



**Harrington Group**  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

J. Joseph Harrington  
Emeritus

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, 2010**

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## INDEPENDENT AUDITORS' REPORT

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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, 2010, 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, 2009 financial statements and, in our report dated January 19, 2010, 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 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, 2010, 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 December 17, 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 grants 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.

*Harrington Group*

San Francisco, California  
December 17, 2010

# YOUTH HOMES, INCORPORATED

## STATEMENT OF FINANCIAL POSITION

June 30, 2010

With comparative totals at June 30, 2009

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>					
Cash	\$ 692,646	\$ 40,173	\$ -	\$ 732,819	\$ 556,773
Accounts receivable	319,224			319,224	382,519
Investments (Note 3)	793,861			793,861	777,866
Prepaid expenses	146,999			146,999	61,197
Other asset	13,385			13,385	13,876
Split-interest agreements (Note 4)	50,818		191,015	241,833	247,128
Property and equipment (Note 5)	961,387			961,387	998,735
<b>Total assets</b>	<b>\$ 2,978,320</b>	<b>\$ 40,173</b>	<b>\$ 191,015</b>	<b>\$ 3,209,508</b>	<b>\$ 3,038,094</b>
<b>Liabilities and net assets</b>					
<b>Liabilities</b>					
Accounts payable	\$ 91,584	\$ -	\$ -	\$ 91,584	\$ 115,461
Accrued liabilities (Note 6)	337,024			337,024	305,868
Accrued unemployment liability (Note 7)	31,000			31,000	31,000
Line of credit (Note 8)				-	28
Notes payable (Note 9)	1,023,503			1,023,503	1,014,485
<b>Total liabilities</b>	1,483,111	-	-	1,483,111	1,466,842
<b>Net assets</b>					
Unrestricted	1,495,209			1,495,209	1,353,152
Temporarily restricted (Note 11)		40,173		40,173	28,103
Permanently restricted (Note 4)			191,015	191,015	189,997
<b>Total net assets</b>	1,495,209	40,173	191,015	1,726,397	1,571,252
<b>Total liabilities and net assets</b>	<b>\$ 2,978,320</b>	<b>\$ 40,173</b>	<b>\$ 191,015</b>	<b>\$ 3,209,508</b>	<b>\$ 3,038,094</b>

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

## YOUTH HOMES, INCORPORATED

### STATEMENT OF ACTIVITIES

For the year ended June 30, 2010

With comparative totals for the year ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010	2009
<b>Revenue and support</b>					
Program service fees-government (Note 12)	\$ 5,141,917	\$ -	\$ -	\$ 5,141,917	\$ 4,551,467
Contributions	299,623	30,000		329,623	434,883
Special event, net of benefit to donor of \$12,075	121,223			121,223	-
In-kind donations	41,298			41,298	62,337
Contributions - auxiliary	49,201			49,201	45,785
Interest income	11,972			11,972	8,599
Other income	3,216			3,216	1,272
Change in value of split interest agreement	(6,313)		1,018	(5,295)	(48,544)
Net assets released from program restrictions	17,930	(17,930)		-	-
<b>Total revenue and support</b>	<b>5,680,067</b>	<b>12,070</b>	<b>1,018</b>	<b>5,693,155</b>	<b>5,055,799</b>
<b>Expenses</b>					
Program services	4,472,943			4,472,943	4,111,462
Management and general	803,919			803,919	551,042
Development	261,148			261,148	186,693
<b>Total expenses</b>	<b>5,538,010</b>	<b>-</b>	<b>-</b>	<b>5,538,010</b>	<b>4,849,197</b>
<b>Change in net assets</b>	<b>142,057</b>	<b>12,070</b>	<b>1,018</b>	<b>155,145</b>	<b>206,602</b>
<b>Net assets, beginning of year</b>	<b>1,353,152</b>	<b>28,103</b>	<b>189,997</b>	<b>1,571,252</b>	<b>1,364,650</b>
<b>Net assets, end of year</b>	<b>\$ 1,495,209</b>	<b>\$ 40,173</b>	<b>\$ 191,015</b>	<b>\$ 1,726,397</b>	<b>\$ 1,571,252</b>

