

THE FAMILY GIVING TREE

MARCH 31, 2011

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

The Family Giving Tree

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Independent Auditors' Report

BOARD OF DIRECTORS
THE FAMILY GIVING TREE
Milpitas, California

We have audited the accompanying statements of financial position of **THE FAMILY GIVING TREE** (the Organization) as of March 31, 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. The prior year summarized comparative information has been derived from the Organization's financial statements for the year ended March 31, 2010, which were audited by other auditors and whose report dated June 22, 2010 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 the Organization as of March 31, 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.

July 19, 2011

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The Family Giving Tree

Statement of Financial Position

<i>March 31, 2011 (with comparative totals for 2010)</i>			2011	2010
Assets				
Current Assets:				
Cash and cash equivalents	\$	677,615	\$	694,489
Certificates of deposit		151,876		500,771
Investments		139,136		128,017
Inventory				50,954
Prepaid expenses and other current assets		20,283		18,454
Total current assets		988,910		1,392,685
Property and Equipment, net		200,445		214,167
Other Assets:				
457(f) plan assets		98,248		91,638
Deposit		8,880		7,850
Total other assets		107,128		99,488
	\$	1,296,483	\$	1,706,340
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable and accrued expenses	\$	11,425	\$	36,509
Accrued payroll		28,244		23,150
Total current liabilities		39,669		59,659
Long-Term Liabilities:				
457(f) plan payable		98,248		91,638
Total liabilities		137,917		151,297
Net Assets:				
Unrestricted				
Designated by the Board (See Note 5):				
Operating reserves		728,523		750,000
Holiday Gift Purchase Fund		150,000		250,000
Information Technology Development Fund		50,000		225,000
Backpack Purchase Fund		75,000		125,000
National Expansion Fund		50,000		75,000
Capital Improvement Fund		25,000		50,000
Undesignated		80,043		80,043
Total unrestricted net assets		1,158,566		1,555,043
Total liabilities and net assets	\$	1,296,483	\$	1,706,340

The accompanying notes are an integral part of this statement.

The Family Giving Tree

Statement of Activities

<i>Year Ended March 31, 2011 (with comparative totals for 2010)</i>	2011	2010
	All Unrestricted	
Revenues:		
Donated gifts	\$ 1,870,169	\$ 1,797,896
Individual contributions	779,755	907,636
Corporate contributions	559,447	475,947
Donated facilities	193,619	193,619
Foundation grants	84,876	81,000
Agency fees	12,068	52,713
Donated services	81,600	34,090
Unrealized gain on investments	10,262	26,101
Interest	9,286	10,022
Other income		2,459
Realized gain (loss) on investments	1,449	(4,298)
Total revenues	3,602,531	3,577,185
Expenses:		
Program services		
Holiday Wish Program	2,466,706	2,022,556
Back-to-School Backpack Program	894,436	748,015
Total program services	3,361,142	2,770,571
Supporting services		
Management and general	373,136	384,535
Fundraising	264,730	224,719
Total supporting services	637,866	609,254
Total expenses	3,999,008	3,379,825
Change in net assets	(396,477)	197,360
Net Assets, beginning of year	1,555,043	1,357,683
Net Assets, end of year	\$ 1,158,566	\$ 1,555,043

The accompanying notes are an integral part of this statement.

The Family Giving Tree
Statement of Functional Expenses

Year Ended March 31, 2011 (with comparative totals for 2010)

