	938		938	1.1000	1,031.800
	Three-quarters-time	210		210	0.8250	173.250
	One-half-time	-		-	0.6172	-
<i>At Risk of Abuse or Neglect</i>						
	Full-time-plus	-		-	1.2980	-
	Full-time	528		528	1.1000	580.800
	Three-quarters-time	-		-	0.8250	-
	One-half-time	-		-	0.6172	-
<i>Severely Disabled</i>						
	Full-time-plus	-		-	1.7700	-
	Full-time	8		8	1.5000	12.000
	Three-quarters-time	53		53	1.1250	59.625
	One-half-time	-		-	0.6172	-
TOTAL DAYS OF ENROLLMENT		13,106	-	13,106		13,098.925
DAYS OF OPERATION		250	-	250		
DAYS OF ATTENDANCE		13,106	-	13,106		

Comments - If necessary, attach additional sheets to explain adjustments:

**AUDITED ATTENDANCE AND FISCAL REPORT
for California State Preschool Programs**

Agency Name: North County Serenity House, Inc. Vendor No. V235

Fiscal Year Ended: June 30, 2011 Contract CSPP0473

SECTION II - NONCERTIFIED CHILDREN Report all children who were not certified, but who were served at the same sites as certified children. DAYS OF ENROLLMENT	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	CUMULATIVE FISCAL YEAR PER FORM CDFS 8501	AUDIT ADJUSTMENTS	CUMULATIVE FISCAL YEAR PER AUDIT	ADJUSTMENT FACTOR	ADJUSTED DAYS OF ENROLLMENT PER AUDIT
<i>Three and Four Year Olds</i>					
Full-time-plus	-		-	1.1800	-
Full-time	126		126	1.0000	126.000
Three-quarters-time	-		-	0.7500	-
One-half-time	-		-	0.6172	-
<i>Exceptional Needs</i>					
Full-time-plus	-		-	1.4160	-
Full-time	-		-	1.2000	-
Three-quarters-time	-		-	0.9000	-
One-half-time	-		-	0.6172	-
<i>Limited and Non-English Proficient</i>					
Full-time-plus	-		-	1.2980	-
Full-time	-		-	1.1000	-
Three-quarters-time	-		-	0.8250	-
One-half-time	-		-	0.6172	-
<i>At Risk of Abuse or Neglect</i>					
Full-time-plus	-		-	1.2980	-
Full-time	-		-	1.1000	-
Three-quarters-time	-		-	0.8250	-
One-half-time	-		-	0.6172	-
<i>Severely Disabled</i>					
Full-time-plus	-		-	1.7700	-
Full-time	-		-	1.5000	-
Three-quarters-time	-		-	1.1250	-
One-half-time	-		-	0.6172	-
TOTAL DAYS OF ENROLLMENT	126	-	126		126.000

Comments - If necessary, attach additional sheets to explain adjustments:

AUDITED ATTENDANCE AND FISCAL REPORT
for Child Development Programs

Agency Name: North County Serenity House, Inc. Vendor No. V235

Fiscal Year Ended: June 30, 2011 Contract No. CCTR0259

Independent Auditor's Name: KMJ | Corbin and Company LLP

SECTION I - CERTIFIED CHILDREN DAYS OF ENROLLMENT	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	CUMULATIVE FISCAL YEAR PER FORM CDFS 9500	AUDIT ADJUSTMENTS	CUMULATIVE FISCAL YEAR PER AUDIT	ADJUSTMENT FACTOR	ADJUSTED DAYS OF ENROLLMENT PER AUDIT
<i>Infants (up to 18 months)</i>					
Full-time-plus	-		-	2.006	-
Full-time	2,899		2,899	1.700	4,928.300
Three-quarters-time	189		189	1.275	240.975
One-half-time	-		-	0.935	-
<i>FCCH Infants (up to 18 months)</i>					
Full-time plus	-		-	1.652	-
Full-time	5,138		5,138	1.400	7,193.200
Three-quarters-time	347		347	1.050	364.350
One-half-time	-		-	0.770	-
<i>Toddlers (18 up to 36 months)</i>					
Full-time-plus	-		-	1.652	-
Full-time	-		-	1.400	-
Three-quarters-time	-		-	1.050	-
On-half-time	-		-	0.770	-
<i>Three Years and Older</i>					
Full-time-plus	-		-	1.180	-
Full-time	-		-	1.000	-
Three-quarters-time	-		-	0.750	-
One-half-time	-		-	0.550	-
<i>Exceptional Needs</i>					
Full-time-plus	-		-	1.416	-
Full-time	-		-	1.200	-
Three-quarters-time	-		-	0.900	-
One-half-time	-		-	0.660	-
<i>Limited and Non-English Proficient</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>At Risk of Abuse or Neglect</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>Severely Disabled</i>					
Full-time-plus	-		-	1.770	-
Full-time	-		-	1.500	-
Three-quarters-time	-		-	1.125	-
One-half-time	-		-	0.825	-
TOTAL DAYS OF ENROLLMENT	8,573	-	8,573		12,726.825
DAYS OF OPERATION	250	-	250		
DAYS OF ATTENDANCE	8,573	-	8,573		

