

YOUTH HOMES, INCORPORATED

FINANCIAL STATEMENTS

JUNE 30, 2017

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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, 2017, 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, 2017, 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 Matter

Report on Summarized Comparative Information

We have previously audited Youth Homes, Incorporated's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 11, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 December 22, 2017, 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 solely 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 effectiveness of Youth Homes Incorporated's 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
December 22, 2017

YOUTH HOMES, INCORPORATED

STATEMENT OF FINANCIAL POSITION

June 30, 2017

With comparative totals at June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017</u>	<u>2016</u>
ASSETS					
Cash	\$ 371,105	\$ 222,088	\$ -	\$ 593,193	\$ 2,118,282
Accounts and grants receivable	751,352			751,352	662,903
Investments (Note 3)	1,845,038			1,845,038	841,887
Prepaid expenses	154,107			154,107	132,065
Split-interest agreement (Note 4)			221,896	221,896	216,751
Property and equipment (Note 6)	502,214			502,214	522,694
	<u>502,214</u>	<u> </u>	<u> </u>	<u>502,214</u>	<u>522,694</u>
TOTAL ASSETS	<u><u>\$ 3,623,816</u></u>	<u><u>\$ 222,088</u></u>	<u><u>\$ 221,896</u></u>	<u><u>\$ 4,067,800</u></u>	<u><u>\$ 4,494,582</u></u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 81,922	\$ -	\$ -	\$ 81,922	\$ 127,646
Accrued liabilities (Note 7)	517,899			517,899	492,287
Deferred rent	71,621			71,621	72,010
Accrued unemployment liability (Note 8)	31,000			31,000	31,000
Line of credit (Note 9)	19,255			19,255	-
Notes payable (Note 10)	516,768			516,768	530,045
	<u>516,768</u>	<u> </u>	<u> </u>	<u>516,768</u>	<u>530,045</u>
TOTAL LIABILITIES	<u>1,238,465</u>	<u>-</u>	<u>-</u>	<u>1,238,465</u>	<u>1,252,988</u>
NET ASSETS					
Unrestricted	2,385,351			2,385,351	2,893,807
Temporarily restricted (Note 12)		222,088		222,088	131,036
Permanently restricted			221,896	221,896	216,751
	<u>2,385,351</u>	<u>222,088</u>	<u>221,896</u>	<u>2,829,335</u>	<u>3,241,594</u>
TOTAL NET ASSETS	<u>2,385,351</u>	<u>222,088</u>	<u>221,896</u>	<u>2,829,335</u>	<u>3,241,594</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,623,816</u></u>	<u><u>\$ 222,088</u></u>	<u><u>\$ 221,896</u></u>	<u><u>\$ 4,067,800</u></u>	<u><u>\$ 4,494,582</u></u>

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

YOUTH HOMES, INCORPORATED

STATEMENT OF ACTIVITIES

For the year ended June 30, 2017

With comparative totals for the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
REVENUE AND SUPPORT					
Program service fees - government (Note 13)	\$ 6,456,732	\$ -	\$ -	\$ 6,456,732	\$ 6,982,634
Contributions	384,116	213,800		597,916	535,222
Special event, net of benefit to donor of \$27,822	122,116			122,116	111,786
In-kind donations (Note 2)	97,613			97,613	100,857
Contributions - auxiliary	53,447			53,447	50,269
Interest income	38,741			38,741	12,971
Other income	32,226			32,226	4,177
Gain (loss) on investments	29,833			29,833	(21,967)
Change in value of split-interest agreement			5,145	5,145	4,977
Net assets released from program restrictions	122,748	(122,748)		-	-
TOTAL REVENUE AND SUPPORT	7,337,572	91,052	5,145	7,433,769	7,780,926
EXPENSES					
Program services	6,307,262			6,307,262	6,215,161
Management and general	1,264,424			1,264,424	996,428
Fundraising	274,342			274,342	272,590
TOTAL EXPENSES	7,846,028	-	-	7,846,028	7,484,179
CHANGE IN NET ASSETS	(508,456)	91,052	5,145	(412,259)	296,747
NET ASSETS, BEGINNING OF YEAR	2,893,807	131,036	216,751	3,241,594	2,944,847
NET ASSETS, END OF YEAR	\$ 2,385,351	\$ 222,088	\$ 221,896	\$ 2,829,335	\$ 3,241,594

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

YOUTH HOMES, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2017

With comparative totals for the year ended June 30, 2016

	Program Services	Management and General	Fundraising	Total Expenses 2017	2016
Salaries	\$ 4,046,545	\$ 558,430	\$ 137,618	\$ 4,742,593	\$ 4,327,337
Payroll taxes and employee benefits	903,908	151,055	30,290	1,085,253	1,220,239
Total personnel costs	4,950,453	709,485	167,908	5,827,846	5,547,576
Professional fees	152,495	253,203	25,996	431,694	379,083
Rent	186,964	29,716	7,286	223,966	179,543
Child related expenses	206,567	-	-	206,567	239,531
Travel	164,566	8,597	353	173,516	209,537
Insurance	99,362	40,471	4,631	144,464	118,731
Supplies	95,031	15,829	12,869	123,729	148,496
Repairs and maintenance	96,373	9,836	462	106,671	106,344
Recruiting	-	77,896	327	78,223	33,661
Utilities	74,173	2,620	159	76,952	64,702
Telephone	55,188	14,681	2,219	72,088	91,396
Food	67,382	-	-	67,382	80,098
In-kind expenses	42,486	77	5,546	48,109	100,857
Depreciation	42,651	-	-	42,651	38,090
Staff development and training	5,737	33,807	-	39,544	20,506
Meeting (advertising and public relations)	-	11,029	18,440	29,469	-
Printing and office expenses	1,096	12,726	14,575	28,397	21,432
Allowance and wages subsidy	22,644	-	-	22,644	15,626
Interest expense	19,282	443	-	19,725	30,506
Information technology	5,502	11,954	331	17,787	-
Dues and subscriptions	-	15,874	791	16,665	15,981
Licenses	1,321	12,348	-	13,669	4,821
Basic care	12,653	-	102	12,755	23,947
Bank and other fees	-	2,648	8,747	11,395	-
Postage	2,932	934	3,400	7,266	8,948
Property taxes	2,404	-	-	2,404	2,277
Donations	-	250	200	450	100
Miscellaneous	-	-	-	-	2,390
TOTAL 2017 FUNCTIONAL EXPENSES	\$ 6,307,262	\$ 1,264,424	\$ 274,342	\$ 7,846,028	
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 6,215,161	\$ 996,428	\$ 272,590		\$ 7,484,179

