

PENINSULA VOLUNTEERS, INC.
INDEPENDENT AUDITORS' REPORT

and

FINANCIAL STATEMENTS

June 30, 2007 and 2006

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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

August 24, 2007

To the Board of Directors
PENINSULA VOLUNTEERS, INC.

We have audited the accompanying statements of financial position of Peninsula Volunteers, Inc. as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Peninsula Volunteers, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peninsula Volunteers, Inc. as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2007 on our consideration of Peninsula Volunteer, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

PENINSULA VOLUNTEERS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

	2007	2006
<u>ASSETS</u>		
Cash and cash equivalents	\$ 175,362	\$ 207,210
Federal grants receivable	137,741	135,067
Other grants and contracts receivable	205,045	25,000
Due from affiliates	12,610	12,864
Participant fees and other receivables	3,976	22,061
Prepaid expenses	43,113	19,932
Investments	6,487,005	5,206,570
Property and equipment, net	5,196,186	5,007,766
Imputed leasehold, net	4,488,961	4,809,127
TOTAL ASSETS	\$ 16,749,999	\$ 15,445,597
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable	\$ 114,098	\$ 39,324
Accrued payroll expenses	57,604	59,425
Accrued compensated absences	61,200	56,992
Deferred revenue	231,103	76,698
Other accrued expenses	16,104	28,746
Total liabilities	480,109	261,185
NET ASSETS:		
Unrestricted	11,473,553	10,107,409
Temporarily restricted:		
Net present value of unconditional promise of contributed rent	4,488,961	4,809,127
Restricted to property improvements:		
Partridge-Kennedy Apartments	261,149	267,876
Little House/Rosener House dining room renovation projects	46,227	-
	4,796,337	5,077,003
Total net assets	16,269,890	15,184,412
TOTAL LIABILITIES AND NET ASSETS	\$ 16,749,999	\$ 15,445,597

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

PENINSULA VOLUNTEERS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CHANGES IN NET ASSETS:			
Revenues and gains:			
Contributions	\$ 1,491,016	\$ -	\$ 1,491,016
Federal grants	624,872	-	624,872
Participant fees	638,709	-	638,709
Special events	429,136	46,227	475,363
Realized and unrealized gains	458,456	-	458,456
Senior nutrition	226,816	-	226,816
Interest and dividends	276,737	-	276,737
Membership dues	74,855	-	74,855
Other grants and contracts	196,178	-	196,178
Other income	-	-	-
Contributed rent	209,834	-	209,834
Assets released from restrictions:			
Imputed lease value	320,166	(320,166)	-
Property improvements	6,727	(6,727)	-
Total revenues and gains	<u>4,953,502</u>	<u>(280,666)</u>	<u>4,672,836</u>
Expenses and losses:			
Program services:			
Rosener House	1,212,054	-	1,212,054
Little House	936,723	-	936,723
Meals on Wheels	630,779	-	630,779
Nutrition	321,259	-	321,259
Total program services	<u>3,100,815</u>	<u>-</u>	<u>3,100,815</u>
Supporting services:			
General and administrative	176,349	-	176,349
Fundraising and membership	310,194	-	310,194
Total supporting services	<u>486,543</u>	<u>-</u>	<u>486,543</u>
Total expenses and losses	<u>3,587,358</u>	<u>-</u>	<u>3,587,358</u>
CHANGE IN NET ASSETS	1,366,144	(280,666)	1,085,478
NET ASSETS, BEGINNING OF YEAR	<u>10,107,409</u>	<u>5,077,003</u>	<u>15,184,412</u>
NET ASSETS, END OF YEAR	<u>\$11,473,553</u>	<u>\$4,796,337</u>	<u>\$16,269,890</u>

