



Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

J. Joseph Harrington
Emeritus

Job M. Quesada
Sean E. Cain
Tonetta L. Comer

YOUTH HOMES, INCORPORATED

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

JUNE 30, 2009

CONTENTS

	Pages
Independent Auditors' Report.....	1
Statement of Financial Position.....	2
Statement of Activities.....	3
Statement of Functional Expenses.....	4
Statement of Cash Flows.....	5
Notes to Financial Statements.....	6-16
Supplemental Schedule:	
Schedule of Expenditures of Federal and Non-federal Awards.....	17
Additional Information:	
Report Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	18
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	19
Schedule of Findings and Questioned Costs.....	20



J. Joseph Harrington
Emeritus

Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Job M. Quesada
Sean E. Cain
Tonetta L. Conner

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, 2009, 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, 2008 financial statements and, in our report dated February 20, 2009, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Youth Homes, Incorporated's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2009, 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 January 19, 2010, 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 Non-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 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
January 19, 2010

YOUTH HOMES, INCORPORATED

STATEMENT OF FINANCIAL POSITION

June 30, 2009

With comparative totals at June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009	2008
Assets					
Cash and cash equivalents	\$ 1,290,670	\$ 28,103	\$ -	\$ 1,318,773	\$ 1,005,465
Accounts receivable	382,519			382,519	381,959
Investment (Note 3)	15,866			15,866	14,497
Prepaid expenses	61,197			61,197	55,985
Other asset	13,876			13,876	16,421
Split-interest agreements (Note 4)	57,131		189,997	247,128	295,672
Property and equipment (Note 5)	998,735			998,735	981,482
Total assets	\$ 2,819,994	\$ 28,103	\$ 189,997	\$ 3,038,094	\$ 2,751,481
Liabilities and net assets					
Liabilities					
Accounts payable	\$ 115,461	\$ -	\$ -	\$ 115,461	\$ 65,491
Accrued liabilities (Note 6)	305,868			305,868	233,077
Accrued unemployment liability (Note 7)	31,000			31,000	31,000
Line of credit (Note 8)	28			28	13,308
Notes payable (Note 9)	1,014,485			1,014,485	1,043,955
Total liabilities	1,466,842	-	-	1,466,842	1,386,831
Net assets					
Unrestricted	1,353,152			1,353,152	1,090,518
Temporarily restricted (Note 11)		28,103		28,103	42,500
Permanently restricted (Note 12)			189,997	189,997	231,632
Total net assets	1,353,152	28,103	189,997	1,571,252	1,364,650
Total liabilities and net assets	\$ 2,819,994	\$ 28,103	\$ 189,997	\$ 3,038,094	\$ 2,751,481

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

YOUTH HOMES, INCORPORATED

STATEMENT OF ACTIVITIES

For the year ended June 30, 2009

With comparative totals for the year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009</u>	<u>2008</u>
Revenue and support					
Program service fees-government (Note 13)	\$ 4,551,467	\$ -	\$ -	\$ 4,551,467	\$ 3,734,385
Contributions	409,383	25,500		434,883	369,072
In-Kind donations	62,337			62,337	18,570
Contributions - auxiliary	45,785			45,785	48,675
Interest income	8,599			8,599	2,413
Other income	1,272			1,272	4,932
Gain on sale of property				-	349,284
Change in value of split interest agreement	(6,909)		(41,635)	(48,544)	(43,672)
Net assets released from program restrictions	39,897	(39,897)		-	-
Total revenue and support	<u>5,111,831</u>	<u>(14,397)</u>	<u>(41,635)</u>	<u>5,055,799</u>	<u>4,483,659</u>
Expenses					
Program services	4,111,462			4,111,462	3,205,062
Management and general	551,042			551,042	442,838
Development	186,693			186,693	145,138
Total expenses	<u>4,849,197</u>	<u>-</u>	<u>-</u>	<u>4,849,197</u>	<u>3,793,038</u>
Change in net assets	262,634	(14,397)	(41,635)	206,602	690,621
Net assets, beginning of year	<u>1,090,518</u>	<u>42,500</u>	<u>231,632</u>	<u>1,364,650</u>	<u>674,029</u>
Net assets, end of year	<u>\$ 1,353,152</u>	<u>\$ 28,103</u>	<u>\$ 189,997</u>	<u>\$ 1,571,252</u>	<u>\$ 1,364,650</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, 2009