Comments - If necessary, attach additional sheets to explain adjustments:

**AUDITED ATTENDANCE AND FISCAL REPORT
for Child Development Programs**

Agency Name: North County Serenity House, Inc. Vendor No. V235
 Fiscal Year Ended: June 30, 2011 Contract No. CCTR0259

SECTION II - NONCERTIFIED CHILDREN Report all children who were not certified, but who were served at the same sites as certified children. DAYS OF ENROLLMENT	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	CUMULATIVE FISCAL YEAR PER FORM CDFS 9500	AUDIT ADJUSTMENTS	CUMULATIVE FISCAL YEAR PER AUDIT	ADJUSTMENT FACTOR	ADJUSTED DAYS OF ENROLLMENT PER AUDIT
<i>Infants (up to 18 months)</i>					
Full-time-plus	-		-	2.006	-
Full-time	-		-	1.700	-
Three-quarters-time	-		-	1.275	-
One-half-time	-		-	0.935	-
<i>FCCH Infants (up to 18 months)</i>					
Full-time plus	-		-	1.652	-
Full-time	-		-	1.400	-
Three-quarters-time	-		-	1.050	-
One-half-time	-		-	0.770	-
<i>Toddlers (18 up to 36 months)</i>					
Full-time-plus	-		-	1.652	-
Full-time	-		-	1.400	-
Three-quarters-time	-		-	1.050	-
On-half-time	-		-	0.770	-
<i>Three Years and Older</i>					
Full-time-plus	-		-	1.180	-
Full-time	-		-	1.000	-
Three-quarters-time	-		-	0.750	-
One-half-time	-		-	0.550	-
<i>Exceptional Needs</i>					
Full-time-plus	-		-	1.416	-
Full-time	-		-	1.200	-
Three-quarters-time	-		-	0.900	-
One-half-time	-		-	0.660	-
<i>Limited and Non-English Proficient</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>At Risk of Abuse or Neglect</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>Severely Disabled</i>					
Full-time-plus	-		-	1.770	-
Full-time	-		-	1.500	-
Three-quarters-time	-		-	1.125	-
One-half-time	-		-	0.825	-
TOTAL DAYS OF ENROLLMENT	-	-	-		-

Comments - If necessary, attach additional sheets to explain adjustments:

**AUDITED ATTENDANCE AND FISCAL REPORT
for Child Development Programs**

Agency Name: North County Serenity House, Inc. Vendor No. V235

Fiscal Year End: June 30, 2011 Contract No. CSPP0473 and CCTR0259

	COLUMN A	COLUMN B	COLUMN C
	CUMULATIVE FISCAL YEAR PER FORM CDFS 9500	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE FISCAL YEAR PER AUDIT
SECTION III - REVENUE			
RESTRICTED INCOME			
Child Nutrition Programs	\$67,463	\$0	\$67,463
County Maintenance of Effort (EC § 8279)			0
Uncashed Checks to Providers			0
Other (Specify):			0
Subtotal	\$67,463	\$0	\$67,463
Special Funds Transfer Contract #			0
Contract #			0
Transfer from Reserve Contract #			0
Contract #			0
Family Fees for Certified Children Contract # 0259	5,539		5,539
Contract # 0473	27,451		27,451
Interest Earned on Apportionments Contract #			0
Contract #			0
UNRESTRICTED INCOME			
Family Fees for Noncertified Children	2,532		2,532
Other (Specify): Donations	100		100
TOTAL REVENUE	\$103,085	\$0	\$103,085

SECTION IV - REIMBURSABLE EXPENSES

<i>Direct Payments to Providers (FCCH Only)</i>	\$0	\$0	\$0
1000 Certificated Salaries	492,961		492,961
2000 Classified Salaries	104,138		104,138
3000 Employee Benefits	127,325		127,325
4000 Books and Supplies	116,692		116,692
5000 Services and Other Operating Expenses	79,874		79,874
6100/6200 Other Approved Capital Outlay			0
6400 New Equipment (program-related)			0
6500 Replacement Equipment (program-related)			0
Depreciation or Use Allowance	30,897		30,897
Start-Up Expenses (service level exemption)			0
Budget Impasse Credit Contract #			0
Contract #			0
Indirect Costs. Rate: 0.00% (Rate is Self-Calculating)			0
FOR CDE-A&I USE ONLY:			
TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT	\$951,887	\$0	\$951,887
TOTAL ADMINISTRATIVE COSTS (included in section IV above)	\$79,743	\$0	\$79,743

