

**Youth Homes of Mid-America
Johnston, Iowa**

FINANCIAL REPORT

December 31, 2008

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Youth Homes of Mid-America
Johnston, Iowa

We have audited the accompanying statements of financial position of Youth Homes of Mid-America as of December 31, 2008 and 2007, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Youth Homes of Mid-America as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
June 23, 2009

**Youth Homes of Mid-America
STATEMENTS OF FINANCIAL POSITION**

ASSETS	December 31	
	2008	2007
CURRENT ASSETS		
Cash	\$ 38,670	\$ 41,085
Accounts receivable		
Trade	376,110	432,984
Other	25,977	2,100
Prepaid expenses	25,828	23,813
Estimated third-party payor settlements	<u>313,265</u>	<u>90,000</u>
Total current assets	<u>779,850</u>	<u>589,982</u>
PROPERTY AND EQUIPMENT		
Land	124,660	124,660
Building	4,399,228	4,328,577
Equipment	437,246	389,891
Vehicles	130,306	125,046
Construction in progress	<u>1,411,780</u>	<u>99,569</u>
	6,503,220	5,067,743
Less accumulated depreciation	<u>2,282,750</u>	<u>2,084,323</u>
Total property and equipment	<u>4,220,470</u>	<u>2,983,420</u>
INTEREST IN NET ASSETS OF YOUTH HOMES OF MID-AMERICA FOUNDATION		
	1,936,821	3,211,784
Totals	<u>\$6,937,141</u>	<u>\$6,785,186</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 56,405	\$ 52,296
Accrued employee compensation	<u>163,371</u>	<u>166,698</u>
Total current liabilities	<u>219,776</u>	<u>218,994</u>
NET ASSETS		
Unrestricted	4,775,572	3,354,408
Temporarily restricted	332,301	1,603,092
Permanently restricted	<u>1,609,492</u>	<u>1,608,692</u>
Total net assets	<u>6,717,365</u>	<u>6,566,192</u>
Totals	<u>\$6,937,141</u>	<u>\$6,785,186</u>

See Notes to Financial Statements.

**Youth Homes of Mid-America
STATEMENTS OF ACTIVITIES**

	Year ended December 31, 2008			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
OPERATING REVENUE				
Fees and grants from governmental agencies	\$3,291,177	\$ —	\$ —	\$3,291,177
EXPENSES				
Program services	3,129,051	—	—	3,129,051
Supporting services—management and general	514,071	—	—	514,071
Total expenses	<u>3,643,122</u>	<u>—</u>	<u>—</u>	<u>3,643,122</u>
Change in net assets from operations	(351,945)	—	—	(351,945)
OTHER CHANGES				
Contributions	29,137	—	—	29,137
Net assets released from restrictions	—	—	—	—
Total other changes	<u>29,137</u>	<u>—</u>	<u>—</u>	<u>29,137</u>
Change in net assets before Foundation activity	<u>(322,808)</u>	<u>—</u>	<u>—</u>	<u>(322,808)</u>
CHANGE IN INTEREST IN NET ASSETS OF YOUTH HOMES OF MID-AMERICA FOUNDATION	<u>1,743,972</u>	<u>(1,270,791)</u>	<u>800</u>	<u>473,981</u>
CHANGE IN NET ASSETS	1,421,164	(1,270,791)	800	151,173
NET ASSETS , beginning of year	<u>3,354,408</u>	<u>1,603,092</u>	<u>1,608,692</u>	<u>6,566,192</u>
NET ASSETS , end of year	<u>\$4,775,572</u>	<u>\$ 332,301</u>	<u>\$1,609,492</u>	<u>\$6,717,365</u>

See Notes to Financial Statements.

Year ended December 31, 2007

<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
\$3,474,051	\$ —	\$ —	\$3,474,051
3,236,632	—	—	3,236,632
485,987	—	—	485,987
<u>3,722,619</u>	<u>—</u>	<u>—</u>	<u>3,722,619</u>
(248,568)	—	—	(248,568)
35,000	—	—	35,000
<u>105,525</u>	<u>(105,525)</u>	<u>—</u>	<u>—</u>
<u>140,525</u>	<u>(105,525)</u>	<u>—</u>	<u>35,000</u>
<u>(108,043)</u>	<u>(105,525)</u>	<u>—</u>	<u>(213,568)</u>
<u>727,551</u>	<u>(7,896)</u>	<u>3,360</u>	<u>723,015</u>
619,508	(113,421)	3,360	509,447
<u>2,734,900</u>	<u>1,716,513</u>	<u>1,605,332</u>	<u>6,056,745</u>
<u>\$3,354,408</u>	<u>\$1,603,092</u>	<u>\$1,608,692</u>	<u>\$6,566,192</u>

See Notes to Financial Statements.