With comparative totals for the year ended June 30, 2008

	Program Services	Management and General	Development	Total Expenses	
				2009	2008
Salaries	\$ 2,599,646	\$ 240,088	\$ 82,573	\$ 2,922,307	\$ 2,325,839
Payroll taxes and employee benefits	604,518	50,017	19,433	673,968	549,003
Total personnel costs	3,204,164	290,105	102,006	3,596,275	2,874,842
Professional fees	42,413	104,761	39,252	186,426	51,351
Repairs and maintenance	149,164	10,647	1,087	160,898	100,358
Food	132,155			132,155	101,820
Rent	89,099	11,913	4,046	105,058	59,957
Travel	88,685	7,100	407	96,192	60,871
Interest expense and bank charges	64,236	6,396	642	71,274	72,338
Telephone	28,747	33,080	719	62,546	50,119
In-kind	62,337			62,337	-
Utilities	55,026	1,820	625	57,471	50,766
Insurance	15,197	41,127		56,324	57,709
Depreciation	50,264	433		50,697	46,571
Supplies	36,989	6,466	2,296	45,751	33,575
Staff development and training	28,921	2,765	429	32,115	9,348
Printing	2,709	3,094	25,932	31,735	24,604
Child related expenses	26,450			26,450	39,841
Miscellaneous	14,333	7,642		21,975	12,283
Licenses	10,662	6,992	83	17,737	15,090
Dues and subscriptions	60	9,540	805	10,405	7,593
Advertising and public relations		4,772	3,942	8,714	6,215
Postage	1,347	1,092	4,397	6,836	8,254
Basic care	4,274			4,274	18,989
Recruiting	895	1,297	25	2,217	4,669
Property taxes	1,833			1,833	2,615
Amortization	902			902	751
Allowance	600			600	-
Fund development				-	82,509
Total 2009 functional expenses	\$ 4,111,462	\$ 551,042	\$ 186,693	\$ 4,849,197	
Total 2008 functional expenses	\$ 3,205,062	\$ 442,838	\$ 145,138		\$ 3,793,038

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

YOUTH HOMES, INCORPORATED

STATEMENT OF CASH FLOWS

For the year ended June 30, 2009

With comparative totals for the year ended June 30, 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ 206,602	\$ 690,621
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	50,697	46,571
Gain on sale of property	-	(349,284)
Change in value of split-interest agreement	48,544	43,672
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(560)	(158,461)
(Increase) in prepaid expenses	(5,212)	(512)
Decrease in other assets	2,545	4,749
Increase (decrease) in accounts payable	49,970	(18,963)
Increase in accrued liabilities	72,791	27,958
Increase in unemployment liability	-	10,000
	425,377	296,351
Cash flows from investing activities:		
Purchase of investments	(1,369)	(4,143)
Purchase of property and equipment	(67,950)	(64,950)
Proceeds from sale of property and equipment	-	484,806
	(69,319)	415,713
Cash flows from financing activities:		
Proceeds from new borrowing on note payable	45,712	361,586
Principal payments on notes payable	(75,182)	(188,681)
Net activity of borrowings and payments on line of credit	(13,280)	(61,774)
	(42,750)	111,131
Net increase in cash	313,308	823,195
Cash and cash equivalents, beginning of year	1,005,465	182,270
Cash and cash equivalents, end of year	\$ 1,318,773	\$ 1,005,465
Supplemental disclosure:		
Operating activities reflect interest paid of:	\$ 65,875	\$ 58,776
Non-cash investing activities and financing activities:		
Pay-off of notes payable through notes payable refinance	\$ -	\$ 74,218
Acquisition of property with notes payable	\$ -	\$ 24,509

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 five state licensed, five-bed homes in several cities in central Contra Costa County. Two of the homes are emergency shelters and three are short-term treatment programs.

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, and day program services, which occur mostly in its residential facilities.

Therapeutic Behavioral Services: A very sophisticated, preventative program where 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.

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 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 (see Note 12).

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 (see Note 13).

Cash and Cash Equivalents

Youth Homes considers all short-term investments with an original maturity date of three months or less to be cash and cash equivalents.

Accounts Receivable

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

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Investments - Fair Value Measurements

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs).
- Level 3 inputs are unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances.

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. For the year ended June 30, 2009, Youth Homes recorded \$62,337 of in-kind donations, \$27,806 for donated materials, and \$34,531 for donated services.

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. Youth Homes has money market funds at an investment institution. These funds, which are not used for daily operations, are recorded as investments.

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Concentration of Credit Risks

The primary receivable balance outstanding at June 30, 2009 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.

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, 2008, from which the summarized information was derived.

3. Investments

Investments at June 30, 2009 of \$15,866 consist of money market funds at an investment firm. These investments are Level 1 assets measured on a recurring basis.

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

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, \$189,997 is reported as a permanently restricted net asset by Youth Homes. The fair value of this split interest agreement has been measured on a recurring basis using quoted prices for identical assets in active markets (level 1 inputs).