	Program Services			Supporting Services			Total	
	Holiday Wish Program	Back-to-School Backpack Program	Total	Management and General	Fundraising	Total	2011	2010
Expenses:								
Salaries	\$ 317,004	\$ 136,697	\$ 453,701	\$ 145,711	\$ 115,045	\$ 260,756	714,457	\$ 569,174
Employee benefits	64,569	27,843	92,412	29,679	23,433	53,112	145,524	96,632
Payroll taxes	27,136	11,701	38,837	12,473	9,848	22,321	61,158	54,355
Pension plan contributions	9,802	4,227	14,029	4,505	3,557	8,062	22,091	35,805
Total salaries and related expenses	418,511	180,468	598,979	192,368	151,883	344,251	943,230	755,966
Donated gifts distributed	1,520,363	400,760	1,921,123				1,921,123	1,792,269
Purchased gifts distributed	146,851	144,459	291,310				291,310	148,630
Total gifts distributed	1,667,214	545,219	2,212,433				2,212,433	1,940,899
Outside services	124,421	53,653	178,074	57,190	45,155	102,345	280,419	213,159
Donated facilities	104,818	51,935	156,753	20,601	16,265	36,866	193,619	193,619
Supplies	24,852	10,716	35,568	11,423	9,019	20,442	56,010	53,578
Printing and publication	45,431	19,590	65,021	20,882	16,487	37,369	102,390	49,976
Travel	10,678	3,027	13,705	8,119	238	8,357	22,062	21,836
Occupancy	10,888	4,695	15,583	5,004	3,951	8,955	24,538	20,512
Dues and subscriptions		49	49	7,189		7,189	7,238	13,105
Small equipment	7,357	3,172	10,529	3,381	2,670	6,051	16,580	11,382
Postage and shipping	3,043	1,312	4,355	1,399	1,101	2,500	6,855	9,654
Training	1,966	107	2,073	23,735	714	24,449	26,522	9,501
Bank fees	6,921	2,984	9,905	3,181	2,512	5,693	15,598	9,173
Telephone	3,265	1,408	4,673	1,501	1,185	2,686	7,359	8,784
Insurance	4,363	1,881	6,244	2,005	1,583	3,588	9,832	5,473
Miscellaneous	208	89	297	95	74	169	466	7,667
Total expenses before depreciation	2,433,936	880,305	3,314,241	358,073	252,837	610,910	3,925,151	3,324,284
Depreciation	32,770	14,131	46,901	15,063	11,893	26,956	73,857	55,541
Total functional expenses	\$ 2,466,706	\$ 894,436	\$ 3,361,142	\$ 373,136	\$ 264,730	\$ 637,866	\$ 3,999,008	\$ 3,379,825
Percentage of total	61.7%	22.4%	84.1%	9.3%	6.6%	15.9%	100.0%	

The accompanying notes are an integral part of this statement.

The Family Giving Tree

Statement of Cash Flows

<i>Year Ended March 31, 2011 (with comparative totals for 2010)</i>	2011	2010
Cash Flows from Operating Activities:		
Change in net assets	\$ (396,477)	\$ 197,360
Adjustments to reconcile change in net assets to cash (used) provided by operating activities:		
Depreciation and amortization	73,857	55,541
Donated gifts received	(1,870,169)	(1,797,896)
Donated gifts distributed	1,921,123	1,792,269
Net realized/unrealized gain on investments	(11,711)	(22,198)
Change in operating assets and liabilities		
Prepaid expenses and other current assets	(1,829)	6,678
Deposits	(1,030)	
Accounts payable and accrued expenses	(25,084)	22,029
Accrued payroll	5,094	(100,145)
Net cash (used) provided by operating activities	(306,226)	153,638
Cash Flows from Investing Activities:		
Purchase of property and equipment	(60,135)	(91,707)
Proceeds from sale of investments	349,487	
Net cash provided (used) by investing activities	289,352	(91,707)
Net Change in Cash and Cash Equivalents	(16,874)	61,931
Cash and Cash Equivalents, beginning of year	694,489	632,558
Cash and Cash Equivalents, end of year	\$ 677,615	\$ 694,489

The accompanying notes are an integral part of this statement.

The Family Giving Tree

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The Organization's financial statements are prepared on the accrual basis of accounting.

b. Description of Net Assets

The Organization reports its financial position and operating activities in three classes of net assets:

Unrestricted Net Assets – include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes. The Organization has elected to report, as an increase in unrestricted net assets, any restricted revenue received in the current period for which the restrictions have been met in the current period.

Temporarily Restricted Net Assets – include those assets which are subject to a donor imposed restriction and for which the applicable timing or purpose restriction was not met as of the end of the current reporting period. At March 31, 2011, there were no temporarily restricted net assets.

Permanently Restricted Net Assets – include those assets which are subject to a non-expiring donor imposed restriction, such as an endowment. Gains and losses on endowments held in donor specified investments for perpetuity are recorded as permanently restricted. At March 31, 2011, there were no permanently restricted net assets.

c. Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional expense categories. 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 March 31, 2010, from which the summarized information was derived.

The Family Giving Tree

Notes to Financial Statements

Note 1 - Description of the Organization:

The Family Giving Tree (the Organization), is a California nonprofit public benefit organization formed in 1990 to help brighten the lives of children in the Greater San Francisco Bay Area and beyond. The Organization is dedicated to fulfilling the wishes of low-income children who would otherwise go without holiday gifts. The Organization also provides back-to-school backpacks to many children. These programs are funded by individuals, corporations, and nonprofit foundations.

The Organization's programs are described as follows:

Holiday Wish Program

The Organization works with approximately 250 social service agencies. These agencies supply the Organization with the names and wishes of the children they serve year-round. A wish card is printed for each child, detailing age, gender, first name and holiday gift wish. These wishes are then displayed at over 1,000 host companies and school locations, often on trees, in their lobbies and other public areas. It is the generosity of employers, employees, customers and students that make this program a success. By selecting a wish card, individuals pledge to purchase a gift for a child in need. In addition, the Organization maintains a Virtual Giving Tree on its website: www.familygivingtree.org. The Organization hosted approximately 6,500 volunteers in 220,000 square feet of donated warehouse space in December 2010 to wrap and distribute the children's gifts to the local agencies. During the year ended March 31, 2011, the Organization provided holiday gifts to approximately 63,000 children.

