



**Harrington Group**  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

J. Joseph Harrington  
Job M. Quesada  
Sean E. Cain  
Tonetta L. Conner

**YOUTH HOMES, INCORPORATED**

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

**JUNE 30, 2007**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Youth Homes, Incorporated

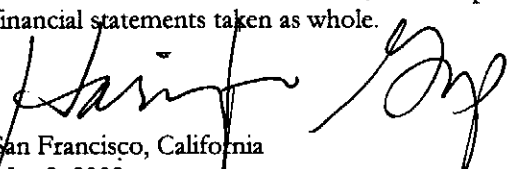
We have audited the accompanying Statement of Financial Position of Youth Homes, Incorporated (a nonprofit organization) as of June 30, 2007 and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the 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 Youth Homes, Incorporated's June 30, 2006 financial statements and, in our report dated December 15, 2006 we expressed an unqualified opinion on those financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2008 on our consideration of Youth Homes, Incorporated's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Youth Homes, Incorporated taken as a whole. The accompanying Schedule of Expenditures of Federal and Nonfederal 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 Nonprofit Organizations*," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

  
San Francisco, California  
May 2, 2008

**YOUTH HOMES, INCORPORATED**

STATEMENT OF FINANCIAL POSITION

June 30, 2007

With comparative totals at June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007</u>	<u>2006</u>
<b>Assets</b>					
Cash	\$ 166,203	\$ 16,067	\$ -	\$ 182,270	\$ 277,722
Accounts receivable	223,498			223,498	212,189
Investment (Note 3)	10,354			10,354	-
Prepaid expenses	55,473			55,473	52,794
Other asset	21,170			21,170	21,954
Split-interest agreements (Note 4)	81,923		257,421	339,344	329,901
Property and equipment (Note 5)	1,074,116			1,074,116	1,061,570
<b>Total assets</b>	<u>\$ 1,632,737</u>	<u>\$ 16,067</u>	<u>\$ 257,421</u>	<u>\$ 1,906,225</u>	<u>\$ 1,956,130</u>
<b>Liabilities and net assets</b>					
<b>Liabilities</b>					
Accounts payable	\$ 84,454	\$ -	\$ -	\$ 84,454	\$ 59,534
Accrued liabilities (Note 6)	205,119			205,119	185,588
Accrued unemployment liability (Note 7)	21,000			21,000	21,000
Line of credit (Note 8)	75,082			75,082	70,100
Notes payable (Note 9)	846,541			846,541	848,555
<b>Total liabilities</b>	<u>1,232,196</u>	<u>-</u>	<u>-</u>	<u>1,232,196</u>	<u>1,184,777</u>
<b>Net assets</b>					
Unrestricted	400,541			400,541	507,308
Temporarily restricted (Note 11)		16,067		16,067	16,067
Permanently restricted (Note 12)			257,421	257,421	247,978
<b>Total net assets</b>	<u>400,541</u>	<u>16,067</u>	<u>257,421</u>	<u>674,029</u>	<u>771,353</u>
<b>Total liabilities and net assets</b>	<u>\$ 1,632,737</u>	<u>\$ 16,067</u>	<u>\$ 257,421</u>	<u>\$ 1,906,225</u>	<u>\$ 1,956,130</u>

