

YOUTH ON THEIR OWN

AUDITED FINANCIAL STATEMENTS

Year ended June 30, 2012



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Youth on Their Own
Tucson, Arizona

We have audited the accompanying statement of financial position of Youth on Their Own (an Arizona nonprofit corporation) as of June 30, 2012 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Youth on Their Own as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Devries CPAs of Arizona, P.C.

DEVRIES CPAS OF ARIZONA, P.C.

October 24, 2012

Integrity is the highest form of service.

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YOUTH ON THEIR OWN
STATEMENT OF FINANCIAL POSITION
June 30, 2012

ASSETS

Cash and cash equivalents	\$ 723,977
Investments - Note 3	770
Grants receivable	22,094
Unconditional promises to give - Note 4	14,100
Prepaid expenses and other assets	9,170
Property and equipment - Notes 5 and 6	430,044
Beneficial interest in funds held by others - Note 3	<u>66,835</u>
	\$ <u><u>1,266,990</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 3,792
Accrued expenses	9,495
Note payable - Note 6	<u>148,776</u>
	162,063
Net assets:	
Unrestricted:	
Expended for property and equipment	281,268
Available for operations	<u>735,696</u>
	1,016,964
Temporarily restricted - Notes 7 and 9	24,847
Permanently restricted - Notes 8 and 9	<u>63,116</u>
	<u>1,104,927</u>
	\$ <u><u>1,266,990</u></u>

See Accompanying Notes.

YOUTH ON THEIR OWN
STATEMENT OF ACTIVITIES
Year ended June 30, 2012

	<u>Unrestricted net assets</u>	<u>Temporarily restricted net assets</u>	<u>Permanently restricted net assets</u>	<u>Totals</u>
Public support and revenues:				
Contributions	\$ 415,588	\$ 7,285	\$ 2,750	\$ 425,623
Government grants	114,301			114,301
Foundation grants	301,540			301,540
In-kind donations - Note 10	239,613			239,613
Special events, net of direct donor benefit costs of \$90,926	178,625	16,700		195,325
Student events	16,889			16,889
Investment income (loss) - Note 3	755	(221)		534
Other income	2,512			2,512
	<u>1,269,823</u>	<u>23,764</u>	<u>2,750</u>	<u>1,296,337</u>
Releases from restrictions	14,916	(14,916)		0
Total revenues	<u>1,284,739</u>	<u>8,848</u>	<u>2,750</u>	<u>1,296,337</u>
Expenses and losses:				
Expenses:				
Program services	784,081			784,081
Administration	147,708			147,708
Fundraising	159,429			159,429
Total expenses	<u>1,091,218</u>			<u>1,091,218</u>
Bad debt loss		5,220		5,220
Total expenses and losses	<u>1,091,218</u>	<u>5,220</u>	<u>0</u>	<u>1,096,438</u>
Change in net assets	193,521	3,628	2,750	199,899
Transfers		(119)	119	0
Net assets, beginning of year, as restated - Note 12	<u>823,443</u>	<u>21,338</u>	<u>60,247</u>	<u>905,028</u>
Net assets, end of year	<u>\$ 1,016,964</u>	<u>\$ 24,847</u>	<u>\$ 63,116</u>	<u>\$ 1,104,927</u>

See Accompanying Notes.