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

PENINSULA VOLUNTEERS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CHANGES IN NET ASSETS:			
Revenues and gains:			
Contributions	\$ 711,775	\$ -	\$ 711,775
Federal grants	550,609	-	550,609
Participant fees	557,075	-	557,075
Special events	319,501	-	319,501
Realized and unrealized gains	282,065	-	282,065
Senior nutrition	248,127	-	248,127
Interest and dividends	191,173	-	191,173
Membership dues	76,186	-	76,186
Other grants and contracts	60,618	-	60,618
Other income	641	-	641
Contributed rent	225,309	-	225,309
Assets released from restrictions:			
Imputed lease value	304,691	(304,691)	-
Property improvements	25,727	(25,727)	-
Total revenues and gains	<u>3,553,497</u>	<u>(330,418)</u>	<u>3,223,079</u>
Expenses and losses:			
Program services:			
Rosener House	1,204,127	-	1,204,127
Little House	932,826	-	932,826
Meals on Wheels	563,030	-	563,030
Nutrition	205,922	-	205,922
Total program services	<u>2,905,905</u>	<u>-</u>	<u>2,905,905</u>
Supporting services:			
General and administrative	243,363	-	243,363
Fundraising and membership	384,228	-	384,228
Total supporting services	<u>627,591</u>	<u>-</u>	<u>627,591</u>
Total expenses and losses	<u>3,533,496</u>	<u>-</u>	<u>3,533,496</u>
CHANGE IN NET ASSETS	20,001	(330,418)	(310,417)
NET ASSETS, BEGINNING OF YEAR	<u>10,087,408</u>	<u>5,407,421</u>	<u>15,494,829</u>
NET ASSETS, END OF YEAR	<u>\$10,107,409</u>	<u>\$ 5,077,003</u>	<u>\$ 15,184,412</u>

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

PENINSULA VOLUNTEERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2007

	Program Services					Support Services			Total Expenses
	Rosener House	Little House	Meals on Wheels	Nutrition	Total Program	General and Administrative	Fundraising and Membership	Total Supporting	
Salaries, wages and benefits	\$ 664,246	\$ 292,887	\$ 298,204	\$ 331,423	\$ 1,586,760	\$ 95,258	\$ 25,923	\$ 121,181	\$ 1,707,941
Facility expenses	199,478	419,803	4,604	14,237	638,122	2,531	2,104	4,635	642,757
Programs and supplies	18,762	37,019	25,592	284,742	366,115	1,057	6,088	7,145	373,260
Special events	423	1,796	-	870	3,089	583	222,230	222,813	225,902
Professional services	69,434	9,692	10,510	7,504	97,140	11,669	50,689	62,358	159,498
Printing and postage	8,023	20,090	7,073	3,262	38,448	2,918	1,688	4,606	43,054
Insurance	12,242	12,183	5,793	6,107	36,325	4,212	482	4,694	41,019
Telephone and conferences	7,553	3,647	7,181	4,870	23,251	5,699	118	5,817	29,068
Transportation	25,052	108	22,581	225	47,966	4	1	5	47,971
Equipment lease and repairs	9,508	2,362	3,246	3,258	18,374	2,693	297	2,990	21,364
Investment management fees	-	-	-	-	-	19,621	-	19,621	19,621
Advertising	6,201	3,380	3,317	644	13,542	1,276	10	1,286	14,828
Other expenses	101	497	595	3,007	4,200	6,825	81	6,906	11,106
Dues and subscription	4,524	921	203	140	5,788	4,603	424	5,027	10,815
Food service allocation	48,059	54,941	235,949	(339,030)	(81)	22	59	81	-
Total expenses before depreciation	1,073,606	859,326	624,848	321,259	2,879,039	158,971	310,194	469,165	3,348,204
Depreciation	138,448	77,397	5,931	-	221,776	17,378	-	17,378	239,154
TOTAL EXPENSES	\$ 1,212,054	\$ 936,723	\$ 630,779	\$ 321,259	\$ 3,100,815	\$ 176,349	\$ 310,194	\$ 486,543	\$ 3,587,358
Percent of total expenses	<u>33.8%</u>	<u>26.1%</u>	<u>17.6%</u>	<u>9.0%</u>	<u>86.4%</u>	<u>4.9%</u>	<u>8.6%</u>	<u>13.6%</u>	<u>100.0%</u>