**Youth Homes of Mid-America
STATEMENTS OF CASH FLOWS**

	Year ended December 31	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 151,173	\$ 509,447
Adjustments to reconcile change in net assets to net cash (used in) operating activities		
Depreciation	198,182	177,723
Noncash contributions received	(29,137)	(35,000)
Change in interest in net assets of Youth Homes of Mid-America Foundation	(473,981)	(723,015)
Changes in assets and liabilities		
(Increase) decrease in accounts receivable and prepaid expenses	30,982	(37,216)
(Increase) in third-party payor settlements	(223,265)	(90,000)
Increase in accounts payable and accrued expenses, net of amounts for property and equipment	<u>782</u>	<u>3,017</u>
Net cash (used in) operating activities	<u>(345,264)</u>	<u>(195,044)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,300,131)	(661,885)
Advances from Youth Homes of Mid-America Foundation	-	150,000
Distributions from Youth Homes of Mid-America Foundation	<u>1,642,980</u>	<u>623,682</u>
Net cash provided by investing activities	<u>342,849</u>	<u>111,797</u>
NET (DECREASE) IN CASH	(2,415)	(83,247)
CASH		
Beginning	<u>41,085</u>	<u>124,332</u>
Ending	<u>\$ 38,670</u>	<u>\$ 41,085</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Distribution of property and equipment from Youth Homes of Mid-America Foundation	<u>\$ 105,964</u>	<u>\$ 103,869</u>
Contribution of property and equipment	<u>\$ 29,137</u>	<u>\$ 35,000</u>

See Notes to Financial Statements.

**Youth Homes of Mid-America
STATEMENTS OF FUNCTIONAL EXPENSES**

	<u>Year ended December 31, 2008</u>		
	<u>Program services</u>	<u>Management and general</u>	<u>Total</u>
Salaries	\$1,930,149	\$ 381,948	\$2,312,097
Employee benefits	224,711	44,469	269,180
Payroll taxes	<u>151,352</u>	<u>29,951</u>	<u>181,303</u>
Total employee compensation	2,306,212	456,368	2,762,580
Professional fees	22,787	26,502	49,289
Supplies	140,111	8,750	148,861
Telephone	30,216	5,980	36,196
Postage and shipping	2,996	593	3,589
Occupancy	219,516	-	219,516
Local transportation	79,453	-	79,453
Conferences and meetings	11,223	-	11,223
Subscriptions and publications	70	-	70
Specific assistance to individuals	79,195	-	79,195
Organizational dues	14,969	-	14,969
Repairs and expendable equipment	28,148	6,804	34,952
Miscellaneous	<u>5,047</u>	<u>-</u>	<u>5,047</u>
Total expenses before depreciation	2,939,943	504,997	3,444,940
Depreciation of building and equipment	<u>189,108</u>	<u>9,074</u>	<u>198,182</u>
Totals	<u>\$3,129,051</u>	<u>\$ 514,071</u>	<u>\$3,643,122</u>

See Notes to Financial Statements.

Year ended December 31, 2007

Program services	Management and general	Total
\$2,065,624	\$ 365,928	\$2,431,552
247,324	43,817	291,141
<u>155,617</u>	<u>27,570</u>	<u>183,187</u>
2,468,565	437,315	2,905,880
13,950	17,443	31,393
141,993	11,357	153,350
24,173	4,283	28,456
4,112	729	4,841
207,642	—	207,642
78,587	—	78,587
12,310	—	12,310
—	—	—
64,353	—	64,353
12,405	—	12,405
29,391	10,497	39,888
<u>5,791</u>	<u>—</u>	<u>5,791</u>
3,063,272	481,624	3,544,896
<u>173,360</u>	<u>4,363</u>	<u>177,723</u>
<u>\$3,236,632</u>	<u>\$ 485,987</u>	<u>\$3,722,619</u>

**Youth Homes of Mid-America
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Youth Homes of Mid-America (the Organization) is a private nonprofit corporation organized under the laws of the State of Iowa for the purpose of providing children and family services. The Organization services the entire state of Iowa and is exempt from income taxes under Section 501(a) of the Internal Revenue Code as a nonprofit corporation as described in section 501(c)(3).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose 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 restrictions.