The Organization is working to expand its Holiday Wish Program to service nationwide, locally and via the Internet. A successful online platform, MyTwoFrontTeeth.org, provides gifts for thousands of children. Formerly partners with the Organization, MyTwoFrontTeeth.org merged with and into the Organization in May 2007. In addition, the founders and creators of MyTwoFrontTeeth.org now sit on the Board of Directors of the Organization. The cities currently being served as part of the national expansion are Austin, Seattle, and Portland.

Back-to-School Backpack Program

Using a similar method of operation, the Organization provided school supplies and backpacks to approximately 18,200 very-low income children in the fall of 2010. The Organization hosted approximately 525 volunteers in August 2010 to pack and distribute the children's backpacks.

The Family Giving Tree

Notes to Financial Statements

d. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

e. Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less, and exclude donor restricted receipts, amounts designated for long-term purposes and amounts held for investment. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on these accounts.

f. Certificates of Deposit and Investments

Certificates of deposit and investments are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

g. Fair Value Measurements

The Organization follows the provisions of ASC 820-10. Under ASC 820-10, fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

ASC 820-10 established a fair value hierarchy which categorizes inputs into three levels as follows:

- | | |
|---------|---|
| Level 1 | Values are unadjusted quoted prices for identical assets or liabilities in active markets accessible at the measurement date. |
| Level 2 | Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. |

The Family Giving Tree

Notes to Financial Statements

Level 3 Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

h. Inventory

Inventory consists of holiday gifts which have not been distributed to children as of the end of the year. Gifts remaining in inventory at year end are valued based on a study of the retail-selling price of the gifts by category. In accordance with ASC 820-10 donated gifts inventory is classified as Level 2 inputs (see Note 2g).

i. Property and Equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchased over \$1,000 is capitalized. The cost of repair and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 15 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

j. Revenue Recognition

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal period. Temporarily restricted contributions are reported as increases in unrestricted net assets if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in temporarily restricted net assets. When the restriction is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of temporarily restricted net assets to unrestricted net assets.

The Family Giving Tree

Notes to Financial Statements

Donated gifts, facilities, professional services, materials and supplies, and equipment are recorded at their estimated fair value as of the date of the donation. The estimated fair value of the donated gifts is based on a study of the average retail-selling price of the 50 most distributed gifts. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. While these contributed services are not reflected in the financial statements, the estimated value of these services is disclosed in Note 6.

k. Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Indirect expense allocations are allocated to program and supporting services based on an analysis of personnel time.

l. Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and exempt from state income taxes under various state codes and statutes of California, Texas, Washington and Oregon. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code.

The Organization follows the ASC 740-10 Income Taxes to account for uncertain tax positions. Management has concluded that the Organization has taken no uncertain tax positions that would require adjustment to the financial statements to comply with provisions of this guidance.

m. Advertising

The Organization's policy is to expense advertising costs as the costs are incurred.

n. Reclassifications

Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

The Family Giving Tree

Notes to Financial Statements

o. Subsequent Events

The Organization evaluated subsequent events through July 19, 2011, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

Note 3 - Investments:

The Organization has entered into an agreement with Silicon Valley Community Foundation (Foundation) to manage, hold in trust, and invest certain assets according to the Foundation's investment policy guideline. The funds are held in investment pools with 70% in long-term growth consisting of fixed income, domestic equity, foreign equity, alternative investments in hedged equity, absolute return and real asset funds and 30% in capital preservation pools consisting of money market mutual funds and bank certificates of deposit. Under the terms of the agreement, the principal and accumulated income and interest of the fund is at all times owned by the Organization. In addition, the Organization's Board of Directors may direct the expenditure of any or all of the principal or income from the fund. Investments with the Foundation are recorded at fair market value.

In accordance with ASC 820-10 all of the Organization's investments and certificates of deposit are classified as Level 2 investments (see Note 2g).