YOUTH ON THEIR OWN
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2012

	Program services	General and adminis- trative	Fundraising	Total
Salaries and wages	\$ 165,051	\$ 59,604	\$ 29,892	\$ 254,547
Payroll taxes and benefits	15,550	7,484	2,878	25,912
	<u>180,601</u>	<u>67,088</u>	<u>32,770</u>	<u>280,459</u>
Advertising	6,004		11,264	17,268
Bank service charges	6,362	240		6,602
Conferences and meetings	125	1,132	286	1,543
Depreciation	3,687	1,331	668	5,686
Direct donor benefit costs			90,926	90,926
Dues and subscriptions		2,582	125	2,707
Equipment rental	5,047			5,047
In-kind expenses - Note 10	119,806	39,830	79,977	239,613
Insurance	9,838	1,774	611	12,223
Interest	7,966	937	469	9,372
Meals and entertainment	429	247	69	745
Miscellaneous	2,344	1,019	585	3,948
Postage and delivery	2,488	1,649	3,292	7,429
Printing and reproduction	841	1,171	19,861	21,873
Professional services	15,589	18,163	1,505	35,257
Repairs and maintenance	7,562	889	445	8,896
Stipends	327,583			327,583
Student events	3,276			3,276
Student special needs	58,403			58,403
Supplies	12,423	6,417	5,869	24,709
Telephone	4,371	99	165	4,635
Training and education	200	648	233	1,081
Travel	2,272	1,685	831	4,788
Utilities	6,864	807	404	8,075
Total expenses	<u>784,081</u>	<u>147,708</u>	<u>250,355</u>	<u>1,182,144</u>
Less direct donor benefit costs netted against special events revenue			(90,926)	(90,926)
Total functional expenses	<u>\$ 784,081</u>	<u>\$ 147,708</u>	<u>\$ 159,429</u>	<u>\$ 1,091,218</u>

See Accompanying Notes.

YOUTH ON THEIR OWN
STATEMENT OF CASH FLOWS
Year ended June 30, 2012

Cash flows from operating activities:	
Change in net assets	\$ 199,899
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	5,686
Unrealized (gains)	(75)
Change in value of beneficial interest in funds held by others	881
Bad debt (loss)	(5,220)
(Increase) decrease in operating assets:	
Grants receivable	77,201
Unconditional promises to give	(430)
Prepaid expenses and other assets	13,365
Increase (decrease) in operating liabilities:	
Accounts payable	(5,928)
Accrued expenses	(1,132)
Less contributions for long-term purposes	(2,750)
Net cash provided by operating activities	<u>281,497</u>
Cash flows from investing activities:	
Additions to beneficial interest in funds held by others	(2,500)
Distributions from beneficial interest in funds held by others	1,801
Purchases of property and equipment	(2,293)
Net cash (used in) investing activities	<u>(2,992)</u>
Cash flows from financing activities:	
Principal repayments on note payable	(6,624)
Contributions for long-term purposes	2,750
Net cash (used in) financing activities	<u>(3,874)</u>
Change in cash and cash equivalents	274,631
Cash and cash equivalents, beginning of year	<u>449,346</u>
Cash and cash equivalents, end of year	<u><u>\$ 723,977</u></u>
<u>Supplemental cash flow information:</u>	
Cash paid for interest	<u><u>\$ 9,372</u></u>
No cash paid for income taxes in 2012.	

See Accompanying Notes.

YOUTH ON THEIR OWN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – Organization

Youth on Their Own (YOTO) is an Arizona nonprofit corporation, incorporated in 1989 for the purpose of supporting high school graduation of homeless youth by providing financial assistance, basic needs and guidance. YOTO's support comes primarily from individual, business, foundation, church and service club contributions, as well as from various governmental agency grants. YOTO's primary program includes the two following components:

Student living expenses – Program activities include providing a monthly stipend for living assistance and providing basic needs from a bank of donated items.

Student special needs – Program activities include cash grants to meet individual needs, such as rent, utilities, health expenses, clothing and transportation.

NOTE 2 – Summary of significant accounting policies

Financial statement presentation

YOTO is required under generally accepted accounting principles to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Youth on Their Own considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. YOTO maintains its cash in bank deposit accounts, which, for short periods of time, may exceed federally insured limits. Uninsured cash totaled \$110,549 at June 30, 2012.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Receivables

Grants and accounts receivable and unconditional promises to give are stated at unpaid balances. Management believes all receivables are fully collectible and therefore no allowance for uncollectible accounts has been recorded. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is YOTO's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

YOUTH ON THEIR OWN
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2012

NOTE 2 – Summary of significant accounting policies - continued

Property and equipment

Purchased equipment is carried at cost. Donated equipment is carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, from 2 to 39 years. YOTO capitalizes all expenditures for equipment with a useful life of more than one year.

Advertising

Advertising costs are expensed as incurred.

