

YOUTH HOMES, INCORPORATED

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

JUNE 30, 2020

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 |
| 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 <i>Government Auditing Standards</i> | 16-17 |

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, 2020, 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, 2020, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 19, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 November 23, 2020, 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

Oakland, California
November 23, 2020

YOUTH HOMES, INCORPORATED

STATEMENT OF FINANCIAL POSITION

June 30, 2020

With comparative totals at June 30, 2019

| | Without Donor Restrictions | With Donor Restrictions | 2020 | 2019 |
|---|---------------------------------------|------------------------------------|---------------------|---------------------|
| ASSETS | | | | |
| Cash | \$ 1,858,691 | \$ 443,676 | \$ 2,302,367 | \$ 723,218 |
| Accounts and grants receivable | 940,994 | | 940,994 | 1,039,550 |
| Investments (Note 4) | 1,423,041 | | 1,423,041 | 1,727,593 |
| Prepaid expenses | 150,087 | | 150,087 | 128,943 |
| Split-interest agreement (Note 5) | | 221,609 | 221,609 | 229,575 |
| Property and equipment (Note 7) | 579,767 | | 579,767 | 561,497 |
| TOTAL ASSETS | \$ 4,952,580 | \$ 665,285 | \$ 5,617,865 | \$ 4,410,376 |
| LIABILITIES AND NET ASSETS | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 82,434 | \$ - | \$ 82,434 | \$ 55,740 |
| Accrued liabilities (Note 8) | 531,320 | | 531,320 | 448,138 |
| Deferred rent | 2,713 | | 2,713 | 29,860 |
| Accrued unemployment liability (Note 9) | 31,000 | | 31,000 | 31,000 |
| Paycheck protection program (Note 10) | 1,078,900 | | 1,078,900 | - |
| Notes payable (Note 11) | 478,467 | | 478,467 | 491,871 |
| TOTAL LIABILITIES | 2,204,834 | - | 2,204,834 | 1,056,609 |
| NET ASSETS | | | | |
| Without donor restrictions | 2,747,746 | | 2,747,746 | 2,744,544 |
| With donor restrictions | | | | |
| Purpose restrictions (Note 13) | | 443,676 | 443,676 | 379,648 |
| Perpetual in nature (Note 5) | | 221,609 | 221,609 | 229,575 |
| TOTAL NET ASSETS | 2,747,746 | 665,285 | 3,413,031 | 3,353,767 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 4,952,580 | \$ 665,285 | \$ 5,617,865 | \$ 4,410,376 |

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

YOUTH HOMES, INCORPORATED

STATEMENT OF ACTIVITIES
For the year ended June 30, 2020
With comparative totals for the year ended June 30, 2019

| | Without Donor Restrictions | With Donor Restrictions | 2020 | 2019 |
|--|-------------------------------|----------------------------|---------------------|---------------------|
| REVENUE AND SUPPORT | | | | |
| Program service fees - government (Note 14) | \$ 4,534,826 | \$ 2,861,802 | \$ 7,396,628 | \$ 6,724,263 |
| Contributions | 211,129 | 223,965 | 435,094 | 356,796 |
| Contributions - auxiliary | 120,551 | | 120,551 | 241,810 |
| Thrift shop sales | 106,202 | | 106,202 | - |
| Special event, net of benefit to donor of \$18,387 | 89,659 | | 89,659 | 203,821 |
| Interest income | 35,362 | | 35,362 | 47,074 |
| Other income | 31,080 | | 31,080 | 16,911 |
| Change in value of split-interest agreement | | (7,966) | (7,966) | 4,550 |
| (Loss) gain on investments | (18,480) | | (18,480) | 25,159 |
| (Loss) on disposal of fixed assets | (27,398) | | (27,398) | - |
| Net assets released from restrictions (Note 13) | 3,021,739 | (3,021,739) | - | - |
| TOTAL REVENUE AND SUPPORT | 8,104,670 | 56,062 | 8,160,732 | 7,620,384 |
| EXPENSES | | | | |
| Program services | 6,273,064 | | 6,273,064 | 5,910,614 |
| Management and general | 1,566,330 | | 1,566,330 | 1,500,274 |
| Fundraising | 262,074 | | 262,074 | 262,936 |
| TOTAL EXPENSES | 8,101,468 | - | 8,101,468 | 7,673,824 |
| CHANGE IN NET ASSETS | 3,202 | 56,062 | 59,264 | (53,440) |
| NET ASSETS, BEGINNING OF YEAR | 2,744,544 | 609,223 | 3,353,767 | 3,407,207 |
| NET ASSETS, END OF YEAR | \$ 2,747,746 | \$ 665,285 | \$ 3,413,031 | \$ 3,353,767 |