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

YOUTH HOMES, INCORPORATED

STATEMENT OF CASH FLOWS

For the year ended June 30, 2017

With comparative totals for the year ended June 30, 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (412,259)	\$ 296,747
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	42,651	38,090
Change in value of split-interest agreement	(5,145)	(4,977)
Reinvested interest and dividends	(38,693)	(12,971)
(Gain) loss on investment	(29,764)	21,967
(Increase) decrease in operating assets:		
Accounts grants and receivable	(88,449)	(39,994)
Prepaid expenses	(22,042)	(11,717)
Other asset	-	26,286
Increase (decrease) in operating liabilities:		
Accounts payable	(45,724)	52,733
Accrued liabilities	25,612	61,501
Deferred rent	(389)	(7,283)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(574,202)	420,382
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,408,016)	(21,322)
Proceeds form sale of investments	473,322	859,037
Purchase of property and equipment	(22,171)	(301)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(956,865)	837,414
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(13,276)	(10,807)
New borrowings on line of credit	21,920	-
Payments on line of credit	(2,666)	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	5,978	(10,807)
NET (DECREASE) INCREASE IN CASH	(1,525,089)	1,246,989
CASH, BEGINNING OF YEAR	2,118,282	871,293
CASH, END OF YEAR	\$ 593,193	\$ 2,118,282
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflect interest paid of:	\$ 19,725	\$ 21,697

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

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

1. Organization

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

Youth Homes’ range of services includes the following:

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

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

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

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

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

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

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

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

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

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

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

Basis of Presentation

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

Accounting

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

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

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

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

Accounts Receivable

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

Investments

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

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements

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

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

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

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

Youth Homes is required to measure certain investments, 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, 2017 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, 2017, 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, 2017, Youth Homes recorded in-kind contributions of \$97,613 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, 2016, from which the summarized information was derived.

Reclassification

Certain amounts from the June 30, 2016 financial statements have been reclassified to conform to June 30, 2017 presentation.

Subsequent Events

Management has evaluated subsequent events through December 22, 2017, 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.

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

3. Investments

Significant information about investments at June 30, 2017 is summarized as follows:

Money market funds	\$1,256,701
Stocks	467,287
Certificate of deposit	<u>121,050</u>
	<u>\$1,845,038</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, \$221,896 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, 2017 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Stocks	\$467,287	\$ -	\$ -	\$467,287
Investment in Marie Cruess Charitable Remainder Trust (split-interest agreement)	<u>221,896</u>	<u>-</u>	<u>-</u>	<u>221,896</u>
	<u>\$689,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$689,183</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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed goods	<u>\$ -</u>	<u>\$97,613</u>	<u>\$ -</u>	<u>\$97,613</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, 2017 consist of the following:

Land	\$ 306,008
Buildings	425,147
Leasehold improvements	214,240
Vehicles	<u>121,416</u>
	1,066,811
Less: accumulated depreciation	<u>(564,597)</u>
	<u>\$ 502,214</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, 2017 consist of the following:

Accrued vacation	\$264,917
Accrued salaries and related liabilities	210,782
Non-qualified retirement plan liability (Note 14)	<u>42,200</u>
	<u>\$517,899</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, 2017 of \$31,000 represents estimated future claims arising from payroll paid to June 30, 2017. Unemployment claims for the year ended June 30, 2017 was \$842.

9. Line of Credit

Youth Homes has a \$75,000 revolving line of credit at a variable rate of interest. The outstanding balance at June 30, 2017 was \$19,255.

continued

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

10. Notes Payable

Notes payable at June 30, 2017 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.	\$212,165
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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.	211,274
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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>93,329</u>
	<u>\$516,768</u>

Payments for notes payable are as follows:

<u>Year ended June 30,</u>	
2018	\$ 12,629
2019	13,126
2020	13,644
2021	14,183
2022	14,742
Thereafter	<u>448,444</u>
	<u>\$516,768</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>	
2018	\$180,091
2019	176,935
2019	<u>177,155</u>
	<u>\$534,181</u>

Rent expense under operating leases for the year ended June 30, 2017 was \$214,283.

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, 2017 consist of the following:

Stepping Stones program	\$152,031
Capital campaign	35,000
After Care/Transition Age Youth program	22,157
Foster Family program	10,000
Garden program	<u>2,900</u>
	<u>\$222,088</u>

For the year ended June 30, 2017, net assets released from program restrictions were \$122,748.

13. Program Service Fees - Government

Program service fees for the year ended June 30, 2017 consist of the following:

Residential and foster care	\$2,490,242
C-5 mental health program	1,803,172
Therapeutic behavioral services	957,408
TAY contract services	614,467
Katie A contract services	391,443
RCL 12 supplemental funding	<u>200,000</u>
	<u>\$6,456,732</u>

14. Non-Qualified Retirement Plan

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, 2017.

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