Contributions/restricted revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Donated goods, facilities and services

Donated goods and facilities are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although YOTO may utilize the services of outside volunteers, the fair value of these services has not been recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

Expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income tax status

YOTO is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to YOTO's tax-exempt purpose may be subject to taxation as unrelated business income. In addition, YOTO qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(11) and is classified as an organization other than a private foundation under Section 509(a)(2).

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 710-10 (ASC 740-10), YOTO holds no uncertain tax positions and, therefore, has no policy for evaluating them. YOTO's Form 990, *Return of Organization Exempt from Income Taxes*, and Arizona Form 99, *Arizona Exempt Organization Annual Information Return*, are generally subject to examination by the IRS for three years and the Arizona Department of Revenue for four years, respectively, after the date the returns were filed.

YOUTH ON THEIR OWN
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2012

NOTE 2 – Summary of significant accounting policies – continued

Endowments

The Organizations' endowments consist of funds held at the Community Foundation for Southern Arizona (CFSA) and the Jewish Community Foundation (JCF). As required by generally accepted accounting principles, net assets associated with endowment funds (including funds designated by the Board of Directors to function as endowments) are classified and reported based on the existence or absence of donor-imposed restrictions.

During 2008, the State of Arizona adopted the Prudent Management of Institutional Funds Act (PMIFA) (the Act). The Board of Directors of the Organization has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Act.

In accordance with the Act, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

NOTE 3 – Fair value measurements and investments

Fair value measurements are determined based on the assumptions—referred to as inputs—that market participants would use in pricing the asset. A fair value hierarchy distinguishes between market participant assumptions and YOTO's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources; while unobservable inputs are YOTO's own assumptions about what market participants would assume based on the best information available in the circumstances.

Level 1 inputs. A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. The fair value of Youth on Their Own's publicly traded securities are determined by reference to quoted prices in active markets for identical assets and other relevant information generated by market transactions.

Level 2 inputs. These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. YOTO does not utilize Level 2 inputs.

Level 3 inputs. These inputs are unobservable and are used to measure fair value only when observable inputs are not available. Beneficial interest in funds held at CFSA and JCF are considered as valued based on Level 3 inputs, because the Organization owns units of pooled funds held at CFSA and JCF, and relies on those organizations to provide the value of those funds. At CFSA and JCF, these pooled investments are primarily held in marketable securities and are considered to be valued based on Level 1 inputs.

YOUTH ON THEIR OWN
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2012

NOTE 3 – Fair value measurements and investments - continued

Fair values of assets measured on a recurring basis at June 30, 2012 were as follows:

	Level 1	Level 3	Total
Marketable securities	\$ 770		\$ 770
Beneficial interest in funds held by others		\$ 66,835	66,835
	\$ 770	\$ 66,835	\$ 67,605

Activity in assets measured on a recurring basis using Level 3 inputs consisted of the following for the year ended June 30, 2012:

	Beginning balance	Additions	Investment (losses)	Appropri- ations	Ending Balance
Beneficial interest in funds held by others	\$ 67,017	\$ 2,500	\$ (881)	\$ (1,801)	\$ 66,835

Investment income for the year ended June 30, 2012 consisted of the following:

Interest and dividends	\$ 1,340
Change in value of beneficial interest in funds held by others	(881)
Unrealized gains	75
Total investment income	\$ 534

NOTE 4 – Unconditional promises to give

Unconditional promises to give of \$14,100 at June 30, 2012 are all due in the year ending June 30, 2013, are considered by management to be fully collectible and are included in temporarily restricted net assets as restricted for future periods.