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

PENINSULA VOLUNTEERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2006

	Program Services					Support Services			
	Rosener House	Little House	Meals on Wheels	Nutrition	Total Program	General and Administrative	Fundraising and Membership	Total Supporting	Total Expenses
Salaries, wages and benefits	\$ 668,207	\$ 265,841	\$ 279,276	\$ 229,231	\$ 1,442,555	\$ 81,690	\$ 94,492	\$ 176,182	\$ 1,618,737
Facility expenses	194,723	422,484	5,039	17,852	640,098	28,447	4,481	32,928	673,026
Food and cafeteria expenses	419	109	2,550	198,577	201,655	-	1,739	1,739	203,394
Programs and supplies	19,247	53,868	23,824	18,630	115,569	3,213	59,906	63,119	178,688
Professional services	29,453	4,508	6,606	635	41,202	55,872	70,618	126,490	167,692
Special events	1,863	14,320	1,685	-	17,868	-	120,671	120,671	138,539
Insurance	24,974	30,690	15,468	12,741	83,873	10,618	1,780	12,398	96,271
Transportation	24,208	272	23,737	149	48,366	109	280	389	48,755
Printing and postage	2,603	4,630	2,302	188	9,723	287	22,999	23,286	33,009
Investment management fees	-	-	-	-	-	28,086	-	28,086	28,086
Telephone and conferences	8,556	5,027	5,861	1,020	20,464	4,335	2,732	7,067	27,531
Equipment lease and repairs	13,941	3,375	4,131	724	22,171	3,117	879	3,996	26,167
Other expenses	3,428	1,188	2,123	2,073	8,812	9,533	301	9,834	18,646
Advertising	6,712	3,145	3,382	180	13,419	75	2,183	2,258	15,677
Dues and subscription	4,344	869	2,237	93	7,543	3,662	730	4,392	11,935
Food service allocation	46,233	49,485	180,016	(276,171)	(437)	-	437	437	-
Total expenses before depreciation	1,048,911	859,811	558,237	205,922	2,672,881	229,044	384,228	613,272	3,286,153
Depreciation	155,216	73,015	4,793	-	233,024	14,319	-	14,319	247,343
TOTAL EXPENSES	\$ 1,204,127	\$ 932,826	\$ 563,030	\$ 205,922	\$ 2,905,905	\$ 243,363	\$ 384,228	\$ 627,591	\$ 3,533,496
Percent of total expenses	34.1%	26.4%	15.9%	5.8%	82.2%	6.9%	10.9%	17.8%	100.0%

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

PENINSULA VOLUNTEERS, INC.

STATEMENTS OF CASH FLOWS

JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flow (to) from operating activities:		
Increase (decrease) in net assets	\$ 1,085,478	\$ (310,417)
Adjustments to reconcile change in net assets to net cash from (to) operating activities:		
Depreciation and amortization	239,154	247,343
Amortization of imputed leasehold	320,166	304,691
Net realized and unrealized gain	(458,456)	(282,064)
Changes in assets and liabilities:		
Receivables	(164,380)	(50,734)
Prepaid expenses	(23,181)	37,707
Accounts payable	74,774	(56,341)
Accrued liabilities	144,150	94,447
Net cash flow (to) from operating activities	<u>1,217,705</u>	<u>(15,368)</u>
Cash flow (to) from investing activities:		
Acquisition of property and equipment	(427,574)	(262,828)
Sales of investments	4,285,747	4,272,742
Purchases of investments	<u>(5,107,726)</u>	<u>(5,199,259)</u>
Net cash flow to investing activities	<u>(1,249,553)</u>	<u>(1,189,345)</u>
Cash flow (to) from financing activities:	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(31,848)	(1,204,713)
Cash and cash equivalents at beginning of year	<u>207,210</u>	<u>1,411,923</u>
Cash and cash equivalents at end of year	<u>\$ 175,362</u>	<u>\$ 207,210</u>

SUPPLEMENTAL INFORMATION:

Non-cash transactions: In 2007 and 2006, PVI received unconditional contributions of rent based on two long-term leases with the City of Menlo Park. The estimated value of the contributed rent is \$530,000 per year, which is recorded in the statements of activities as contributed rent, less amortization of the imputed leasehold, and as rent expense. The imputed lease value for the contributed rent is amortized using the interest method.