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

YOUTH HOMES, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2020

With comparative totals for the year ended June 30, 2019

| | Program Services | | | | Total Program Services | Management and General | Fundraising | Total Expenses | |
|--|--------------------------|--------------------------------|-------------------------|-------------------|------------------------------|---------------------------|-------------------|---------------------|--------------|
| | Foster Youth Programs | Youth Services and Programs | Young Adult Programs | Thrift Shop | | | | 2020 | 2019 |
| Salaries | \$ 2,072,860 | \$ 1,502,462 | \$ 616,410 | \$ 42,179 | \$ 4,233,911 | \$ 770,213 | \$ 153,136 | \$ 5,157,260 | \$ 4,763,691 |
| Payroll taxes and employee benefits | 445,667 | 332,217 | 133,140 | 9,285 | 920,309 | 187,751 | 34,193 | 1,142,253 | 1,018,088 |
| Total personnel costs | 2,518,527 | 1,834,679 | 749,550 | 51,464 | 5,154,220 | 957,964 | 187,329 | 6,299,513 | 5,781,779 |
| Professional fees | 6,943 | 15,825 | 102,500 | 11,300 | 136,568 | 261,429 | 27,777 | 425,774 | 318,922 |
| Rent | 52,525 | 49,980 | 69,627 | 40,294 | 212,426 | 72,611 | 8,363 | 293,400 | 214,889 |
| Child related expenses | 128,759 | 5,247 | 1,596 | | 135,602 | | | 135,602 | 182,939 |
| Travel | 33,588 | 50,667 | 34,825 | | 119,080 | 11,036 | 154 | 130,270 | 157,682 |
| Information technology | | 9,515 | 2,980 | | 13,388 | 79,098 | 8,807 | 101,293 | 88,163 |
| Insurance | 27,557 | 19,983 | 13924 | | 61,464 | 33,134 | 3,001 | 97,599 | 134,530 |
| Bad debt | 27,887 | 35,743 | 10,144 | | 73,774 | 12,845 | 2,352 | 88,971 | 130,542 |
| Supplies | 37,665 | 16,885 | 8,499 | 2,938 | 65,987 | 17,422 | 3,567 | 86,976 | 91,419 |
| Repairs and maintenance | 61,976 | 3,985 | 1,111 | 1,437 | 68,509 | 15,519 | 306 | 84,334 | 145,286 |
| Utilities | 55,943 | 1,426 | 763 | 6,020 | 64,152 | 8,333 | 204 | 72,689 | 70,061 |
| Food | 62,132 | 354 | 4,861 | | 67,347 | | | 67,347 | 67,767 |
| Depreciation | 46,318 | | | | 46,318 | | | 46,318 | 35,275 |
| Telephone | 791 | 6,247 | 4,019 | 218 | 11,275 | 22,799 | 1,068 | 35,142 | 55,640 |
| Staff development and training | 1,825 | 1,859 | 1,208 | | 4,892 | 29,717 | 131 | 34,740 | 45,448 |
| Printing and office expenses | | | | 213 | 213 | 18,612 | 15,471 | 34,296 | 29,095 |
| Dues and subscriptions | 573 | | | | 573 | 20,713 | 1,475 | 22,761 | 21,000 |
| Interest expenses | 17,648 | | | | 17,648 | 1,508 | 120 | 19,276 | 20,719 |
| Property taxes | 10,300 | | | | 10,300 | 190 | | 10,490 | 8,885 |
| Basic care | 5,340 | | | | 5,340 | | | 5,340 | 11,883 |
| Bank and other fees | | | | 2,104 | 2,214 | 587 | 1,499 | 4,300 | 8,647 |
| Meeting (advertising and public relations) | | | | | - | 2,074 | 450 | 2,524 | 14,750 |
| Licenses | 1,774 | | | | 1,774 | 739 | | 2,513 | 5,582 |
| In-kind expenses | | | | | - | | | - | 32,921 |
| TOTAL 2020 FUNCTIONAL EXPENSES | \$ 3,099,074 | \$ 2,052,395 | \$ 1,005,607 | \$ 115,988 | \$ 6,273,064 | \$ 1,566,330 | \$ 262,074 | \$ 8,101,468 | |
| TOTAL 2019 FUNCTIONAL EXPENSES | \$ 3,037,579 | \$ 2,362,653 | \$ 510,382 | \$ - | \$ 5,910,614 | \$ 1,500,274 | \$ 262,936 | | \$ 7,673,824 |

