

YOUTH HOMES, INCORPORATED

**FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULE,
and
ADDITIONAL INFORMATION**

JUNE 30, 2014

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Certified Public Accountants, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Youth Homes, Incorporated

Report on the Financial Statements

We have audited the accompanying financial statements of Youth Homes, Incorporated (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2014, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Youth Homes, Incorporated as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PASADENA
234 E Colorado Blvd
Suite M150
Pasadena, CA 91101
Tel: 626.403.6801
Fax: 626.403.6866

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50 Francisco St
Suite 160
San Francisco, CA 94133
Tel: 415.391.3131
Fax: 415.391.3233

INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Youth Homes, Incorporated as a whole. The accompanying Schedule of Expenditures of Federal and Non-federal Awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Youth Homes, Incorporated's 2013 financial statements, and our report dated October 22, 2013 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2014 on our consideration of Youth Homes, Incorporated'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Youth Homes, Incorporated's internal control over financial reporting and compliance.

Harrington Group

San Francisco, California
October 3, 2014

YOUTH HOMES, INCORPORATED

STATEMENT OF FINANCIAL POSITION

June 30, 2014

With comparative totals at June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014</u>	<u>(Restated) 2013</u>
Assets					
Cash	\$ 779,374	\$ 143,331	\$ -	\$ 922,705	\$ 748,952
Accounts and grants receivable	572,133			572,133	574,280
Investments (Note 3)	1,617,957			1,617,957	1,130,397
Prepaid expenses	123,740			123,740	147,911
Other asset	8,281			8,281	-
Split-interest agreement (Note 4)			239,303	239,303	225,621
Property and equipment (Note 6)	565,595			565,595	576,199
Total assets	<u>\$ 3,667,080</u>	<u>\$ 143,331</u>	<u>\$ 239,303</u>	<u>\$ 4,049,714</u>	<u>\$ 3,403,360</u>
Liabilities and net assets					
Liabilities					
Accounts payable	\$ 128,358	\$ -	\$ -	\$ 128,358	\$ 56,877
Accrued liabilities (Note 7)	426,179			426,179	369,247
Deferred rent	69,210			69,210	-
Accrued unemployment liability (Note 8)	31,000			31,000	31,000
Notes payable (Note 10)	552,213			552,213	565,949
Total liabilities	<u>1,206,960</u>	<u>-</u>	<u>-</u>	<u>1,206,960</u>	<u>1,023,073</u>
Net assets					
Unrestricted	2,460,120			2,460,120	2,040,015
Temporarily restricted (Note 12)		143,331		143,331	114,651
Permanently restricted			239,303	239,303	225,621
Total net assets	<u>2,460,120</u>	<u>143,331</u>	<u>239,303</u>	<u>2,842,754</u>	<u>2,380,287</u>
Total liabilities and net assets	<u>\$ 3,667,080</u>	<u>\$ 143,331</u>	<u>\$ 239,303</u>	<u>\$ 4,049,714</u>	<u>\$ 3,403,360</u>

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

YOUTH HOMES, INCORPORATED

STATEMENT OF ACTIVITIES
For the year ended June 30, 2014
With comparative totals for the year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014	2013
Revenue and support					
Program service fees - government (Note 13)	\$ 5,564,880	\$ -	\$ -	\$ 5,564,880	\$ 5,124,093
Contributions	560,681	228,500		789,181	447,359
Special event, net of benefit to donor of \$98,373	121,307			121,307	57,322
Other income	137,974			137,974	36,892
In-kind donations (Note 2)	100,874			100,874	91,256
Contributions - auxiliary	43,006			43,006	36,168
Change in value of split-interest agreement			13,682	13,682	(19,498)
Interest income	4,817			4,817	4,628
Gain on sale of property				-	39,505
Net assets released from program restrictions	199,820	(199,820)		-	-
Total revenue and support	<u>6,733,359</u>	<u>28,680</u>	<u>13,682</u>	<u>6,775,721</u>	<u>5,817,725</u>
Expenses					
Program services	5,075,839			5,075,839	4,598,218
Management and general	1,038,042			1,038,042	867,209
Development	199,373			199,373	236,770
Total expenses	<u>6,313,254</u>	<u>-</u>	<u>-</u>	<u>6,313,254</u>	<u>5,702,197</u>
Change in net assets	420,105	28,680	13,682	462,467	115,528
Net assets, beginning of year as previously reported	1,986,638	114,651	225,621	2,326,910	2,211,382
Prior period adjustment (Note 15)	53,377			53,377	-
Net assets, beginning of year as restated	<u>2,040,015</u>	<u>114,651</u>	<u>225,621</u>	<u>2,380,287</u>	<u>2,211,382</u>
Net assets, end of year	<u>\$ 2,460,120</u>	<u>\$ 143,331</u>	<u>\$ 239,303</u>	<u>\$ 2,842,754</u>	<u>\$ 2,326,910</u>