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

**YOUTH HOMES, INCORPORATED**

STATEMENT OF ACTIVITIES

For the year ended June 30, 2007

With comparative totals for the year ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007</u>	<u>2006</u>
<b>Revenue and support</b>					
Program service fees-government (Note 13)	\$ 2,610,702	\$ -	\$ -	\$ 2,610,702	\$ 2,631,025
Contributions	195,398	14,000		209,398	125,642
Contributions - auxiliary	36,948			36,948	29,911
Change in value of split interest agreement			9,443	9,443	(1,063)
Other income	3,364			3,364	50,062
Interest income	2,005			2,005	82
Net assets released from program restrictions	14,000	(14,000)		-	-
<b>Total revenue and support</b>	<u>2,862,417</u>	<u>-</u>	<u>9,443</u>	<u>2,871,860</u>	<u>2,835,659</u>
<b>Expenses</b>					
Program services	2,557,014			2,557,014	2,432,887
Management and general	351,717			351,717	296,110
Development	60,453			60,453	-
<b>Total expenses</b>	<u>2,969,184</u>	<u>-</u>	<u>-</u>	<u>2,969,184</u>	<u>2,728,997</u>
<b>Change in net assets</b>	(106,767)	-	9,443	(97,324)	106,662
<b>Net assets, beginning of year</b>	<u>507,308</u>	<u>16,067</u>	<u>247,978</u>	<u>771,353</u>	<u>664,691</u>
<b>Net assets, end of year</b>	<u>\$ 400,541</u>	<u>\$ 16,067</u>	<u>\$ 257,421</u>	<u>\$ 674,029</u>	<u>\$ 771,353</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, 2007

With comparative totals for the year ended June 30, 2006

	<b>Program Services</b>	<b>Management and General</b>	<b>Development</b>	<b>Total Expenses</b>	
				<b>2007</b>	<b>2006</b>
Salaries	\$ 1,558,426	\$ 146,000	\$ -	\$ 1,704,426	\$ 1,610,691
Payroll taxes and employee benefits	409,756	38,388		448,144	458,822
Total personnel costs	<u>1,968,182</u>	<u>184,388</u>	-	<u>2,152,570</u>	<u>2,069,513</u>
Repairs and maintenance	78,471	16,266		94,737	90,093
Food	85,645			85,645	86,378
Interest expense and bank charges	63,893	8,580		72,473	58,711
Miscellaneous	65,781	4,856		70,637	13,594
Fund development			60,453	60,453	-
Insurance	2,316	57,188		59,504	57,056
Rent	50,731	4,753		55,484	58,058
Travel	41,521	4,942		46,463	44,638
Professional fees	19,992	24,750		44,742	50,544
Utilities	40,482	1,282		41,764	36,048
Depreciation	39,861			39,861	33,869
Telephone	33,039	4,215		37,254	34,003
Child related expenses	27,577			27,577	-
Supplies	14,477	8,235		22,712	18,793
Staff development and training	8,015	5,702		13,717	35,658
Printing	1,343	11,376		12,719	13,935
Licenses	5,322	1,495		6,817	4,655
Dues and subscriptions	125	5,915		6,040	450
Recruiting	5,337			5,337	2,556
Advertising and public relations		3,911		3,911	1,543
Postage	30	3,863		3,893	4,198
Property taxes	1,986			1,986	1,695
Basic care	1,935			1,935	8,239
Amortization	784			784	784
Allowance	169			169	3,986
<b>Total 2007 functional expenses</b>	<b><u>\$ 2,557,014</u></b>	<b><u>\$ 351,717</u></b>	<b><u>\$ 60,453</u></b>	<b><u>\$ 2,969,184</u></b>	
<b>Total 2006 functional expenses</b>	<b><u>\$ 2,432,887</u></b>	<b><u>\$ 296,110</u></b>	<b><u>\$ -</u></b>		<b><u>\$ 2,728,997</u></b>