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

## YOUTH HOMES, INCORPORATED

### STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2010

With comparative totals for the year ended June 30, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Development</u>	<u>Total Expenses</u>	
				2010	2009
Salaries	\$ 2,828,105	\$ 308,887	\$ 83,929	\$ 3,220,921	\$ 2,922,307
Payroll taxes and employee benefits	753,820	82,333	22,371	858,524	673,968
Total personnel costs	<u>3,581,925</u>	<u>391,220</u>	<u>106,300</u>	<u>4,079,445</u>	<u>3,596,275</u>
Professional fees	70,563	190,524	14,807	275,894	186,426
Food	161,568			161,568	132,155
Rent	98,481	15,116	4,107	117,704	105,058
Travel	103,253	5,223	2,497	110,973	96,162
Repairs and maintenance	89,347	17,169	1,186	107,702	156,233
Insurance	15,258	72,753		88,011	56,324
Interest expense and bank charges	66,543	5,674	1,949	74,166	71,274
Telephone	28,014	44,978	648	73,640	62,546
Utilities	63,271	2,252	612	66,135	62,166
Depreciation	56,507	423		56,930	50,697
Child related expenses	56,472			56,472	38,606
Supplies	39,793	7,444	1,832	49,069	45,751
Advertising and public relations	66	3,396	38,822	42,284	8,714
In-kind expenses	60		41,238	41,298	62,337
Staff development and training	19,934	4,836	434	25,204	31,095
Donations			25,000	25,000	-
Printing	1,400	4,270	15,602	21,272	31,735
Licenses	7,471	9,514		16,985	17,737
Miscellaneous	1,912	12,314	14	14,240	10,839
Dues and subscriptions		11,153	1,038	12,191	10,405
Basic care	6,658	3,179		9,837	4,274
Postage	1,510	1,070	5,062	7,642	6,836
Property taxes	2,132			2,132	1,833
Recruiting	74	1,411		1,485	2,217
Amortization	491			491	902
Allowance	240			240	600
<b>Total 2010 functional expenses</b>	<b><u>\$ 4,472,943</u></b>	<b><u>\$ 803,919</u></b>	<b><u>\$ 261,148</u></b>	<b><u>\$ 5,538,010</u></b>	
Total 2009 functional expenses	<u>\$ 4,111,462</u>	<u>\$ 551,042</u>	<u>\$ 186,693</u>		<u>\$ 4,849,197</u>

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

## YOUTH HOMES, INCORPORATED

### STATEMENT OF CASH FLOWS For the year ended June 30, 2010 With comparative totals for the year ended June 30, 2009

	2010	2009
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 155,145	\$ 206,602
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	56,930	50,697
Change in value of split-interest agreement	5,295	48,544
Loss on sale of property and equipment	4,942	-
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	63,295	(560)
(Increase) in prepaid expenses	(85,802)	(5,212)
Decrease in other assets	491	2,545
(Decrease) increase in accounts payable	(23,877)	49,970
Increase in accrued liabilities	31,156	72,791
<b>Net cash provided by operating activities</b>	<b>207,575</b>	<b>425,377</b>
<b>Cash flows from investing activities:</b>		
Net purchase of investments	(15,995)	(763,369)
Purchase of property and equipment	(29,974)	(67,950)
Proceeds from sale of property and equipment	5,450	-
<b>Net cash (used) by investing activities</b>	<b>(40,519)</b>	<b>(831,319)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from new borrowing on note payable	101,779	45,712
Principal payments on notes payable	(92,761)	(75,182)
New borrowings on line of credit	118,979	155,994
Payments on line of credit	(119,007)	(169,274)
<b>Net cash provided (used) by financing activities</b>	<b>8,990</b>	<b>(42,750)</b>
<b>Net increase (decrease) in cash</b>	<b>176,046</b>	<b>(448,692)</b>
<b>Cash, beginning of year</b>	<b>556,773</b>	<b>1,005,465</b>
<b>Cash, end of year</b>	<b>\$ 732,819</b>	<b>\$ 556,773</b>
<b>Supplemental disclosure:</b>		
Operating activities reflect interest paid of:	<b>\$ 69,065</b>	<b>\$ 65,875</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 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 emotionally 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

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### 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.

#### **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 gain/(loss) on investments. Short-term, highly liquid money market deposits that are not used for operations are treated as investments.

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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

#### Fair Value Measurements

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820 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.

The specific techniques used to measure fair value for financial statement elements are described in the notes below that relate to each element.

#### 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, 2010 Youth Homes recorded in-kind contributions of \$41,298.

#### Concentration of Credit Risks

The primary receivable balance outstanding at June 30, 2010 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 90% of total revenue and support are derived from government service fees.

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### 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 their federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Youth Homes' returns for years ended June 30, 2009, 2008, and 2007 are subject to examination by federal and state taxing authorities, generally for three years 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, 2009, from which the summarized information was derived.

#### **Reclassifications**

For comparability, certain June 30, 2009 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at June 30, 2010.

#### **Subsequent Events**

Management has evaluated subsequent events through December 17, 2010, the date which the financial statements were available.

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### 3. Investments

The fair values of the certificates of deposit and money market funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs). Significant information about investments at June 30, 2010 is summarized as follows:

Certificates of deposit	\$792,000
Money market funds	<u>1,861</u>
	<u>\$793,861</u>

The fair value of investments within the Level 1 inputs are based on quoted market prices as of the closing of the last business day of the fiscal year.

### 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, \$191,015 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 5.0% of \$50,818, 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).