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

YOUTH HOMES, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2014

With comparative totals for the year ended June 30, 2013

	Program Services	Management and General	Development	Total Expenses	
				2014	2013
Salaries	\$ 2,984,287	\$ 381,750	\$ 105,368	\$ 3,471,405	\$ 3,156,487
Payroll taxes and employee benefits	1,005,994	172,289	36,692	1,214,975	913,528
Total personnel costs	3,990,281	554,039	142,060	4,686,380	4,070,015
Professional fees	167,813	222,000	9,017	398,830	316,086
Rent	141,593	22,977	6,693	171,263	132,850
Child related expenses	153,561	751		154,312	155,476
Travel	132,140	4,683	420	137,243	117,190
Supplies	102,032	19,820	2,239	124,091	105,161
Repairs and maintenance	88,319	20,374	37	108,730	85,751
Telephone	26,720	58,646	635	86,001	76,779
Insurance	14,857	63,364	442	78,663	85,273
Food	65,954			65,954	61,045
Utilities	58,084	1,519	99	59,702	56,881
In-kind expenses	32,838	5,076	11,240	49,154	91,256
Depreciation	35,691			35,691	44,580
Printing/office expenses		5,606	16,890	22,496	21,542
Staff development and training	8,670	13,454		22,124	32,727
Interest expense and bank charges	18,824	732	1,812	21,368	74,916
Allowances	20,180			20,180	20,511
Dues and subscriptions	8	18,088	1,300	19,396	21,773
Recruiting	325	15,707		16,032	13,042
Licenses	4,860	4,895		9,755	40,859
Basic care	8,961			8,961	10,117
Postage	2,134	1,170	4,327	7,631	8,023
Advertising and public relations		4,765	2,162	6,927	7,449
Property taxes	1,619			1,619	4,463
Miscellaneous	375	376		751	1,444
Bad debt				-	34,175
Amortization				-	12,813
Total 2014 functional expenses	\$ 5,075,839	\$ 1,038,042	\$ 199,373	\$ 6,313,254	
Total 2013 functional expenses	\$ 4,598,218	\$ 867,209	\$ 236,770		\$ 5,702,197

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

YOUTH HOMES, INCORPORATED

STATEMENT OF CASH FLOWS

For the year ended June 30, 2014

With comparative totals for the year ended June 30, 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 462,467	\$ 115,528
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	35,691	44,580
Change in value of split-interest agreement	(13,682)	19,498
Reinvested interest and dividends	(31,492)	(4,628)
Unrealized loss (gain) on investments	5,267	(468)
(Gain) on sale of property and equipment	-	(39,505)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts grants and receivable	2,147	(220,514)
Decrease in prepaid expenses	24,171	22,082
(Increase) decrease in other asset	(8,281)	12,403
Increase (decrease) in accounts payable	71,481	(14,960)
Increase in accrued liabilities	56,932	38,665
Increase in deferred rent	69,210	-
Net cash provided (used) by operating activities	673,911	(27,319)
Cash flows from investing activities:		
Net sale/(purchase) of investments	(461,335)	113,159
Purchase of property and equipment	(25,087)	(20,542)
Proceeds from sale of property and equipment	-	66,886
Net cash (used) provided by investing activities	(486,422)	159,503
Cash flows from financing activities:		
Principal payments on notes payable	(13,736)	(130,041)
New borrowings on line of credit	150	150
Payments on line of credit	(150)	(150)
Net cash (used) by financing activities	(13,736)	(130,041)
Net increase in cash	173,753	2,143
Cash, beginning of year	748,952	746,809
Cash, end of year	\$ 922,705	\$ 748,952
Supplemental disclosure:		
Operating activities reflect interest paid of:	\$ 18,824	\$ 36,643
Non-cash financing activity:		
Pay-off of mortgage with sale of property	\$ -	\$ 228,114
Pay-off of old debt with issuance of new debt	\$ -	\$ 240,000

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

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

1. Organization

Youth Homes, Incorporated (“Youth Homes”) is a not-for-profit organization under the laws of the State of California. Youth Homes provides a range of services to foster care children placed with it by various governmental agencies.