Independent Auditor's Assurances on Agency's compliance with Contract Funding Terms and Conditions and Program Requirements of the California Department of Education, Child Development Division:

Eligibility, enrollment, and attendance records are being maintained as required (check YES or NO):

Yes

No

Reimbursable expenses claimed above are eligible for reimbursement, reasonable, necessary, and adequately supported (check YES or NO):

Yes

No

COMMENTS - If necessary, attach additional sheets to explain adjustments:

NO SUPPLEMENTAL REVENUES OR EXPENSES - Check this box and omit page 4 if there are no supplemental revenues or expenses to report

**AUDITED FISCAL REPORT
for Child Development Support Contracts**

Agency Name: North County Serenity House, Inc. Vendor No. V235

Fiscal Year End: June 30, 2011 Contract No. CCAP9064

Multi-Year Contract? (Check "No" Box or Enter Contract Period): No: or Period: 7/1/09 - 6/30/11

Independent Auditor's Name: KMJ | Corbin and Company LLP

	COLUMN A1	COLUMN A2	COLUMN B	COLUMN C
	LAST YEAR'S AUD 9529 ENDING BALANCE FOR THIS CONTRACT (Multi-Year Contract Only)	CURRENT FISCAL YEAR PER FORM CDFS 9529	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE THROUGH CURRENT FISCAL YEAR PER AUDIT
SECTION I - REVENUE				
RESTRICTED INCOME				
Match Requirement	\$0	\$0	\$0	\$0
County Maintenance of Effort (EC § 8279)				0
Other (Specify):				0
				0
Subtotal	\$0	\$0	\$0	\$0
INTEREST EARNED ON APPORTIONMENTS				0
UNRESTRICTED INCOME				
Other (Specify):				0
				0
TOTAL REVENUE	\$0	\$0	\$0	\$0

SECTION II - REIMBURSABLE EXPENSES

1000 Certificated Salaries	\$0	\$0	\$0	\$0
2000 Classified Salaries				0
3000 Employee Benefits				0
4000 Books and Supplies	3,910			3,910
5000 Services and Other Operating Expenses				0
6100/6200 Other Approved Capital Outlay				0
6400 New Equipment (<i>program-related</i>)				0
6500 Replacement Equipment (<i>program-related</i>)				0
Depreciation or Use Allowance				0
Indirect Costs. Rate: 0.00%				0
FOR CDE-A&I USE ONLY:				
TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT	\$3,910	\$0	\$0	\$3,910
TOTAL ADMINISTRATIVE COSTS (<i>included in section II above</i>)	\$0	\$0	\$0	\$0

COMMENTS - If necessary, attach additional sheets to explain adjustments:

NO SUPPLEMENTAL REVENUES OR EXPENSES - Check this box and omit page 2 if there are no supplemental revenues or expenses to report.

**AUDITED FISCAL REPORT
for Child Development Support Contracts**

Agency Name: North County Serenity House, Inc. Vendor No. V235
 Fiscal Year End: June 30, 2011 Contract No. CRPM8125
 Multi-Year Contract? (Check "No" Box or Enter Contract Period): No: or Period: 9/15/08 - 6/30/11
 Independent Auditor's Name: KMJ | Corbin and Company LLP

	COLUMN A1	COLUMN A2	COLUMN B	COLUMN C
	LAST YEAR'S AUD 9529 ENDING BALANCE FOR THIS CONTRACT (Multi-Year Contract Only)	CURRENT FISCAL YEAR PER FORM CDFS 9529	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE THROUGH CURRENT FISCAL YEAR PER AUDIT
SECTION I - REVENUE				
RESTRICTED INCOME				
Match Requirement	\$0	\$0	\$0	\$0
County Maintenance of Effort (EC § 8279)				0
Other (Specify):				0
				0
Subtotal	\$0	\$0	\$0	\$0
INTEREST EARNED ON APPORTIONMENTS				0
UNRESTRICTED INCOME				
Other (Specify):				0
				0
TOTAL REVENUE	\$0	\$0	\$0	\$0