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

# YOUTH HOMES, INCORPORATED

## STATEMENT OF CASH FLOWS

For the year ended June 30, 2007

With comparative totals for the year ended June 30, 2006

	2007	2006
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (97,324)	\$ 106,662
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	39,861	33,869
Loss on disposal of property and equipment	-	1,307
Change in value of split- interest agreement	(9,443)	1,063
Amortization	784	784
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(11,309)	72,778
(Increase) decrease in prepaid expenses	(2,679)	5,056
Increase (decrease) in accounts payable	24,920	(23,999)
Increase in accrued liabilities	19,531	9,816
Increase in unemployment liability	-	3,000
<b>Net cash provided (used) by operating activities</b>	<b>(35,659)</b>	<b>210,336</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(10,354)	-
Purchase of property and equipment	(31,901)	(3,729)
<b>Net cash (used) by investing activities</b>	<b>(42,255)</b>	<b>(3,729)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from new borrowing on note payable	47,801	45,130
Principal payments on notes payable	(70,321)	(71,198)
Net activity of borrowings and payments on line of credit	4,982	56,125
<b>Net cash provided (used) by financing activities</b>	<b>(17,538)</b>	<b>30,057</b>
<b>Net increase (decrease) in cash</b>	<b>(95,452)</b>	<b>236,664</b>
<b>Cash, beginning of year</b>	<b>277,722</b>	<b>41,058</b>
<b>Cash, end of year</b>	<b>\$ 182,270</b>	<b>\$ 277,722</b>
<b>Supplemental disclosure:</b>		
Operating activities reflect interest paid of:	<b>\$ 66,725</b>	<b>\$ 53,581</b>
Non-cash investing activities and financing activities:		
Acquisition of property with note payable	<b>\$ 20,506</b>	<b>\$ -</b>

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

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### 1. **Organization**

Youth Homes, Incorporated ("Youth Homes") is a not-for-profit organization under the laws of the State of California. Youth Homes provides foster home institutional care for children placed with it by various governmental agencies. Starting in January 2005, Youth Homes contracted with Contra Costa County to provide Therapeutic Behavioral Services.

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.

### 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 revenue 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.

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### 2. **Summary of Significant Accounting Policies, continued**

#### **Accounts Receivable**

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

#### **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 one thousand dollars and the useful life is greater than two years.

#### **Donated Materials and Services**

Contributions of donated non-cash assets are 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.

#### **Investments**

Youth Homes values its investments at fair value. Gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain (loss) on investments.

#### **Concentration of Credit Risks**

The primary receivable balance outstanding at June 30, 2007 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.

#### **Income Taxes**

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

continued

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### 2. **Summary of Significant Accounting Policies, continued**

#### **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.

#### **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, 2006 from which the summarized information was derived.

### 3. **Investments**

Investments at June 30, 2007 of \$10,354 consist of money market funds at an investment firm.

### 4. **Split-Interest Agreements**

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, \$257,421 is reported as a permanently restricted net asset by Youth Homes.

continued

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### 4. Split-Interest Agreements, continued

In July 2000, a donor established a charitable lead annuity trust naming Youth Homes as one of three beneficiaries of the trust. Under the terms of the annuity trust agreement, Youth Homes is to receive annually one-half of eight percent of the initial net value of the trust, which was \$288,750. Youth Homes receives its annual allocation in quarterly payments of \$2,887. As per the trust agreement, the trust is to operate for a period of fifteen years. At such time, the trust shall terminate and the trustee will transfer the entire remaining principal and income to two individuals, as specified in the trust agreement. The present value of the annuity payments over the next ten years, using a discount factor of 7.5% of \$81,923, is reported as an unrestricted net asset by Youth Homes.

### 5. Property and Equipment

Property and equipment at June 30, 2007 consist of the following:

Land	\$ 511,008
Buildings	672,919
Leasehold improvements	163,362
Vehicles	47,926
Furniture and equipment	<u>37,388</u>
	1,432,603
Less: accumulated depreciation	<u>(358,487)</u>
	<u>\$1,074,116</u>

Equipment and furnishings at June 30, 2007 includes three donated computers restricted by the donor to be used exclusively by the residents of the group homes. The recorded value of the temporarily restricted equipment at June 30, 2007 is as follows:

Computers	\$ 5,100
Less: accumulated depreciation	<u>(5,100)</u>
	<u>\$ -</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.

continued

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### 6. Accrued Liabilities

Accrued liabilities at June 30, 2007 consist of the following:

Accrued vacation	\$ 86,579
Accrued salaries	82,699
Other accrued liabilities	<u>35,841</u>
	<u>\$205,119</u>

### 7. 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, 2007 of \$21,000 represents estimated future claims arising from payroll paid to June 30, 2007. Unemployment claims for the year ended June 30, 2007 were \$32,580.

### 8. Line of Credit

Youth Homes has a revolving line of credit with a bank in the amount of \$75,000, bearing interest at 7.75%. Total amount outstanding at June 30, 2007 was \$75,082.