Property and Equipment

Expenditures for the acquisition of property and equipment over \$500 are capitalized at cost. Depreciation is provided over the estimated useful lives of the assets, which range from 3 to 50 years, using the straight-line method.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Interest in Net Assets of Youth Homes of Mid-America Foundation

The Organization recognizes its interest in the net assets of the Foundation as an asset. Distributions received from the Foundation decrease this asset, and transfers to the Foundation increase this asset. The Organization recognizes, in its statements of activities, the changes in its interest in the net assets of the Foundation.

Operating Revenue

Operating revenue is reported at the estimated net realizable amounts from third-party payors for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Youth Homes of Mid-America
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses

Expenses are allocated to and reported as program services only to the extent they result in direct program benefits. Expenses not allocated to program services are reported as supporting services.

NOTE 2 RETIREMENT PLAN

The Organization contributed 3%, 5% or 7% of the salaries of eligible employees to a defined contribution retirement plan up to September 30, 2008. Effective October 1, 2008 the Organization changed plans and contributes 2% of the salaries of eligible employees plus a matching contribution equal to 50% of the first 4% of salary deferred to a defined contribution retirement plan. All eligible employees can make contributions to the plan if they desire. Contributions by the Organization to the plan were \$81,747 and \$72,858 in 2008 and 2007, respectively.

NOTE 3 YOUTH HOMES OF MID-AMERICA FOUNDATION

The Organization has transferred assets to the Youth Homes of Mid-America Foundation. The Foundation was formed in 1988 for the purpose of assisting and benefiting the Organization in carrying out its purpose of providing children and family services. The Organization did not grant the Foundation variance power to redirect the assets transferred to another entity. The Foundation distributes assets to the Organization at the discretion of the Foundation's Board of Trustees.

The Organization's interest in the net assets of the Foundation was \$1,936,821 and \$3,211,784 at December 31, 2008 and 2007, respectively.

The changes in the interest in the net assets of the Foundation for the years ended December 31, 2008 and 2007 were as follows:

	<u>Year ended December 31</u>	
	<u>2008</u>	<u>2007</u>
Distributions from Foundation to Organization		
Cash	\$1,642,980	\$ 623,682
Property	105,964	103,869
Change in net assets of Foundation	<u>(1,274,963)</u>	<u>(4,536)</u>
Change in Organization's interest in net assets of Foundation	<u>\$ 473,981</u>	<u>\$ 723,015</u>

NOTE 4 SUPPORT FROM GOVERNMENTAL UNIT

The Organization receives approximately 96% of its operating revenue from the State of Iowa, including the Iowa Medicaid Enterprise. A significant reduction in the level of this revenue, if this were to occur, may have a significant effect on the Organization's programs and activities. Trade accounts and estimated third-party payor settlements receivable through the State at December 31, 2008 and 2007 were \$661,598 and \$492,998, respectively.

**Youth Homes of Mid-America
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets have the following restrictions:

	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Time restricted until distributed by Youth Homes of Mid-America Foundation	\$ <u>332,301</u>	\$ <u>1,603,092</u>

Permanently restricted net assets of \$1,609,492 and \$1,608,692 at December 31, 2008 and 2007, respectively, consist of permanent endowment funds held by Youth Homes of Mid-America Foundation.

During 2008 and 2007, the Organization reclassified \$-0- and \$105,525, respectively, of temporarily restricted net assets to unrestricted net assets due to the expiration of donor-imposed restrictions.

NOTE 6 RELATED PARTY TRANSACTION

The Organization has hired a local construction company to serve as construction manager on the Ross Campus renovation project. The construction company's President is also a member of Youth Homes of Mid-America's Board of Directors. The construction contract was awarded through a competitive bid process and, in the opinion of management, the contract awarded was the most favorable to the Organization. Property and equipment additions for phase 2 and phase 3 for 2008 and 2007 include \$1,262,804 and \$367,736, respectively, of costs incurred to the related construction company. At December 31, 2008 the amount due to complete phase 3 of the project is approximately \$84,000.