SECTION II - REIMBURSABLE EXPENSES				
1000 Certificated Salaries	\$0	\$0	\$0	\$0
2000 Classified Salaries				0
3000 Employee Benefits				0
4000 Books and Supplies				0
5000 Services and Other Operating Expenses				0
6100/6200 Other Approved Capital Outlay				0
6400 New Equipment (<i>program-related</i>)				0
6500 Replacement Equipment (<i>program-related</i>)	1,369	2,231		3,600
Depreciation or Use Allowance				0
Indirect Costs. Rate: 0.00%				0
FOR CDE-A&I USE ONLY:				
TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT	\$1,369	\$2,231	\$0	\$3,600
TOTAL ADMINISTRATIVE COSTS (included in section II above)	\$0	\$0	\$0	\$0

COMMENTS - If necessary, attach additional sheets to explain adjustments:

NO SUPPLEMENTAL REVENUES OR EXPENSES - Check this box and omit page 2 if there are no supplemental revenues or expenses to report.
 AUD 9529, Page 1 of 2 (FY 2010-11) California Department of Education

**AUDITED FISCAL REPORT
for Child Development Support Contracts**

Agency Name: North County Serenity House, Inc. Vendor No. V235
 Fiscal Year End: June 30, 2011 Contract No. CRPM9113
 Multi-Year Contract? (Check "No" Box **or** Enter Contract Period): No: **or** Period: 7/1/09 - 6/30/12
 Independent Auditor's Name: KMJ | Corbin and Company LLP

	COLUMN A1	COLUMN A2	COLUMN B	COLUMN C
	LAST YEAR'S AUD 9529 ENDING BALANCE FOR THIS CONTRACT (Multi-Year Contract Only)	CURRENT FISCAL YEAR PER FORM CDFS 9529	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE THROUGH CURRENT FISCAL YEAR PER AUDIT
SECTION I - REVENUE				
RESTRICTED INCOME				
Match Requirement	\$0	\$0	\$0	\$0
County Maintenance of Effort (EC § 8279)				0
Other (Specify):				0
				0
Subtotal	\$0	\$0	\$0	\$0
INTEREST EARNED ON APPORTIONMENTS				0
UNRESTRICTED INCOME				
Other (Specify):				0
				0
TOTAL REVENUE	\$0	\$0	\$0	\$0

SECTION II - REIMBURSABLE EXPENSES				
1000 Certificated Salaries	\$0	\$0	\$0	\$0
2000 Classified Salaries				0
3000 Employee Benefits				0
4000 Books and Supplies				0
5000 Services and Other Operating Expenses				0
6100/6200 Other Approved Capital Outlay	14,100			14,100
6400 New Equipment (<i>program-related</i>)	4,540			4,540
6500 Replacement Equipment (<i>program-related</i>)				0
Depreciation or Use Allowance				0
Indirect Costs. Rate: 0.00%				0
FOR CDE-A&I USE ONLY:				
TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT	\$18,640	\$0	\$0	\$18,640
TOTAL ADMINISTRATIVE COSTS (<i>included in section II above</i>)	\$0	\$0	\$0	\$0

COMMENTS - If necessary, attach additional sheets to explain adjustments:

NO SUPPLEMENTAL REVENUES OR EXPENSES - Check this box and omit page 2 if there are no supplemental revenues or expenses to report.
 AUD 9529, Page 1 of 2 (FY 2010-11) California Department of Education

**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 Board of Directors
North County Serenity House, Inc.

We have audited the financial statements of North County Serenity House, Inc. (the “Organization”) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 28, 2011. 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

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization’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 the Organization’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

This report is intended solely for the information and use of the Board of Directors, audit committee, management, California Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KMJ Corbin & Company LLP

KMJ | Corbin & Company LLP

Costa Mesa, California
September 28, 2011

**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**

Independent Auditors' Report

To the Board of Directors
North County Serenity House, Inc.

Compliance

We have audited North County Serenity House, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *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, 2011. The Organization'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 the Organization's management. Our responsibility is to express an opinion on the Organization'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 the Organization'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 the Organization's compliance with those requirements.

In our opinion, North County Serenity House, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily 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 of the Board of Directors, audit committee, management, California Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KMJ Corbin & Company LLP

KMJ | Corbin & Company LLP

Costa Mesa, California
September 28, 2011

NORTH COUNTY SERENITY HOUSE, INC.