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 8% 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 six years, using a discount factor of 7.5% of \$57,131, is reported as an unrestricted net asset by Youth Homes. The fair value of this split interest agreement is measured on a recurring basis by discounting future cash flows, based on the payment terms of the annuity (level 3 inputs).

5. Property and Equipment

Property and equipment at June 30, 2009 consist of the following:

Land	\$ 481,008
Buildings	541,694
Leasehold improvements	219,649
Vehicles	126,446
Furniture and equipment	<u>3,965</u>
	1,372,762
Less: accumulated depreciation	<u>(374,027)</u>
	<u>\$ 998,735</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, 2009 consist of the following:

Accrued vacation	\$154,448
Accrued salaries	146,151
Other accrued liabilities	<u>5,269</u>
	<u>\$305,868</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, 2009 of \$31,000 represents estimated future claims arising from payroll paid to June 30, 2009. Unemployment claims for the year ended June 30, 2009 were \$10,185.

8. Line of Credit

Youth Homes has a revolving line of credit, with a bank, in the amount of \$75,000, bearing interest at 6.25 %. Total amount outstanding at June 30, 2009 was \$28.

9. Notes Payable

Notes payable at June 30, 2009 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.	\$ 243,118
Mortgage payable to a bank, secured by real property, monthly payments of \$1,746, including interest at 7.00%, due December 2033.	241,241
Mortgage payable to a bank, secured by real property, monthly payments of \$2,595 including interest at 7.00%, due November 2037.	383,683

continued

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

9. Notes Payable, continued

Mortgage payable to a bank, secured by real property, monthly payments of \$686, including interest at 6.50%, due August 2034.	101,846
Note payable to a corporation, unsecured monthly payments of \$5,143, including interest of 11.80%, due December 2009.	27,962
Note payable to a corporation, unsecured monthly payments of \$441, including interest of 7.50%, due February 2010.	3,376
Note payable to a corporation, secured by a vehicle, monthly payment of \$218, including interest at 13.99%, due October 2009.	927
Note payable to a corporation, secured by a vehicle, monthly payment of \$449, including interest at 7.95%, due September 2010.	6,390
Note payable to a corporation, secured by a vehicle, monthly payment of \$317, including interest at 7.75%, due February 2011.	<u>5,942</u>
	<u>\$1,014,485</u>

Maturities for notes payable are as follows:

<u>Year ended June 30.</u>	
2010	\$ 54,749
2011	19,330
2012	16,311
2013	17,456
2014	18,681
Thereafter	<u>887,958</u>
	<u>\$1,014,485</u>

continued

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

10. 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>	
2010	\$114,288
2011	105,107
2012	106,750
2013	108,850
2014	<u>45,500</u>
	<u>\$480,495</u>

Rent expense under operating leases for the year ended June 30, 2009 was \$111,516.

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 of \$28,103 at June 30, 2009 consist of funds restricted for youth aging out of foster care.

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

12. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2009 are \$189,997.

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position No. FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" ("FSP FAS 117-1"). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of California enacted UPMIFA effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. Youth Homes has adopted FSP FAS 117-1 for the year ending June 30, 2009. The Board of Directors has determined that the majority of Youth Homes' permanently restricted, net assets meet the definition of endowment funds under UPMIFA. Based on Youth Homes interpretation of UPMIFA, Youth Homes has reviewed all of its endowment funds and considers that they are currently being appropriately reflected.

Youth Homes' Endowment Fund is held in its investment funds with Wells Fargo Bank. As required by Generally Accepted Accounting Principles ("GAAP"), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors for Youth Homes has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Youth Homes classifies as permanently restricted net assets (a) the original value of the gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portions of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Youth Homes in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Youth Homes considered the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the organization.

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

12. Permanently Restricted Net Assets, continued

Investment Return Objectives, Risk Parameters and Strategies

Youth Homes, Incorporated has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make a reasonable annual distribution, while growing the funds if possible. Therefore, Youth Homes expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

Youth Homes has a policy of transferring any gain or loss on investments to either temporary or unrestricted net assets. In establishing this policy, Youth Homes considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. Youth Homes expects its Endowment Fund to be consistent over the next years with any changes being appropriately reflected either as unrestricted or temporarily restricted. This is consistent with the Youth Homes' objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment net assets composition by type of fund as of June 30, 2009 is as follows:

	Permanently Restricted	Total Endowment Assets
Donor-restricted endowment funds	<u>\$189,997</u>	<u>\$189,997</u>

continued

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

12. Permanently Restricted Net Assets, continued

Changes in endowment net assets as of June 30, 2009 are as follows:

