

**YOUTH HOMES, INCORPORATED**

---

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

**JUNE 30, 2016**

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

A Trusted Nonprofit Partner  
Experience. Service. Respect.  
[www.npocpas.com](http://www.npocpas.com)

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

## CONTENTS

---

Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-15
Supplemental Schedule:	
Schedule of Expenditures of Federal and Non-federal Awards	16
Additional Information:	
Independent Auditor's Report on 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>	17
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	18-19
Schedule of Findings and Questioned Costs	20

## INDEPENDENT AUDITORS' REPORT

---

To the Board of Directors  
Youth Homes, Incorporated

### Report on the Financial Statements

We have audited the accompanying financial statements of Youth Homes, Incorporated (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Youth Homes, Incorporated as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITORS' REPORT

continued

---

### Other Matters

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal and Non-federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

#### *Summarized Comparative Information*

We have previously audited Youth Homes, Incorporated's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 30, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2016 on our consideration of Youth Homes, Incorporated's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Youth Homes, Incorporated's internal control over financial reporting and compliance.

*Harrington Group*

San Francisco, California

October 11, 2016

## YOUTH HOMES, INCORPORATED

### STATEMENT OF FINANCIAL POSITION

June 30, 2016

With comparative totals at June 30, 2015

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>					
Cash	\$ 1,987,246	\$ 131,036	\$ -	\$ 2,118,282	\$ 871,293
Accounts and grants receivable	662,903			662,903	622,909
Investments (Note 3)	841,887			841,887	1,688,597
Prepaid expenses	132,065			132,065	120,348
Other asset				-	26,286
Split-interest agreement (Note 4)			216,751	216,751	211,774
Property and equipment (Note 6)	522,694			522,694	560,484
	<b>\$ 4,146,795</b>	<b>\$ 131,036</b>	<b>\$ 216,751</b>	<b>\$ 4,494,582</b>	<b>\$ 4,101,691</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 127,646	\$ -	\$ -	\$ 127,646	\$ 74,913
Accrued liabilities (Note 7)	492,287			492,287	430,786
Deferred rent	72,010			72,010	79,293
Accrued unemployment liability (Note 8)	31,000			31,000	31,000
Notes payable (Note 10)	530,045			530,045	540,852
	<b>1,252,988</b>	<b>-</b>	<b>-</b>	<b>1,252,988</b>	<b>1,156,844</b>
<b>NET ASSETS</b>					
Unrestricted	2,893,807			2,893,807	2,620,123
Temporarily restricted (Note 12)		131,036		131,036	112,950
Permanently restricted			216,751	216,751	211,774
	<b>2,893,807</b>	<b>131,036</b>	<b>216,751</b>	<b>3,241,594</b>	<b>2,944,847</b>
<b>TOTAL NET ASSETS</b>	<b>2,893,807</b>	<b>131,036</b>	<b>216,751</b>	<b>3,241,594</b>	<b>2,944,847</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,146,795</b>	<b>\$ 131,036</b>	<b>\$ 216,751</b>	<b>\$ 4,494,582</b>	<b>\$ 4,101,691</b>

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

**YOUTH HOMES, INCORPORATED**

STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016</u>	<u>2015</u>
<b>REVENUE AND SUPPORT</b>					
Program service fees - government (Note 13)	\$ 6,982,634	\$ -	\$ -	\$ 6,982,634	\$ 6,235,144
Contributions	433,856	101,366		535,222	436,925
Special event, net of benefit to donor of \$59,560	111,786			111,786	134,485
In-kind donations (Note 2)	100,857			100,857	112,821
Contributions - auxiliary	50,269			50,269	51,242
Interest income	12,971			12,971	12,637
Change in value of split-interest agreement			4,977	4,977	(27,529)
Other income (loss)	4,177			4,177	6,906
Loss on investments	(21,967)			(21,967)	(8,637)
Net assets released from program restrictions	83,280	(83,280)		-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<u>7,757,863</u>	<u>18,086</u>	<u>4,977</u>	<u>7,780,926</u>	<u>6,953,994</u>
<b>EXPENSES</b>					
Program services	6,215,161			6,215,161	5,622,521
Management and general	996,428			996,428	979,033
Fundraising	272,590			272,590	250,347
<b>TOTAL EXPENSES</b>	<u>7,484,179</u>	<u>-</u>	<u>-</u>	<u>7,484,179</u>	<u>6,851,901</u>
<b>CHANGE IN NET ASSETS</b>	273,684	18,086	4,977	296,747	102,093
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>2,620,123</u>	<u>112,950</u>	<u>211,774</u>	<u>2,944,847</u>	<u>2,842,754</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 2,893,807</u>	<u>\$ 131,036</u>	<u>\$ 216,751</u>	<u>\$ 3,241,594</u>	<u>\$ 2,944,847</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, 2016