SCHEDULE OF FEDERAL AND STATE AWARDS

For The Year Ended June 30, 2011

Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grantor's Number	Award Amount			Expenditures	
			Federal	State	Total	Federal	State
U.S. Department of Health and Human Services Substance Abuse and Mental Health Services Administration ("SAMHSA"):							
Direct Awards:							
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	T1-020420-02	\$ 400,000	\$ _____	\$ 400,000	\$ 400,000	\$ _____
Child Development Division pass-through California Department of Education:							
Child Care and Development Block Grant	93.575	CSPP0473 and CCTR0259	790,739	-	790,739	790,739	-
Child Care and Development Block Grant transfers from reserves	93.575	CSPP0473 and CCTR0259	-	-	-	27,844	-
Child Care and Development Block Grant	N/A	CCAP9064	3,910	-	3,910	-	-
Child Care and Development Block Grant	93.575	CRPM8125	3,600	-	3,600	2,231	-
Child Care and Development Block Grant	93.575	CRPM9113	12,427	-	12,427	-	-
Child Care and Development Block Grant-ARRA	93.713	CRPM9113	<u>6,213</u>	<u>-</u>	<u>6,213</u>	<u>-</u>	<u>-</u>
Total Child Development Division pass-through California Department of Education			<u>816,889</u>	<u>-</u>	<u>816,889</u>	<u>820,814*</u>	<u>-</u>
Administration Block Grants for Prevention and Treatment of Substance Abuse pass-through County of San Diego Health and Human Services Agency:							
Block Grants for Prevention and Treatment of Substance Abuse	93.959	44733	1,341,845	-	1,341,845	857,963	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	533630	<u>410,154</u>	<u>-</u>	<u>410,154</u>	<u>308,400</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>2,968,888</u>	<u>-</u>	<u>2,968,888</u>	<u>2,387,177</u>	<u>-</u>
U.S. Department of Housing and Urban Development: Pass-through County of San Diego:							
Supportive Housing Program	14.235	ESG	<u>74,122</u>	<u>-</u>	<u>74,122</u>	<u>74,100</u>	<u>-</u>

See accompanying notes to schedule of expenditures of federal awards

NORTH COUNTY SERENITY HOUSE, INC.

SCHEDULE OF FEDERAL AND STATE AWARDS

For The Year Ended June 30, 2011

<u>Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Award Amount</u>			<u>Expenditures</u>	
			<u>Federal</u>	<u>State</u>	<u>Total</u>	<u>Federal</u>	<u>State</u>
Department of Justice: Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories-ARRA	16.803	44733	<u>189,945</u>	<u>-</u>	<u>189,945</u>	<u>189,945*</u>	<u>-</u>
Department of Agriculture: California Department of Education Child and Adult Care Food Program	10.558	37-3010-0A	<u>64,730</u>	<u>2,733</u>	<u>67,463</u>	<u>64,730</u>	<u>2,733</u>
Total federal and state awards			<u>\$ 3,297,685</u>	<u>\$ 2,733</u>	<u>\$ 3,300,418</u>	<u>\$ 2,715,952</u>	<u>\$ 2,733</u>

* Major program

See accompanying notes to schedule of expenditures of federal awards

NORTH COUNTY SERENITY HOUSE, INC.

NOTES TO SCHEDULE OF FEDERAL AND STATE AWARDS

For The Year Ended June 30, 2011

NOTE 1 - GENERAL

The accompanying schedule of federal and state awards presents the activity of all federal and state award programs of North County Serenity House, Inc. (the "Organization") for the year ended June 30, 2011. Federal awards received directly from federal agencies as well as federal awards passed through the State of California are included in the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying schedule of federal and state awards is presented using the accrual basis of accounting which is described in the notes to the Organization's financial statements.

NOTE 3 - RELATIONSHIP TO FEDERAL AWARDS REPORTS

Amounts reported in the accompanying schedule of federal and state awards agree with the amounts reported in the related federal financial reports for all major federal programs.

NORTH COUNTY SERENITY HOUSE, INC.
(A Non-Profit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2011

A. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unqualified opinion on the financial statements of North County Serenity House, Inc.
2. No material weaknesses relating to the audit of the financial statements were identified in the 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*.
3. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
4. No instances of noncompliance material to the financial statements were noted.
5. No material weaknesses relating to the audit of the major federal award programs were identified in the 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.
6. No significant deficiencies relating to the audit of the major federal award programs are reported in the 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.
7. The independent auditors' report on compliance for the major federal award programs for the auditee expresses an unqualified opinion.
8. There were no audit findings relative to the major federal award programs for the auditee that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
9. The programs tested as major programs include:

	<u>CFDA Number</u>
SAMHSA/Child Care and Development Block Grant	93.575
DOJ/Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803-ARRA

NORTH COUNTY SERENITY HOUSE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For The Year Ended June 30, 2011

10. The threshold for distinguishing Type A and B programs was \$300,000.

11. The auditee was considered to be a low-risk auditee for the year ended June 30, 2011.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None.

D. SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.