Youth Homes’ range of services includes the following:

Intensive Residential Treatment: Youth Homes operates four state licensed, six-bed homes in several cities in central Contra Costa County. Two of the homes are emergency shelters and two are short-term treatment programs.

Intensive Treatment Foster Care: Youth Homes certifies family homes in the community as foster homes to provide a step-down option from its residential programs and a family setting option for youth who would benefit from longer-term treatment in a family environment.

Community Based Mental Health Services: Under contract with the Health Services Department, Youth Homes provides a wide variety of mental health support services to severely emotional abused children and adolescents. These services include psychological assessment, individual and group therapy, family therapy, which occur mostly in its residential facilities.

Therapeutic Behavioral Services: A very sophisticated, preventative program with a highly specialized team of behavioral coaches who fan out across the county each day to support children. The children served by this program are at a high risk of returning to very high level residential treatment settings or acute care hospitals.

After Care Services: In order to assure permanent homes for foster children who are transitioning to lower levels of care or independent living, Youth Homes provides an extensive after care program. This program helps foster children, who are aging out of the system, with mental health counseling, help with finding employment, assistance with finding a safe place to live, and support with their individual education goals.

Mentoring Program: A group of special volunteers works one-on-one with a child. The volunteers give the child an adult friend who is dependable, caring, and committed to their well being. This program helps the children as they transition to young adults, and well into their future.

Youth Homes receives funding from county and state agencies, with portions of its funding originating from the federal government. Youth Homes also receives funding from private sources.

Transitional-aged Youth Labor Program: Youth Home now employs between six and eight former foster care clients in providing light gardening, hauling and yard work for private pay in the community.

Transitional-aged Youth Full Service Partnership: Youth Homes provides intensive case management and therapeutic support for young adults aged 16-25 struggling with serious mental illness.

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Youth Homes are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. Youth Homes reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Youth Homes to expend all of the income (or other economic benefits) derived from the donated assets.

Accounts Receivable

Accounts receivable are receivables from governmental agencies. Therefore, no allowance for doubtful accounts has been provided

Investments

Youth Homes values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as other income. Short-term, highly liquid money market deposits that are not used for operations are treated as investments.

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs – quoted prices in active markets for identical assets

Level 2 inputs – quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs – estimates using the best information available when there is little or no market

Youth Homes is required to measure certain investments, split-interest agreement and non-cash contributions at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Concentration of Credit Risks

Youth Homes places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limits. Youth Homes has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2014 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of Youth Homes' receivables consist of earned fees from contract programs granted by governmental agencies.

Approximately 83% of total revenue and support generated by Youth Homes as of June 30, 2014 is derived from government service fees.

Youth Homes holds investments in the form of certificates of deposit, common stock, and money market funds. The Board of Directors routinely reviews market values of such investments.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than two years.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the year ended June 30, 2014, Youth Homes recorded in-kind contributions of \$100,874 for donated materials and services received.

continued

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

Youth Homes is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Youth Homes in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Youth Homes' returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing Youth Homes' programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Youth Homes uses salary dollars to allocate indirect costs.

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 reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Youth Homes' financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through October 3, 2014 the date which the financial statements were available.

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

3. Investments

Significant information about investments at June 30, 2014 is summarized as follows:

Certificates of deposit	\$1,217,073
Stocks	400,052
Money market funds	<u>832</u>
	<u>\$1,617,957</u>

4. Split-Interest Agreement

During 1980, a donor established a trust with a bank, naming Youth Homes as one of the beneficiaries of a perpetual trust. Under the terms of the split-interest agreement, Youth Homes is to receive one-third of the annual income, for its unrestricted use, after payment of taxes, trustee fees, and certain other beneficiary payments until the last named person's death. At the time of the last named person's death, Youth Homes will continue to receive one-third of the annual income, after payment of taxes and trustee fees, in perpetuity. One-third of the fair value of the trust assets, \$239,303 is reported as a permanently restricted net asset by Youth Homes.