NOTE 5 – Property and equipment

Property and equipment at June 30, 2012 consisted of the following:

Land	\$ 303,878
Buildings	165,909
Furniture and equipment	32,151
	501,938
Less accumulated depreciation	(71,894)
Total property and equipment	\$ 430,044

YOUTH ON THEIR OWN
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2012

NOTE 6 – Note payable

YOTO had a note payable at June 30, 2012, consisting of a note held by the family of a former board member, collateralized by real property. Monthly payments of \$1,333 include principal and interest at 6.15%. The note matures May 2014. Future minimum payments are as follows:

Year ending June 30, 2013	\$ 7,043
2014	141,733
	<u>\$ 148,776</u>

NOTE 7 – Temporarily restricted net assets

Temporarily restricted net asset activity was as follows during the year ended June 30, 2012:

	Beginning balance	Additions	Investment (losses)	Releases/ Appropriations	Transfers to corpus	Bad debt loss	Ending balance
Teen mothers	\$ 2,962						\$ 2,962
Restricted for future periods	8,450	\$ 23,985		\$ (13,115)		\$ (5,220)	14,100
Accumulated endowment earnings	9,926		\$ (221)	(1,801)	\$ (119)		7,785
	<u>\$ 21,338</u>	<u>\$ 23,985</u>	<u>\$ (221)</u>	<u>\$ (14,916)</u>	<u>\$ (119)</u>	<u>\$ (5,220)</u>	<u>\$ 24,847</u>

NOTE 8 – Permanently restricted net assets

Permanently restricted net assets consisted of the following at June 30, 2012:

Earnings temporarily restricted by law until appropriated by Board of Directors:	Beginning balance	Additions	Transfers	Ending balance
Fischmann endowment	\$ 20,298			\$ 20,298
Redding endowments	39,949	\$ 2,750	\$ 119	42,818
	<u>\$ 60,247</u>	<u>\$ 2,750</u>	<u>\$ 119</u>	<u>\$ 63,116</u>

NOTE 9 – Endowments

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature to be reported as of June 30, 2012 were \$2,516.

Return objectives and risk parameters

The Organization has no formally adopted investment policies for the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds.

YOUTH ON THEIR OWN
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2012

NOTE 9 – Endowments – continued

Investment strategies

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy

The Organization has two endowment funds held at CFSA and JCF, and has adopted the spending policy of those organizations for these funds. Accumulated earnings on these endowments are released as appropriations from temporarily restricted net assets when distributed by CFSA and JCF and the related restriction (if any) has been met.

Endowment fund net assets

Net assets in the endowment funds consisted of the following at June 30, 2012:

	Unrestricted (deficiency)	Temporarily restricted	Permanently restricted	Total
Beginning balance	\$ (1,856)	\$ 9,926	\$ 60,247	\$ 68,317
Contributions			2,750	2,750
Change in value of beneficial interest in funds held by others	(660)	(221)		(881)
Appropriations		(1,801)		(1,801)
Distributions transferred to corpus		(119)	119	0
Ending balance	<u>\$ (2,516)</u>	<u>\$ 7,785</u>	<u>\$ 63,116</u>	<u>\$ 68,385</u>

See Note 7 for endowment related activities in temporarily restricted net assets, and Note 8 for endowment related activities in permanently restricted net assets.

NOTE 10 – In-kind donations

In-kind revenues consisted of the following for the year ended June 30, 2012:

Advertising	\$ 79,552
Printing and reproduction	3,368
Professional services	33,835
Repairs and maintenance	4,321
Special needs	109,794
Supplies	8,743
	<u>\$ 239,613</u>

YOUTH ON THEIR OWN
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2012

NOTE 11 – Operating leases

Youth on Their Own leases office equipment under a noncancelable operating lease expiring in February 2013. Rental expense for this lease totaled \$5,047 for the year ended June 30, 2012. Future minimum payments of \$3,653 are due in the year ending June 30, 2013 under the operating lease.

NOTE 12 – Prior period adjustment

During the year ended June 30, 2012, the following errors were corrected:

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance at June 30, 2011, as originally stated	\$ 831,365	\$ 2,962	\$ 0	\$ 834,327
Reclassification	(8,450)	8,450		0
Overstatement of accumulated depreciation	3,684			3,684
Understatement of beneficial interest in funds held by others and endowments	(3,156)	9,926	60,247	67,017
Balance at June 30, 2011, as restated	<u>\$ 823,443</u>	<u>\$ 21,338</u>	<u>\$ 60,247</u>	<u>\$ 905,028</u>

NOTE 11 – Subsequent events

Subsequent events have been evaluated through October 24, 2012, which is the date the financial statements were available to be issued.