There was no interest expense or income tax paid for the years ended June 30, 2007 and 2006.

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

PENINSULA VOLUNTEERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 - OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

(a) Peninsula Volunteers, Inc. (PVI) is a California nonprofit corporation which has provided a variety of services to older adults residing in San Mateo and Santa Clara counties since 1947. PVI provides the following four major programs:

1. Little House, The Roslyn G. Morris Activity Center - Little House provides classes, workshops, referral services, and congregate nutritional services to seniors in the community.
2. Rosener House Adult Day Services - Rosener House is a licensed adult day care and support center for impaired older adults, providing respite care for family and other caregivers.
3. Meals on Wheels - Peninsula Volunteers, Inc. currently delivers over one thousand hot meals per week to homebound seniors and other qualified individuals in San Mateo County.
4. Nutrition - Peninsula Volunteers, Inc. prepares and serves nutritionally balanced dinners to the residents of low-income senior housing, qualified homebound individuals, participants of its adult day support center, and congregate meals to seniors in the community.

(b) The accompanying financial statements have been prepared on the accrual basis in conformity with U.S. generally accepted accounting principles. Those principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

(c) In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, PVI reports information regarding its financial position and activities according to three classes of assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are those currently available at the discretion of the board of directors for use in PVI's operations. PVI maintains temporarily restricted net asset accounts for funds restricted by donor stipulation for: 1) future improvements of Partridge-Kennedy, an apartment complex owned and operated as low-income senior housing by Peninsula Volunteers Properties, Inc., a related party as discussed in note 8; 2) the net present value of unconditional promises of contributed rent, as discussed in note 4; and 3) future dining room renovation projects for Little House and Rosener House. PVI has no permanently restricted net assets.

(d) PVI has also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, whereby contributions received are to be recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. If a restriction expires in the same accounting period as the contribution is received, the revenue is shown as unrestricted. Unconditional promises to give are recognized as revenue at the time the promise is made by the donor; conditional promises to give are disclosed but not recognized as revenue until the conditions are met.

(e) In accordance with SFAS No. 124, *Accounting for Certain Investments held by Non-Profit Organizations*, PVI records all investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Absent donor stipulations on earnings from restricted net assets, investment income is allocated to unrestricted net assets.

PENINSULA VOLUNTEERS, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2007 AND 2006

NOTE 1 - OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Acquisitions of property and equipment in excess of \$2,000 are capitalized. Property and equipment are carried at cost or, if donated, at approximate fair value at the date of donation. Depreciation is computed using the straight-line method with estimated useful lives from 3 to 40 years. Expenditures representing general maintenance and repairs are expensed in the year incurred.

(g) PVI considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

(h) Fundraising activities are performed primarily by PVI employees and volunteers. Special events that are major and/or ongoing are reported as gross proceeds and related expenses in accordance with AICPA's *Not-for-Profit Organizations* and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. Joint costs incurred in fundraising activities are allocated between program and support services in the statement of functional expenses, as required by AICPA's *Not-for-Profit Organizations*.

(i) The cost of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(j) Peninsula Volunteers, Inc. has obtained tax-exempt status from the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code and from the Franchise Tax Board under Section 23701(d) of the California Revenue and Tax Code. Accordingly, no provision for federal income tax or California franchise tax has been made. PVI has been classified as a publicly supported charitable organization, which is not a private foundation under IRS Code Section 509(a).