5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2014 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Stocks	\$400,052	\$ -	\$ -	\$400,052
Investment in Marie Cruess Charitable Remainder Trust	<u>239,303</u>	<u>-</u>	<u>-</u>	<u>239,303</u>
	<u>\$639,355</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$639,355</u>

The fair value of stocks and the investment in Marie Cruess Charitable Remainder Trust has been measured on a recurring basis using quoted prices for identical assets in active markets since the underlying assets of the trust are invested in market traded instruments (Level 1 inputs).

The table below present transactions measured at fair value on a non-recurring basis during the year ended June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	\$ -	\$ 26,808	\$ -	\$ 26,808
Contributed goods	<u>-</u>	<u>74,066</u>	<u>-</u>	<u>74,066</u>
	<u>\$ -</u>	<u>\$100,874</u>	<u>\$ -</u>	<u>\$100,874</u>

The fair value of contributed services and goods has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

continued

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment at June 30, 2014 consist of the following:

Land	\$ 306,008
Buildings	425,147
Leasehold improvements	193,611
Vehicles	<u>122,669</u>
	1,047,435
Less: accumulated depreciation	<u>(481,840)</u>
	<u>\$ 565,595</u>

In May 1994, Youth Homes acquired Community Development Block Grant funds in the amount of \$80,000 from the Community Development Department of Contra Costa County, for the down payment on improved real property to be used as a group home. The grant will be converted to debt, if Youth Homes changes the use of the property. Youth Homes does not intend to change the use of the property. Pursuant to the grant provisions, Youth Homes delivered to the County a deed of trust encumbering the property.

7. Accrued Liabilities

Accrued liabilities at June 30, 2014 consist of the following:

Accrued vacation	\$238,671
Accrued salaries	142,019
Other accrued liabilities	37,208
Non-qualified retirement plan (Note 14)	<u>8,281</u>
	<u>\$426,179</u>

8. Accrued Unemployment Liability

Youth Homes has elected to be self-insured for the purposes of California State Unemployment Insurance. Estimated accrued unemployment liability at June 30, 2014 of \$31,000 represents estimated future claims arising from payroll paid to June 30, 2014. Unemployment claims for the year ended June 30, 2014 were \$20,696.

9. Line of Credit

Youth Homes has a \$75,000 revolving line of credit at a variable rate of interest. There was no outstanding balance at June 30, 2014.

continued

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

10. Notes Payable

Notes payable at June 30, 2014 consist of the following:

Mortgage payable to a bank, secured by real property located at 3164 San Ramon Rd., monthly payments of \$1,129, including interest at 3.875%, due November 2037.	\$227,213
Mortgage payable to a bank, secured by real property located at 1159 Everett Street, monthly payments of \$1,105, including interest at 3.875%, due December 2033.	225,622
Mortgage payable to a bank, secured by real property located at 1603 Cherry Lane, monthly payments of \$480, including interest at 3.875%, due August 2034.	<u>99,378</u>
	<u>\$552,213</u>

Payments for notes payable are as follows:

<u>Year ended June 30,</u>	
2015	\$ 10,992
2016	11,426
2017	11,876
2018	12,345
2019	13,126
Thereafter	<u>492,448</u>
	<u>\$552,213</u>

11. Commitments and Contingencies

Obligations Under Operating Leases

Youth Homes leases real property and equipment under operating leases expiring in various years. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30,</u>	
2015	\$126,300
2016	144,844
2017	148,730
2018	150,858
Thereafter	<u>336,545</u>
	<u>\$907,277</u>

Rent expense under operating leases for the year ended June 30, 2014 was \$179,774.

continued

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

11. Commitments and Contingencies, continued

Contracts

Youth Homes' grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, Youth Homes has no provisions for the possible disallowance of program costs on its financial statements.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 consist of the following:

Bechtel –Transitional-aged Youth	\$ 52,264
Walter S.Johnson	39,354
William A. Kerr Foundation	25,000
Gaedertt Household	10,000
Episcopal Charities	9,213
Wells Fargo	<u>7,500</u>
	<u>\$143,331</u>

For the year ended June 30, 2014, net assets released from program restrictions were \$199,820.