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

YOUTH HOMES, INCORPORATED

STATEMENT OF CASH FLOWS

For the year ended June 30, 2020

With comparative totals for the year ended June 30, 2019

| | 2020 | 2019 |
|--|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 59,264 | \$ (53,440) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 46,318 | 35,275 |
| Loss on disposal of assets | 27,398 | - |
| Change in value of split-interest agreement | 7,966 | (4,550) |
| Reinvested interest and dividends | (27,310) | (41,089) |
| Loss (gain) on investment | 18,480 | (25,159) |
| (Increase) decrease in operating assets: | | |
| Accounts grants and receivable | 98,556 | (381,153) |
| Prepaid expenses | (21,144) | (4,565) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | 26,694 | (18,428) |
| Accrued liabilities | 83,182 | (73,142) |
| Deferred rent | (27,147) | (22,695) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 292,257 | (588,946) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from the sale of investments | 313,382 | 24,316 |
| Purchase of property and equipment | (91,986) | (133,324) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | 221,396 | (109,008) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from paycheck protection program | 1,078,900 | - |
| Payments on notes payable | (13,404) | (11,843) |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | 1,065,496 | (11,843) |
| NET INCREASE (DECREASE) IN CASH | 1,579,149 | (709,797) |
| CASH, BEGINNING OF YEAR | 723,218 | 1,433,015 |
| CASH, END OF YEAR | \$ 2,302,367 | \$ 723,218 |
| SUPPLEMENTAL DISCLOSURE: | | |
| Operating activities reflect interest paid of: | \$ 17,768 | \$ 20,719 |

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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions. Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

With Donor Restrictions. Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

Revenue and Revenue Recognition

Youth Homes recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

A portion of Youth Homes' revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when Youth Homes has incurred expenditures in compliance with specific contract or grant provisions.

continued

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, 2020 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 87% of total revenue and support generated by Youth Homes as of June 30, 2020, 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, 2020, Youth Homes did not receive any in-kind contributions of donated materials and services.

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.

Recently Adopted Accounting Pronouncement

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes, or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expanded disclosures about revenue. We have implemented Topic 606 and have adjusted the presentation in these financial statements accordingly.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assist entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. We have implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Analysis of various provisions of these standards resulted in no significant changes in the way Youth Homes recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2019, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through November 23, 2020, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

3. Liquidity and Availability of Resources

Youth Homes regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Youth Homes has various sources of liquidity at its disposal, including cash and cash equivalents, and marketable debt and equity securities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Youth Homes considers all expenditures related to its ongoing activities and the pattern of income from grants, contracts, billable services, fundraising, and investments. The Finance Committee of the Board of Directors meets monthly to review all financial aspects of the organization and meets annually with Youth Homes' financial advisors to review investment results, assess risk, and make recommendations for changes as needed.

In addition to financial assets available to meet general expenditures over the next 12 months, Youth Homes operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

As of June 30, 2020, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

| | |
|---------------------------|--------------------|
| Cash and cash equivalents | \$1,858,691 |
| Accounts receivable, net | 941,005 |
| Investments | <u>1,428,188</u> |
| | <u>\$4,227,884</u> |

continued

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

4. Investments

Significant information about investments at June 30, 2020 is summarized as follows:

| | |
|-------------------------|--------------------|
| Exchange market fund | \$1,024,577 |
| Cash | 231,692 |
| Money market funds | 135,354 |
| Certificates of deposit | <u>31,418</u> |
| | <u>\$1,423,041</u> |

5. 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, \$221,609 is reported with donor restrictions in perpetuity by Youth Homes.

6. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2020 on a recurring basis:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|--------------------|-------------------|-------------------|--------------------|
| Exchange-market funds | \$1,029,724 | \$ - | \$ - | \$1,029,724 |
| Investment in Marie Cruess Charitable Remainder Trust | <u>221,609</u> | <u> </u> | <u> </u> | <u>221,609</u> |
| (split-interest agreement) | <u>\$1,251,333</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$1,251,333</u> |

The fair value of exchange-market funds and 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).