NOTE 2 - INVESTMENTS

Market values of investments on June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Unrestricted:		
Money market funds	\$ 117,571	\$ 25,253
Shares of registered investment companies	5,727,798	4,576,228
Shares of real estate mortgage investment	444,990	605,089
Debt securities	<u>196,646</u>	<u>-</u>
Total all investments	<u>\$ 6,487,005</u>	<u>\$ 5,206,570</u>

Investment returns are as follows for the years ended June 30, 2007 and 2006:

Interest and dividends	\$ 276,737	\$ 191,173
Net realized and unrealized gains and losses	458,456	282,065
Investment management fees	<u>(19,621)</u>	<u>(28,086)</u>
	<u>\$ 715,572</u>	<u>\$ 445,152</u>

PENINSULA VOLUNTEERS, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2007 AND 2006

NOTE 3 - PROPERTY AND EQUIPMENT

Property, equipment and accumulated depreciation are comprised of the following amounts on June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Little House:		
Improvements	\$ 2,564,520	\$ 2,152,448
Furniture and equipment	606,888	645,533
	<u>3,171,408</u>	<u>2,797,981</u>
Rosener House:		
Building	3,940,777	3,940,777
Improvements	327,876	327,876
Furniture and equipment	372,331	366,057
	<u>4,640,984</u>	<u>4,634,710</u>
Meals on Wheels:		
Improvements	2,330	2,330
Furniture and equipment	58,839	53,643
	<u>61,169</u>	<u>55,973</u>
Administrative:		
Improvements	4,843	2,315
Furniture and equipment	149,711	109,562
	<u>154,554</u>	<u>111,877</u>
Total property and equipment at cost	8,028,115	7,600,541
Less accumulated depreciation	<u>2,831,929</u>	<u>2,592,775</u>
Total property and equipment, net	<u>\$ 5,196,186</u>	<u>\$ 5,007,766</u>

NOTE 4 - IMPUTED LEASEHOLD

In 1954 PVI built the facilities at Little House and deeded them to the City of Menlo Park ("the City.") The City leases the facilities back to PVI for \$12 per year, based on the terms of the current lease dated February 1, 1995 and expiring on January 31, 2015. On July 1, 2001, PVI extended its ground lease agreement dated January 15, 1980 with the City of Menlo Park for the Rosener House location for a term of twenty-five years for \$1 per year, with an option to extend for an additional ten years.

Unconditional promises to give the use of long-lived assets for a specified number of periods in which the donor retains legal title to the long-lived asset may be received in connection with leases. The estimated net present value of the contributed rent is required under SFAS No. 116 to be recognized as temporarily restricted revenue when the promise is received. Contributed rents receivable due in more than one year are discounted to their estimated net present value using a risk-free rate of return, typically the three-month U.S. Treasury bill rate in effect at the date the promise was received. Peninsula Volunteers, Inc. has estimated the net present values of the Little House and Rosener House leases using discount rates of 5.49% and 3.40%, respectively, based on the three-month U.S. Treasury bill rate in effect at each lease's inception. The imputed leasehold value is amortized using the interest method over the term of each lease and is recorded annually as additional contribution revenue.

PENINSULA VOLUNTEERS, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2007 AND 2006

NOTE 5 - LEASE COMMITMENTS AND CONTINGENCIES

PVI leases its Little House and Rosener House facilities based on the terms of the respective leases, as discussed in note 4.

As of June 30, 2007, Peninsula Volunteers, Inc. had entered into various noncancelable operating lease agreements for the rental of office equipment. Minimum rentals on an annual basis are as follows: \$9,636 in 2008; \$6,424 in 2009; and none thereafter.

NOTE 6 - CONCENTRATIONS OF CREDIT RISK

PVI maintains its investment accounts primarily with three brokerages. These investments, which are described in note 2, are not protected under the Federal Depository Insurance Corporation (FDIC) or other regulatory agency, therefore the Organization is not insured against investment loss.