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### 5. Property and Equipment

Property and equipment at June 30, 2010 consist of the following:

Land	\$ 481,008
Buildings	541,694
Leasehold improvements	219,649
Vehicles	138,081
Furniture and equipment	<u>3,965</u>
	1,384,397
Less: accumulated depreciation	<u>(423,010)</u>
	<u>\$ 961,387</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.

### 6. Accrued Liabilities

Accrued liabilities at June 30, 2010 consist of the following:

Accrued vacation	\$158,963
Accrued salaries	177,262
Other accrued liabilities	<u>799</u>
	<u>\$337,024</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, 2010 of \$31,000 represents estimated future claims arising from payroll paid to June 30, 2010. Unemployment claims for the year ended June 30, 2010 were \$45,661.

### 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 %. There was no amount outstanding at June 30, 2010.

continued

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### 9. Notes Payable

Notes payable at June 30, 2010 consist of the following:

Mortgage payable to a bank, secured by real property, monthly payments of \$2,595, including interest at 7.00%, due November 2037.	\$ 379,265
Mortgage payable to a bank, secured by real property, monthly payments of \$1,637, including interest at 6.50%, due August 2034.	239,159
Mortgage payable to a bank, secured by real property, monthly payments of \$1,746, including interest at 7.00%, due December 2033.	237,038
Mortgage payable to a bank, secured by real property, monthly payments of \$686, including interest at 6.50%, due August 2034.	100,188
Note payable to a corporation, unsecured monthly payments of \$11,785, including interest of 9.00%, due December 2010.	<u>67,853</u>
	<u>\$1,023,503</u>

Maturities for notes payable are as follows:

<u>Year ended June 30,</u>	
2011	\$ 83,094
2012	16,311
2013	17,456
2014	18,681
2015	19,993
Thereafter	<u>867,968</u>
	<u>\$1,023,503</u>

continued

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### 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>	
2011	\$124,963
2012	107,207
2013	108,850
2014	<u>45,500</u>
	<u>\$386,520</u>

Rent expense under operating leases for the year ended June 30, 2010 was \$124,532.

#### 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, 2010 consist of the following:

Capital campaign	\$30,000
After care program	<u>10,173</u>
	<u>\$40,173</u>

### 12. Program Service Fees - Government

Program service fees for the year ended June 30, 2010 consist of the following:

Residential and foster care	\$2,133,665
C-5 Mental Health Program	1,686,901
Therapeutic Behavioral Services	1,254,066
Mental health services, various counties	<u>67,285</u>
	<u>\$5,141,917</u>

**SUPPLEMENTAL SCHEDULE**

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**YOUTH HOMES, INCORPORATED**

SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS

For the year ended June 30, 2010

Program Name	Contract Number	Federal CFDA Number	Contract Term	Governmental Revenue		Program Expenditures From Governmental Revenue
				Federal	Non-federal	
<b>Federal and Non-Federal Awards</b>						
U.S. Department of Health and Human Services ("DHHS"):						
Medical Assistance Program:						
Pass-through, Contra Costa County Department of Health Services-Mental Health Division:						
Therapeutic Behavioral Services (a)	74-188	93.778	7/1/09-6/30/10	\$ 627,033	\$ 627,033	\$ 1,254,066
C-5 Mental Health Program (a)	74-322	93.778	7/1/09-6/30/10	843,451	843,450	1,686,901
Pass-through, various counties:						
Mental Health services (a)	various	93.778	7/1/09-6/30/10	33,643	33,642	67,285
Pass-through, Contra Costa County Department of Human Services:						
Foster Care - Title IV-E	various	93.658	7/1/09-6/30/10	617,633	1,516,032	2,133,665
<b>Total DHHS</b>				<u>2,121,760</u>	<u>3,020,157</u>	<u>5,141,917</u>
<b>Total federal and non-federal awards</b>				<u>\$ 2,121,760</u>	<u>\$ 3,020,157</u>	<u>\$ 5,141,917</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**

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J. Joseph Harrington  
Emeritus

**Harrington Group**  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

**Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

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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, 2010, and have issued our report thereon dated December 17, 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 *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 Youth Homes’ financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or 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 management, the Board of Directors, others within Youth Homes, 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.

*Harrington Group*

San Francisco, California  
December 17, 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 Internal Control over Compliance in Accordance with OMB Circular A-133

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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, 2010. 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, 2010.

#### Internal Control Over Compliance

Management of Youth Homes is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *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.

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 deficiencies, significant deficiencies, or material weaknesses. 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, the Board of Directors, others within Youth Homes, 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.

*Harrington Group*

San Francisco, California  
December 17, 2010

**YOUTH HOMES, INCORPORATED**  
**Schedule of Findings and Questioned Costs**  
For the year ended June 30, 2010

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Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
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?	No
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

Identification of Major Programs:

U.S. Department of Health and Human Services: Medical Assistance Program	93.778
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**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.