Note 4 - Property and Equipment:

The cost and related accumulated depreciation of property and equipment as of March 31, consisted of the following:

	2011	2010
Software	\$ 330,763	\$ 270,629
Furniture, fixtures and equipment	139,434	139,434
Leasehold improvements	17,928	17,928
	488,125	427,991
Less: Accumulated depreciation and amortization	(287,680)	(213,824)
	\$ 200,445	\$ 214,167

The Family Giving Tree

Notes to Financial Statements

Note 5 - Board Designated Net Assets:

a. Operating Reserves

The Organization has established a reserve to stabilize cash flow and cover any revenue shortfalls that occur because of grant delays and seasonal variation in fundraising receipts that do not meet budgeted expenditures. The reserve target is six months of budgeted operating expenses.

b. Holiday Gift Purchase Fund

This fund is used to purchase gifts which do not come in via direct individual donations. It is used each year in varying degrees depending on need.

c. Information Technology Development Fund

This fund is used to support the continued development of the wish card data base and the upgrade to the Organization's technology infrastructure.

d. Backpack Purchase Fund

This fund is used to pre-purchase school supply filled backpacks for approximately 14,000 very-low income students in the Back-to-School Drive. The remaining backpacks are provided by direct donations of backpacks by individuals who purchase them in stores.

e. National Expansion Fund

This fund will support the Organization's planned expansion of its Holiday Wish Program which started during the year ended March 31, 2009. These funds came primarily from the merger with MyTwoFrontTeeth.org.

f. Capital Improvement Fund

This fund will be used for short-term essential improvements designed to create a more efficient workplace. Due to the anticipated, continuous growth, long-term plans include obtaining additional facilities.

The Family Giving Tree

Notes to Financial Statements

The following is an analysis of the change in unrestricted net assets, including Board designated reserves, and the application and reallocation of reserves to offset the current fiscal year operating loss:

	March 31, 2010	Change in Net Assets	Funds (Utilized) Replenished	Reallocation	March 31, 2011
Operating reserves	\$ 750,000		\$ (246,477)	\$ 225,000	\$ 728,523
Holiday Gift Purchase Fund	250,000		(100,000)		150,000
Information Technology Development Fund	225,000			(175,000)	50,000
Backpack Purchase Fund	125,000		(50,000)		75,000
National Expansion Fund	75,000			(25,000)	50,000
Capital Improvement Fund	50,000			(25,000)	25,000
Undesignated	80,043	\$ (396,477)	396,477		80,043
	\$ 1,555,043	\$ (396,477)	\$ 0	\$ 0	\$ 1,158,566

Note 6 - In-kind Contributions:

During the years ended March 31, the following in-kind contributions were received by the Organization:

	2011	2010
Donated gifts	\$ 1,870,169	\$1,797,896
Donated facilities:		
Warehouse usage	114,209	114,209
Office usage	79,410	79,410
Total donated facilities	193,619	193,619
Professional services	81,600	34,090
Total in-kind contributions	\$ 2,145,388	\$2,025,605

The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. The estimated value of these services for the years ended March 31, 2011 and 2010, respectively, based on the estimated dollar value of volunteer time calculated by Independent Sector, amounts to approximately \$326,000 and \$300,000, respectively. In accordance with GAAP the value of these services is not reflected in the financial statements.

The Family Giving Tree

Notes to Financial Statements

Note 7 - Retirement Plans:

During the years ended March 31, 2011 and 2010, the Organization sponsored two defined contribution retirement plans.

SIMPLE IRA - an IRA-based plan that gives small employers simplified method to make contributions toward their employees' retirement and their own retirement. Under a SIMPLE IRA plan, employees may choose to make salary reduction contributions and the employer makes matching or non-elective contributions. All contributions are made directly to an Individual Retirement Account or Individual Retirement Annuity (IRA) set up for each employee (a SIMPLE IRA). SIMPLE IRA plans are maintained on a calendar-year basis. The SIMPLE IRA plan was established to cover all full-time employees who elect to participate in the plan. For fiscal years ended March 31, 2011 and 2010 there were employer contributions made for eligible participants of the SIMPLE IRA Plan in the amounts of \$22,090 and \$20,289, respectively.

457(f) Plan - a defined contribution plan which qualifies under Section 457(f) of the Internal Revenue code. The Plan was started on August 5, 2009 and covers the Executive Director. The amount of contribution made each plan year is totally within the Organization's discretion and may be zero in some years. For the fiscal year ended March 31, 2011 the Organization did not make a contribution to the plan. The value of the plan assets as of March, 31, 2011 was \$98,248.

Note 8 - Related Party Transactions:

During the years ended March 31, 2011 and 2010 the Organization conducted business with 501(c)(3) Focus, a consulting company owned by the Father of the Organization's Executive Director who was also the former Chief Financial Officer of the Organization. 501(c)(3) Focus provides general consulting services to the Organization in the areas of development, personnel and financial performance. The fees charged by 501(c)(3) Focus totaled \$5,018 and \$18,441 for the years ended March 31, 2011 and 2010, respectively. As of March 31, 2011 there was no outstanding balance due to 501(c)(3) Focus.

Note 9 - Contingencies:

Grants awarded to the Organization are subject to the funding agencies' criteria and agreement terms under which expenditures may be charged and are subject to audit. Occasionally, such audits may determine that certain costs incurred in connection with the grants do not comply with the established criteria that govern them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to a reduction of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the grants administered during the period.