With comparative totals for the year ended June 30, 2015

	Program Services	Management and General	Fundraising	Total Expenses	
				2016	2015
Salaries	\$ 3,775,327	\$ 430,017	\$ 121,993	\$ 4,327,337	\$ 3,737,880
Payroll taxes and employee benefits	1,062,045	123,682	34,512	1,220,239	1,333,706
Total personnel costs	4,837,372	553,699	156,505	5,547,576	5,071,586
Professional fees	155,466	203,062	20,555	379,083	365,686
Child related expenses	239,531			239,531	185,553
Travel	202,072	7,079	386	209,537	173,475
Rent	154,593	19,261	5,689	179,543	180,130
Supplies	124,952	22,548	996	148,496	130,967
Insurance	76,812	38,830	3,089	118,731	89,737
Repairs and maintenance	100,118	5,990	236	106,344	102,781
In-kind expenses	35,775	8,349	56,733	100,857	112,822
Telephone	34,298	56,400	698	91,396	99,337
Food	80,098			80,098	66,494
Utilities	62,139	2,416	147	64,702	57,827
Depreciation	38,090			38,090	35,553
Recruiting		33,661		33,661	16,404
Interest expense and bank charges	21,697	2,042	6,767	30,506	28,228
Basic care	23,947			23,947	20,375
Printing and office expenses		4,539	16,893	21,432	23,276
Staff development and training	1,695	18,811		20,506	14,683
Dues and subscriptions		14,618	1,363	15,981	23,039
Allowances	15,626			15,626	21,700
Postage	4,111	2,304	2,533	8,948	7,109
Licenses	4,421	400		4,821	5,730
Miscellaneous	71	2,319		2,390	8,787
Property taxes	2,277			2,277	2,088
Donations		100		100	8,534
<b>TOTAL 2016 FUNCTIONAL EXPENSES</b>	<b>\$ 6,215,161</b>	<b>\$ 996,428</b>	<b>\$ 272,590</b>	<b>\$ 7,484,179</b>	
<b>TOTAL 2015 FUNCTIONAL EXPENSES</b>	<b>\$ 5,622,521</b>	<b>\$ 979,033</b>	<b>\$ 250,347</b>		<b>\$ 6,851,901</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, 2015

With comparative totals for the year ended June 30, 2014

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 296,747	\$ 102,093
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	38,090	35,553
Change in value of split-interest agreement	(4,977)	27,529
Reinvested interest and dividends	(12,971)	(12,637)
Loss on investment	21,967	8,637
(Increase) decrease in operating assets:		
Accounts grants and receivable	(39,994)	(50,776)
Prepaid expenses	(11,717)	3,392
Other asset	26,286	(18,005)
Increase (decrease) in operating liabilities:		
Accounts payable	52,733	(53,445)
Accrued liabilities	61,501	4,607
Deferred rent	(7,283)	10,083
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>420,382</b>	<b>57,031</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net sale (purchase) of investments	837,715	(66,640)
Purchase of property and equipment	(301)	(30,442)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>837,414</b>	<b>(97,082)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on notes payable	(10,807)	(11,361)
New borrowings on line of credit	-	4,362
Payments on line of credit	-	(4,362)
<b>NET CASH (USED) BY FINANCING ACTIVITIES</b>	<b>(10,807)</b>	<b>(11,361)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>1,246,989</b>	<b>(51,412)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>871,293</b>	<b>922,705</b>
<b>CASH, END OF YEAR</b>	<b>\$ 2,118,282</b>	<b>\$ 871,293</b>
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Operating activities reflect interest paid of:	<b>\$ 21,697</b>	<b>\$ 20,512</b>

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



# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

---

### 1. Organization

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

Youth Homes’ range of services includes the following:

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

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

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

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

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

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

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

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

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

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

---

### 2. Summary of Significant Accounting Policies

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

#### **Basis of Presentation**

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

#### **Accounting**

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

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

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

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

#### **Accounts Receivable**

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

#### **Investments**

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

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

---

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

#### **Fair Value Measurements**

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

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

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

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

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

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

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

The primary receivable balance outstanding at June 30, 2016 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 generated by Youth Homes as of June 30, 2016 is derived from government service fees.