7. Property and Equipment

Property and equipment at June 30, 2020 consist of the following:

| | |
|--------------------------------|-------------------|
| Land | \$ 306,008 |
| Buildings | 425,147 |
| Leasehold improvements | 315,952 |
| Vehicles | <u>191,340</u> |
| | 1,238,447 |
| Less: accumulated depreciation | <u>(658,680)</u> |
| | <u>\$ 579,767</u> |

continued

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

7. **Property and Equipment**, continued

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.

8. **Accrued Liabilities**

Accrued liabilities at June 30, 2020 consist of the following:

| | |
|--|------------------|
| Accrued vacation | \$268,257 |
| Accrued salaries and related liabilities | 259,541 |
| Other liabilities | <u>3,522</u> |
| | <u>\$531,320</u> |

9. **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, 2020 of \$31,000 represents estimated future claims arising from payroll paid to June 30, 2020. Unemployment claims for the year ended June 30, 2020 was \$4,271.

10. **Paycheck Protection Program**

In May 2020, Youth Homes received a loan from the U.S. Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”), as provided by the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The amount of the loan was \$1,078,900 and bears an interest of 1.00% per year. All SBA loan proceeds will be used only for business-related purposes as specified in the loan application and consistent with the PPP regulations. The loan is due on May 2022 and pursuant to the program, all or a portion of the loan may be forgiven upon compliance with PPP requirements.

11. **Notes Payable**

Notes payable at June 30, 2020 consist of the following:

| | |
|---|-----------|
| Mortgage payable to a bank, secured by real property, monthly payments of \$2,595, including interest at 3.875%, due November 2037. | \$195,264 |
| Mortgage payable to a bank, secured by real property, monthly payments of \$1,746, including interest at 3.875%, due December 2033. | 195,160 |

continued

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

11. Notes Payable, continued

| | |
|---|------------------|
| Mortgage payable to a bank, secured by real property, monthly payments of \$686, including interest at 3.875%, due August 2034. | <u>86,535</u> |
| | <u>\$476,959</u> |

Payments for notes payable are as follows:

| | |
|-----------------------------|------------------|
| <u>Year ending June 30,</u> | |
| 2021 | \$ 14,330 |
| 2022 | 14,896 |
| 2023 | 15,483 |
| 2024 | 16,094 |
| 2025 | 16,729 |
| Thereafter | <u>399,427</u> |
| | <u>\$476,959</u> |

12. 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 ending June 30,</u> | |
| 2021 | \$271,870 |
| 2022 | 147,797 |
| Thereafter | <u>204,103</u> |
| | <u>\$623,770</u> |

Rent expense under operating leases for the year ended June 30, 2020 was \$303,063.

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.

continued

YOUTH HOMES, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

12. Commitments and Contingencies, continued

Impact of COVID-19 Virus

Following the State “Safer at Home” order to close all non-essential business activities, Youth Homes, has been conducting business under Safer at Home isolation protocols. The overall impact of the COVID-19 virus on Youth Homes cannot be foreseen at this time and is not reflected in these financial statements.

13. Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2020 consist of the following:

| | |
|-----------------------------------|------------------|
| Stepping Stones program | \$146,038 |
| Five Bridges TAY | 141,399 |
| Auxiliary | 52,737 |
| Employee initiatives and training | 44,900 |
| Capital campaign | 35,000 |
| Coit | 13,602 |
| Gemmer | <u>10,000</u> |
| | <u>\$443,676</u> |

For the year ended June 30, 2020, net assets with donor restrictions released from purpose restrictions were \$3,021,739.

14. Program Service Fees - Government

Program service fees for the year ended June 30, 2020 consist of the following:

| | |
|---------------------------------|--------------------|
| Residential and foster care | \$2,861,802 |
| C-5 mental health program | 2,351,633 |
| Therapeutic behavioral services | 876,095 |
| Katie A contract services | 654,474 |
| TAY contract services | 563,299 |
| RCL 12 supplemental funding | <u>89,325</u> |
| | <u>\$7,396,628</u> |

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 (a non profit organization), which comprise the Statement of Financial Position as of June 30, 2020, 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 November 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Youth Homes, Incorporated's internal control over financial reporting (internal control) as a basis for designing 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, Incorporated's internal control. Accordingly, we do not express an opinion on the effectiveness of Youth Homes, Incorporated 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, Incorporated's 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 financial statements. 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*.

**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***

continued

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

Oakland, California
November 23, 2020