Cash balances exceeding the FDIC limit totaled \$73,812 and \$98,476 for the years ended June 30, 2007 and 2006, respectively. Management does not believe that PVI is exposed to any significant risk in association with the uninsured balances.

NOTE 7 - EMPLOYEE BENEFIT PLANS

PVI adopted a SIMPLE IRA plan ("the Plan") in 1998 under Internal Revenue Code Section 408(p), whereby employees may contribute up to \$10,000 of their annual salary to the Plan, with additional salary deferrals allowed for employees over age fifty. The Plan allows a discretionary employer match of up to 3% of eligible employees' annual compensation. PVI made matching contributions of \$26,546 for 2007 and \$22,490 for 2006.

NOTE 8 - RELATED PARTY TRANSACTIONS

Peninsula Volunteers, Inc. contracts with a related nonprofit organization, Peninsula Volunteers Properties, Inc. ("PVP") for food services provided to the residents of a low-income apartment complex for seniors owned by PVP. The two organizations share a common board of directors, a joint liability insurance policy, and provide services to older adults under the common name, "Peninsula Volunteers." In addition, Peninsula Volunteers, Inc. has agreed, but is not obligated, to make payments of \$561 per month on PVP's mortgage with the State of California. These payments are included in the statements of functional expenses as general and administrative expenses.

NOTE 9 - DONATED SERVICES, MATERIALS AND FACILITIES

In 2007, PVI received donated fundraising supplies valued at \$23,987 (\$20,933 in 2006.) PVI pays annual rent for Little House and Rosener House at an amount significantly less than market rate. The approximate fair value of these annual lease values has been estimated by a real estate professional to be \$375,000 and \$155,000, respectively. These amounts are included in the accompanying financial statements in accordance with SFAS No. 116, as described in note 4.

PVI also receives over 20,000 hours of donated services from unpaid volunteers assisting in various program and fundraising activities. No amounts have been recognized in the accompanying statements of activities because the criteria for recognition of such volunteer effort under SFAS No. 116 have not been met.

PENINSULA VOLUNTEERS, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2007 AND 2006

NOTE 10 - CONDITIONAL PROMISE TO GIVE

On February 18, 2007, Peninsula Volunteers, Inc. received from the Sovereign Order of St. John of Jerusalem Knights Hospitaller (SOSJ) a conditional promise to provide \$200,000 in funding for the renovation of the Little House kitchen. The primary conditions for funding are that the renovation be completed and approved for occupancy by local government agencies, and that the new kitchen be placed in active use. Construction work on the project was completed, occupancy permits obtained, and the kitchen was placed in active use on July 30, 2007. Because the conditions set by the donor were not substantially met as of June 30, 2007, PVI's management has excluded the funding from contributions receivable and from contribution revenue in the accompanying financial statements, in accordance with SFAS No. 116.

NOTE 11 - PRIOR PERIOD ADJUSTMENT

The management of Peninsula Volunteers, Inc. has restated the balance of its temporarily restricted imputed leasehold asset and the corresponding opening balance of temporarily restricted net assets. This restatement corrects an error in recording the net present value of the unconditional promise of contributed rent, based on the remaining term of its leases with the City of Menlo Park, as described in note 4. In these restated financial statements, PVI's imputed leasehold asset has been recorded at an estimated net present value of \$4,809,127 at June 30, 2006 and \$5,113,817 at June 30, 2005, with a corresponding value for temporarily restricted net assets.