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

#### **Property and Equipment**

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

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

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the year ended June 30, 2016, Youth Homes recorded in-kind contributions of \$100,857 for donated materials and services received.

continued

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

---

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

#### **Income Taxes**

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

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

#### **Functional Allocation of Expenses**

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

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

#### **Comparative Totals**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Youth Homes' financial statements for the year ended June 30, 2015, from which the summarized information was derived.

#### **Subsequent Events**

Management has evaluated subsequent events through October 11, 2016, the date which the financial statements were available for issue. No events of transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

Subsequent to the fiscal year end, Youth Homes transferred certain funds from the bank accounts into its investments accounts.

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

---

### 3. Investments

Significant information about investments at June 30, 2016 is summarized as follows:

Certificates of deposit	\$446,045
Stocks	394,949
Money market funds	<u>893</u>
	<u>\$841,887</u>

### 4. Split-Interest Agreement

During 1980, a donor established a trust with a bank, naming Youth Homes as one of the beneficiaries of a perpetual trust. Under the terms of the split-interest agreement, Youth Homes is to receive one-third of the annual income, for its unrestricted use, after payment of taxes, trustee fees, and certain other beneficiary payments until the last named person's death. At the time of the last named person's death, Youth Homes will continue to receive one-third of the annual income, after payment of taxes and trustee fees, in perpetuity. One-third of the fair value of the trust assets, \$216,751 is reported as a permanently restricted net asset by Youth Homes.

### 5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2016 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Stocks	\$394,949	\$ -	\$ -	<b>\$394,949</b>
Investment in Marie Cruess Charitable Remainder Trust (split-interest agreement)	<u>216,751</u>	<u>          </u>	<u>          </u>	<u><b>216,751</b></u>
	<u>\$611,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u><b>\$611,700</b></u>

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

The table below present transactions measured at fair value on a non-recurring basis during the year ended June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	\$ -	\$ 16,940	\$ -	<b>\$ 16,940</b>
Contributed goods	<u>          </u>	<u>83,917</u>	<u>          </u>	<u><b>83,917</b></u>
	<u>\$ -</u>	<u>\$100,857</u>	<u>\$ -</u>	<u><b>\$100,857</b></u>

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

continued

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

---

### 6. Property and Equipment

Property and equipment at June 30, 2016 consist of the following:

Land	\$ 306,008
Buildings	425,147
Leasehold improvements	214,540
Vehicles	<u>101,416</u>
	1,047,111
Less: accumulated depreciation	<u>(524,417)</u>
	<u>\$ 522,694</u>

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

### 7. Accrued Liabilities

Accrued liabilities at June 30, 2016 consist of the following:

Accrued vacation	\$250,234
Accrued salaries and related liabilities	197,482
Non-qualified retirement plan liability (Note 14)	<u>44,571</u>
	<u>\$492,287</u>

### 8. Accrued Unemployment Liability

Youth Homes has elected to be self-insured for the purposes of California State Unemployment Insurance. Estimated accrued unemployment liability at June 30, 2016 of \$31,000 represents estimated future claims arising from payroll paid to June 30, 2016. Unemployment claims for the year ended June 30, 2016 were \$27,703.

### 9. Line of Credit

Youth Homes has a \$75,000 revolving line of credit at a variable rate of interest. There was no outstanding balance at June 30, 2016.

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

---

### 10. Notes Payable

Notes payable at June 30, 2016 consist of the following:

Mortgage payable to a bank, secured by real property located at 3164 San Ramon Rd., monthly payments of \$2,595, including interest at 3.875%, due November 2037.	\$217,802
---	-----------

Mortgage payable to a bank, secured by real property located at 1159 Everett Street, monthly payments of \$1,746, including interest at 3.875%, due December 2033.	216,648
--	---------

Mortgage payable to a bank, secured by real property located at 1603 Cherry Lane, monthly payments of \$686, including interest at 3.875%, due August 2034.	<u>95,595</u>
	<u>\$530,045</u>

Payments for notes payable are as follows:

<u>Year ended June 30,</u>	
2017	\$ 12,149
2018	12,629
2019	13,126
2020	13,644
2021	14,183
Thereafter	<u>464,314</u>
	<u>\$530,045</u>

### 11. Commitments and Contingencies

#### Obligations Under Operating Leases

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

<u>Year ended June 30,</u>	
2017	\$180,091
2018	176,935
2019	<u>177,155</u>
	<u>\$534,181</u>

Rent expense under operating leases for the year ended June 30, 2016 was \$194,096.

continued

# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

---

### 11. Commitments and Contingencies, continued

#### Contracts

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

### 12. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 consist of the following:

Lesher Foundation	\$ 37,500
William A. Kerr Foundation	25,000
Lafayette Juniors	25,000
Gemmer	16,803
Gaedertt Household	10,000
Children's Support League	8,000
Maleski	5,000
Hops for Hope	<u>3,733</u>
	<u>\$131,036</u>

For the year ended June 30, 2016, net assets released from program restrictions were \$83,280.