13. Program Service Fees - Government

Program service fees for the year ended June 30, 2014 consist of the following:

Residential and foster care	\$2,283,875
C-5 mental health program	2,126,123
Therapeutic behavioral services	956,717
TAY contract services	<u>198,165</u>
	<u>\$5,564,880</u>

14. Non-Qualified Retirement Plan

During the current fiscal year, Youth Homes established a 457 (b) tax-deferred compensation plan. Participation in the plan is limited to the executive director. No employer contributions were made for the year ended June 30, 2014.

The 457(b) plan is included in other assets and the corresponding liability is included in accrued liabilities (see Note 7).

continued

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

15. Prior Period Adjustments

Investments have been restated to correct for an error in recording certain investments in the prior year. The comparative totals for June 30, 2013 presented in these financial statements have been restated to reflect the corrected balances as follows:

	As previously <u>Reported</u>	As <u>Adjusted</u>	As <u>Restated</u>
<u>Statement of Financial Position:</u>			
Investments	\$1,077,020	\$53,377	\$1,130,397
Unrestricted net assets	1,986,638	53,377	2,040,015
Total net assets	2,326,910	53,377	2,380,287

SUPPLEMENTAL SCHEDULE

YOUTH HOMES, INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS

For the year ended June 30, 2014

Program Name	Contract Number	Federal CFDA Number	Contract Term	Governmental Revenue		Program Expenditures From Governmental Revenue
				Federal	Non-federal	
Federal and Non-federal Awards						
U.S. Department of Health and Human Services ("DHHS"):						
Pass-through, Contra Costa County Department of Health Services - Mental Health Division:						
Medical Assistance Program:						
Therapeutic Behavioral Services						
C-5 Mental Health Program (a)	74-322	93.778	7/1/13-6/30/14	\$ 1,541,420	\$ 1,541,420	\$ 3,082,840
Mental Health Services for Transitional-aged Youth (a)	24-710	93.778	12/1/13-6/30/14	63,413	134,752	198,165
Pass-through, Contra Costa County Department of Human Services:						
Foster Care - Title IV-E	various	93.658	n/a	722,992	1,560,883	2,283,875
Total DHHS				<u>2,327,825</u>	<u>3,237,055</u>	<u>5,564,880</u>
Total Federal and Non-federal Awards				<u>\$ 2,327,825</u>	<u>\$ 3,237,055</u>	<u>\$ 5,564,880</u>

(a) Audited as a major program

Summary of significant accounting policies:

1. Basis of Accounting - The Schedule of Expenditures of Federal and Non-federal Awards has been reported on the accrual basis of accounting.
2. Youth Homes is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See independent auditors' report.

ADDITIONAL INFORMATION



Certified Public Accountants, LLP

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

To the Board of Directors
Youth Homes, Incorporated

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Youth Homes, Incorporated ("Youth Homes"), which comprise the Statement of Financial Position as of June 30, 2014, and the related Statements of Activities, Functional Expenses and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 3, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Harrington Group

San Francisco, California
October 3, 2014

PASADENA
234 E Colorado Blvd
Suite M150
Pasadena, CA 91101
Tel: 626.403.6801
Fax: 626.403.6866

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Certified Public Accountants, LLP

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

To the Board of Directors
Youth Homes, Incorporated

Report on Compliance for Each Major Federal Program

We have audited Youth Homes, Incorporated's ("Youth Homes") 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 Youth Homes' major federal programs for the year ended June 30, 2014. Youth Homes' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Youth Homes' major federal programs based on our audit of the types of compliance requirements referred to above. 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 Youth Homes' 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Youth Homes' compliance.

Opinion on Each Major Federal Program

In our opinion, Youth Homes complied, in all material respects, with the types of compliance 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, 2014.

Report on Internal Control Over Compliance

Management of Youth Homes is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Youth Homes' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Youth Homes' internal control over compliance.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**
continued

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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Harrington Group

San Francisco, California
October 3, 2014

YOUTH HOMES, INCORPORATED
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None reported
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes
<u>Identification of Major Programs:</u>	<u>CFDA #</u>
U.S. Department of Health and Human Services	
Medical Assistance Program	93.778

Section II – Financial Statements Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There are neither findings nor questioned costs for Federal Awards as defined in OMB Circular A-133.

Section VI – Summary Schedule of Prior Year Findings

None.