	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, beginning of year	\$231,632	\$231,632
Contributions: net depreciation (realized and unrealized)	<u>(41,635)</u>	<u>(41,635)</u>
Endowment net assets, end of year	<u>\$189,997</u>	<u>\$189,997</u>

Endowment net assets at June 30, 2009 consist of the following:

Wells Fargo investments	<u>\$189,997</u>
-------------------------	------------------

13. Program Service Fees - Government

Program service fees for the year ended June 30, 2009 consist of the following:

Residential and foster care	\$1,635,322
Therapeutic Behavioral Services	1,230,721
C-5 Mental Health Program	1,595,424
Dedicated group home services	<u>90,000</u>
	<u>\$4,551,467</u>

SUPPLEMENTAL SCHEDULE

YOUTH HOMES, INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS

For the year ended June 30, 2009

	<u>Federal CFDA Number</u>	<u>Governmental Revenue Federal</u>	<u>Non-federal</u>	<u>Program Expenditures From Governmental Revenue</u>
Federal awards				
Agency/Program Grant Title				
Major awards				
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		\$ 615,361	\$ 615,360	\$ 1,230,721
C-5 Mental Health Program		717,941	877,483	1,595,424
Total major awards	93.778	<u>1,333,302</u>	<u>1,492,843</u>	<u>2,826,145</u>
Non-major awards				
U.S. Department of Health and Human Services:				
Pass-through, Contra Costa County Department of Human Services:				
Foster Care - Title IV-E	93.658	453,641	1,181,681	1,635,322
Total non-major awards		<u>453,641</u>	<u>1,181,681</u>	<u>1,635,322</u>
Total federal awards		<u>1,786,943</u>	<u>2,674,524</u>	<u>4,461,467</u>
Non-federal awards				
County of Contra Costa:				
Department of Employment and Human Services:				
Dedicated Group Home Services			90,000	90,000
Total non-federal awards		<u>-</u>	<u>90,000</u>	<u>90,000</u>
Total federal and non-federal awards		<u>\$ 1,786,943</u>	<u>\$ 2,764,524</u>	<u>\$ 4,551,467</u>

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 auditor's report.

ADDITIONAL INFORMATION



J. Joseph Harrington
Emeritus

Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Job M. Quesada
Sean E. Cain
Tonetta L. Conner

**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 the financial statements of Youth Homes, Incorporated ("Youth Homes") as of and for the year ended June 30, 2009, and have issued our report thereon dated January 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting. In planning and performing our audit, we considered Youth Homes' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Youth Homes' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Youth Homes' internal control over financial reporting.

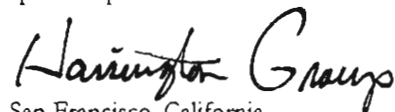
A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects Youth Homes' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Youth Homes' financial statements that is more inconsequential will not be prevented or detected by Youth Homes' internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Youth Homes' internal control.

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

Compliance and Other Matters. As part of obtaining reasonable assurance about whether 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*.

This report is intended solely for the information and use of the Board of Directors, management, 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.



San Francisco, California
January 19, 2010



J. Joseph Harrington
Emeritus

Harrington Group

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Job M. Quesada
Sean E. Cain
Tonetta L. Conner

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Board of Directors
Youth Homes, Incorporated

Compliance. We have audited the compliance of Youth Homes, Incorporated ("Youth Homes") 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 each of its major federal programs for the year ended June 30, 2009. Youth Homes' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Youth Homes' management. Our responsibility is to express an opinion on Youth Homes' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination on Youth Homes' compliance with those requirements.

In our opinion, Youth Homes complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance. The management of Youth Homes 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 Youth Homes' 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, 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.

A *control deficiency* in Youth Homes' internal control over compliance that 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects Youth Homes' ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Youth Homes' internal control.

A *material weakness* is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Youth Homes' internal control.

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

This report is intended solely for the information and use of management, Board of Directors, 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.

San Francisco, California
January 19, 2010

YOUTH HOMES, INCORPORATED
Schedule of Findings and Questioned Costs
For the year ended June 30, 2009

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:		unqualified
Internal control over financial reporting:		
• Material weakness(es) identified?	___yes	__x__no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	___yes	__x__none reported
Noncompliance material to financial statements noted?	___yes	__x__no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	___yes	__x__no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	___yes	__x__none reported
Type of auditor’s report issued on compliance for major programs:		unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	___yes	__x__no

Dollar threshold used to distinguish between Type A and Type B programs:		300,000
Auditee qualified as low-risk auditee?	__x__yes	___no

Identification of Major Programs:

CFDA Number(s)
93.778

Name of Federal Program or Cluster

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

C-5 Mental Health Program

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 IV – Summary Schedule of Prior Year Findings

None.