	<u>2006</u>	<u>2005</u>
IMPUTED LEASEHOLD AT BEGINNING OF YEAR		
As previously reported	\$ -	\$ -
Adjustment to record net present value of unconditional promise of contributed rent	<u>4,809,127</u>	<u>5,113,817</u>
Balance at beginning of year, as restated	<u>\$ 4,809,127</u>	<u>\$ 5,113,817</u>
TEMPORARILY RESTRICTED NET ASSETS AT BEGINNING OF YEAR		
As previously reported	\$ 267,876	\$ 293,603
Adjustment to record net present value of unconditional promise of contributed rent	<u>4,809,127</u>	<u>5,113,817</u>
Balance at beginning of year, as restated	<u>\$ 5,077,003</u>	<u>\$ 5,407,420</u>

PENINSULA VOLUNTEERS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

<u>Federal Grantor/ Pass Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures of Federal Awards</u>
U.S. Department of Health and Human Services			
Pass-through programs from San Mateo County:			
<i>Special Programs for the Aging: Nutrition Services</i>			
Meals on Wheels - Seniors	93.045	570004R66248	\$ 281,258
<i>Special Programs for the Aging: Grants for Supportive Services and Senior Centers</i>			
Meals on Wheels - Nonsenior Disabled	93.044	570004R66248	48,837
Alzheimer's Day Care Resource Center	93.044	570004R66248	60,000
<i>Nutrition Services Incentive Program</i>			
Adult Day Care Program	93.053	570004R66248	36,696
Adult Day Care - Transportation	93.053	570004R66248	35,400
Adult Day Care - Nutrition	93.053	570004R66248	30,473
<i>Special Programs for the Aging: Grants for Supportive Services and Senior Centers</i>			
Multipurpose Senior Services Program	93.044	66932	<u>30,480</u>
Total U.S. Department of Health and Human Services			<u>523,144</u>
U.S. Department of Veterans Affairs			
Formula Grant Administered by State of California			
Medi-Cal Program:			
<i>Veterans State Nursing Home Care</i>			
Adult Day Care Program	64.015	N/A	<u>101,728</u>
Total U.S. Department of Veterans Affairs			<u>101,728</u>
 Total Expenditures of Federal Awards			 <u>\$ 624,872</u>

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Peninsula Volunteers, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**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**

August 24, 2007

To the Board of Directors
PENINSULA VOLUNTEERS, INC.
Menlo Park, CA

We have audited the financial statements of the Peninsula Volunteers, Inc. as of and for the year ended June 30, 2007, and have issued our report thereon dated August 24, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Peninsula Volunteers, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Peninsula Volunteers, Inc.'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 that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Peninsula Volunteers, Inc. in a separate letter dated August 24, 2007.

This report is intended solely for the information and use of the audit committee, management, and Board of Directors of Peninsula Volunteers, Inc., 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.

**Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

August 24, 2007

To the Board of Directors
PENINSULA VOLUNTEERS, INC.
Menlo Park, CA

Compliance

We have audited the compliance of Peninsula Volunteers, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. Peninsula Volunteers, Inc.'s major federal program is 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 its major federal program is the responsibility of Peninsula Volunteers, Inc.'s management. Our responsibility is to express an opinion on Peninsula Volunteers, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 Peninsula Volunteers, Inc.'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 Peninsula Volunteers Inc.'s compliance with those requirements.

In our opinion, Peninsula Volunteers, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

To the Board of Directors
PENINSULA VOLUNTEERS, INC.
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Internal Control Over Compliance

The management of Peninsula Volunteers, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Peninsula Volunteers, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and Board of Directors of Peninsula Volunteers, Inc. 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.

PENINSULA VOLUNTEERS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2007

A. SUMMARY OF AUDITORS' RESULTS

1. The "Independent Auditors' Report" expresses an unqualified opinion on the financial statements of Peninsula Volunteers, Inc.
2. No reportable conditions 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*".
3. No instances of noncompliance material to the financial statements of Peninsula Volunteers, Inc. were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards program are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133".
5. The independent auditors' report on compliance with requirements applicable to major programs referred to above expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award program of Peninsula Volunteers, Inc. which are required to be reported in Part C of this Schedule.
7. The federal award program tested as a major program was U.S. Department of Health and Human Services, CFDA Numbers 93.044, 93.045, and 93.053.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Peninsula Volunteers, Inc. was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS AUDIT

None.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no audit findings for the year ended June 30, 2006.