### 13. Program Service Fees - Government

Program service fees for the year ended June 30, 2016 consist of the following:

Residential and foster care	\$2,559,191
C-5 mental health program	2,140,186
Therapeutic behavioral services	885,663
TAY contract services	649,176
Katie A contract services	548,418
RCL 12 supplemental funding	<u>200,000</u>
	<u>\$6,982,634</u>

continued



# YOUTH HOMES, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

---

### 14. Non-Qualified Retirement Plan

During the current fiscal year, Youth Homes established a 457(b) tax-deferred compensation plan. Participation in the plan is limited to the chief executive officer. No employer contributions were made for the year ended June 30, 2016.

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

**SUPPLEMENTAL SCHEDULE**

---

**YOUTH HOMES, INCORPORATED**

SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS

For the year ended June 30, 2016

<u>Program Name</u>	<u>Contract Number</u>	<u>Federal CFDA Number</u>	<u>Contract Term</u>	<u>Governmental Revenue</u>		<u>Program Expenditures From Governmental Revenue</u>
				<u>Federal</u>	<u>Non-federal</u>	
<b>Federal and Non-federal Awards</b>						
U.S. Department of Health and Human Services ("DHHS"):						
Pass-through, Contra Costa County Department of Health Services - Mental Health Division:						
Medical Assistance Program:						
C-5 Mental Health Program (a)	74-322	93.778	7/1/15-6/30/16	\$ 1,070,093	\$ 1,070,093	\$ 2,140,186
Katie A (a)		93.778	7/1/15-6/30/16	274,209	274,209	548,418
Therapeutic Behavioral Services (a)		93.778	7/1/15-6/30/16	442,832	442,831	885,663
Mental Health Services for Transitional-aged Youth (	24-710	93.778	7/1/15-6/30/16	276,969	304,785	649,176
				<u>2,064,103</u>	<u>2,091,918</u>	<u>4,223,443</u>
Pass-through, Contra Costa County Department of Human Services:						
Foster Care - Title IV-E	various	93.658	n/a	550,201	1,942,002	2,559,191
<b>Total DHHS</b>				<u>2,614,304</u>	<u>4,033,920</u>	<u>6,782,634</u>
<b>Total Federal and Non-federal Awards</b>				<u>\$ 2,614,304</u>	<u>\$ 4,033,920</u>	<u>\$ 6,782,634</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**

---

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

---

To the Board of Directors  
Youth Homes, Incorporated

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Youth Homes, Incorporated ("Youth Homes"), which comprise the Statement of Financial Position as of June 30, 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2016.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Harrington Group*

San Francisco, California  
October 11, 2016

**Independent Auditors' Report on Compliance for Each Major Program  
and on Internal Control Over Compliance Required by the Uniform Guidance**

---

To the Board of Directors  
Youth Homes, Incorporated

**Report on Compliance for Each Major Federal Program**

We have audited Youth Homes, Incorporated ("Youth Homes") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Youth Homes' major federal programs for the year ended June 30, 2016. Youth Homes' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Youth Homes' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Youth Homes' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Youth Homes' compliance.

**Opinion on Each Major Federal Program**

In our opinion, Youth Homes complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

**Report on Internal Control Over Compliance**

Management of Youth Homes is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Youth Homes' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Youth Homes' internal control over compliance.

**Independent Auditors' Report on Compliance for Each Major Program  
and on Internal Control Over Compliance Required by the Uniform Guidance**  
continued

---

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

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

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

*Harrington Group*

San Francisco, California  
October 11, 2016

**YOUTH HOMES, INCORPORATED**  
**Schedule of Findings and Questioned Costs**  
For the year ended June 30, 2016

---

**Section I – Summary of Auditors’ Results**

Financial Statements:

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiencies identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiencies identified? None reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 200.516 Audit Findings of the Uniform Guidance? No

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

Identification of Major Programs:

U.S. Department of Health and Human Services:

Medical Assistance Program 93.778

**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 the Uniform Guidance.

**Section VI – Summary Schedule of Prior Year Findings**

None.