### 9. Notes Payable

Notes payable at June 30, 2007 consist of the following:

Mortgage payable to a bank, secured by real property, monthly payments of \$1,637, including interest at 6.50%, due August 2034.	\$250,469
Mortgage payable to a bank, secured by real property, monthly payments of \$1,746, including interest at 7.00%, due December 2033.	248,929
Mortgage payable to a bank, secured by real property, monthly payments of \$736, including interest at 6.50%, due August 2034.	112,670
Mortgage payable to a bank, secured by real property, monthly payments of \$686, including interest at 6.50%, due August 2034.	104,940
Mortgage payable to a bank, secured by real property, monthly payments of \$1,361, including interest at 6.12%, due May 2013.	78,039

continued

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### 9. Notes Payable, continued

Note payable to a corporation, unsecured monthly payments of \$5,236, including interest of 11.80%, due December 2007. 31,285

Note payable to a corporation, unsecured monthly payments of \$441, including interest of 7.50%, due February 2010. 14,101

Note payable to a corporation, secured by a vehicle monthly payment of \$218, including interest at 13.99%, due October 2009. 6,108

\$846,541

Maturities for notes payable are as follows:

<u>Year ended June 30,</u>	
2008	\$ 59,753
2009	30,562
2010	31,429
2011	26,561
2012	28,307
Thereafter	<u>669,929</u>
	<u>\$846,541</u>

### 10. Commitments and Contingencies

#### 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.

### 11. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2007 consist of the following:

Anderson's home	\$12,389
Cherry Lane improvements	2,500
Medical fund and pantry	<u>1,178</u>
	<u>\$16,067</u>

continued

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### 12. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2007 are \$257,421. The donors of these assets have stipulated that the principal is to be maintained in perpetuity, but Youth Homes is permitted to expend all of the income or other economic benefits derived from the donated assets (see Note 4).

### 13. Program Service Fees

Program service fees for the year ended June 30, 2007 consist of the following:

Residential and foster care	\$1,502,967
Therapeutic Behavioral Services	915,531
Dedicated group home services	120,000
Turning Point Counseling Center	<u>72,204</u>
	<u>\$2,610,702</u>

**SUPPLEMENTAL SCHEDULE**

**YOUTH HOMES, INCORPORATED**

SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS

For the year ended June 30, 2007

	<u>Federal CFDA Number</u>	<u>Governmental Revenue</u>		<u>Program Expenditures From Governmental Revenue</u>
		<u>Federal</u>	<u>Nonfederal</u>	
<b>Federal awards</b>				
Agency/Program Grant Title				
<b>Major awards</b>				
U.S. Department of Health and Human Services:				
Medical Assistance Program				
Pass-through, Contra Costa County Department				
of Health Services-Mental Health Division:				
Therapeutic Behavioral Services		\$ 434,877	\$ 480,654	\$ 915,531
Turning Point Counseling Center		36,102	36,102	72,204
	93.778	<u>470,979</u>	<u>516,756</u>	<u>987,735</u>
<b>Total major awards</b>		<u>470,979</u>	<u>516,756</u>	<u>987,735</u>
<b>Non-major awards</b>				
U.S. Department of Health and Human Services:				
Pass-through, Contra Costa County Department				
of Human Services:				
Foster Care - Title IV-E	93.658	471,180	1,031,787	1,502,967
<b>Total non-major awards</b>				
<b>Nonfederal awards</b>				
County of Contra Costa:				
Department of Employment and Human Services:				
Dedicated Group Home Services			120,000	120,000
<b>Total nonfederal awards</b>		<u>-</u>	<u>120,000</u>	<u>120,000</u>
<b>Total federal and nonfederal awards</b>		<u>\$ 942,159</u>	<u>\$ 1,668,543</u>	<u>\$ 2,610,702</u>

Summary of significant accounting policies:

1. Basis of Accounting - The Schedule of Expenditures of Federal and Nonfederal 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 auditor's report