

YOUTH QUEST, INC.

Durham, North Carolina

REVIEWED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

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ACCOUNTANT'S REVIEW REPORT

Board of Directors
Youth Quest, Inc.
Durham, North Carolina

We have reviewed the accompanying statement of financial position of Youth Quest, Inc. as of December 31, 2009, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Youth Quest, Inc.

A review consists principally of inquiries of Organization personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

As discussed in the Going Concern footnote, certain conditions indicate that the Organization may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments to the financial statements that might be necessary should the Organization be unable to continue as a going concern.



Chapel Hill, North Carolina
August 16, 2011

YOUTH QUEST, INC.

STATEMENT OF FINANCIAL POSITION

EXHIBIT A

December 31, 2009

ASSETS**CURRENT ASSETS:**

Cash and cash equivalents	\$ 22,680
Accounts receivable	16,582
Other assets	6,781

TOTAL CURRENT ASSETS	<u>46,043</u>
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PROPERTY AND EQUIPMENT:

Furniture and fixtures	15,443
Computer equipment	5,544
Office equipment	2,000
Less: accumulated depreciation	<u>(16,673)</u>

TOTAL PROPERTY AND EQUIPMENT, NET	<u>6,314</u>
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TOTAL ASSETS	<u><u>\$ 52,357</u></u>
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LIABILITIES AND NET DEFICIT**CURRENT LIABILITIES:**

Accounts payable	\$ 13,861
Accrued expenses	104,403
Due to member	<u>20,899</u>

TOTAL CURRENT LIABILITIES	<u>139,163</u>
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NET DEFICIT:

Unrestricted	<u>(86,806)</u>
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TOTAL LIABILITIES AND NET DEFICIT	<u><u>\$ 52,357</u></u>
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YOUTH QUEST, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

EXHIBIT B

For the Year Ended December 31, 2009

UNRESTRICTED NET ASSETS:**Unrestricted Support and Revenue:**

Medicaid revenues	\$ 254,773
Grants and contracts	50,739
Contributions	<u>25,500</u>

Total Unrestricted Support and Revenue	<u>331,012</u>
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Expenses:

Program services	272,535
Management and general	<u>110,058</u>

Total Expenses	<u>382,593</u>
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CHANGES IN NET ASSETS BEFORE INTEREST INCOME	(51,581)
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Interest income	<u>7</u>
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CHANGES IN NET ASSETS	(51,574)
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NET DEFICIT - BEGINNING OF YEAR	<u>(35,232)</u>
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NET DEFICIT - END OF YEAR	<u><u>\$ (86,806)</u></u>
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YOUTH QUEST, INC.

STATEMENT OF FUNCTIONAL EXPENSES

EXHIBIT C

For the Year Ended December 31, 2009

	Quest Residential Treatment	Therapeutic Family Service Program	Total Program Services	Management and General	Totals
Salaries and wages	\$ 154,844	\$ 11,640	\$ 166,484	\$ 31,814	\$ 198,298
Rent	29,225	-	29,225	24,475	53,700
Stipends	-	24,774	24,774	-	24,774
Benefits	13,959	1,049	15,008	2,868	17,876
Payroll taxes	11,880	893	12,773	2,441	15,214
Repairs and maintenance	3,147	-	3,147	8,237	11,384
Utilities	7,504	-	7,504	3,216	10,720
Food	8,392	-	8,392	-	8,392
Supplies	-	-	-	7,570	7,570
Insurance	-	-	-	7,453	7,453
Travel	3,210	-	3,210	803	4,013
Professional fees	-	-	-	3,963	3,963
Interest	-	-	-	3,553	3,553
Miscellaneous	135	-	135	3,108	3,243
License and accreditation	-	-	-	2,881	2,881
Penalties and fees	-	-	-	2,857	2,857
Depreciation	-	-	-	2,375	2,375
Training and conferences	1,882	-	1,882	471	2,353
Taxes	-	-	-	611	611
Recruiting and retaining	-	-	-	500	500
Advertising	-	-	-	449	449
Postage and delivery	-	-	-	414	414
TOTAL EXPENSES	\$ 234,179	\$ 38,356	\$ 272,535	\$ 110,058	\$ 382,593

YOUTH QUEST, INC.

STATEMENT OF CASH FLOWS

EXHIBIT D

For the Year Ended December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	\$ (51,574)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	2,375
Increase in cash arising from changes in assets and liabilities:	
Accounts receivable	21,331
Other assets	1,409
Accounts payable	4,979
Accrued expenses	30,398
Due to member	7,806
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NET CASH PROVIDED BY OPERATING ACTIVITIES	16,724
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NET INCREASE IN CASH AND CASH EQUIVALENTS	16,724
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	5,956
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CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 22,680
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SUPPLEMENTAL INFORMATION:	
Cash paid for interest	\$ 3,553
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YOUTH QUEST, INC.**NOTES TO FINANCIAL STATEMENTS**

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NATURE OF ACTIVITIES

Youth Quest, Inc. (the "Organization") is a nonprofit organization whose mission is to give at-risk youth with mental illness or various behavioral and emotional problems the potential for success. This is done by assisting them with a stable treatment home and family, an exemplary helping staff, and a broader base of life-enhancing skills that enable them to live more productive lives, and in turn provide more healthy and functional homes for the community tomorrow.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Basis of Accounting.**

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

The Organization reports gifts of cash and other assets as 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 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.

B. Cash and Cash Equivalents.

Cash and cash equivalents include cash, checking, and money market accounts. At December 31, 2009, the Organization had no deposits in excess of federally insured amounts.

C. Accounts Receivable.

The Company provides an allowance for doubtful accounts equal to the estimated losses that are expected to be incurred in their collection. The allowance is based on historical collection experience and a review of the current status of the existing receivables. Based on past collection experience and the composition of existing receivables, management views current receivables to be fully collectible. Therefore, no provision for uncollectible accounts has been made.

YOUTH QUEST, INC.

NOTES TO FINANCIAL STATEMENTS

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Promises to Give.

Unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses, depending on the form of benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

E. Property and Equipment.

All property and equipment acquisitions are recorded at cost if purchased, and fair market value on the date of the gift if donated. It is the Organization's policy to capitalize items with a cost or fair market value in excess of \$500. Depreciation is provided using the straight-line method over a five to seven year period.

F. Advertising Costs.

Advertising costs are expensed as incurred.

G. 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 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. Accordingly, actual results could differ from those estimates.

H. Income Tax.

The Organization is exempt from income tax as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, and is defined as other than a private foundation under Section 509(a).

The Organization adopted FASB Accounting Standards Codification 740 (FASB ASC 740), *Accounting for Income Taxes*, as of January 1, 2009. Under FASB ASC 740, the Organization will reflect in the financial statements the benefit of positions taken in a previously filed tax return or expected to be taken in a future tax return only when it is considered 'more-likely-than-not' that the position taken will be sustained by a taxing authority. The Organization evaluates its uncertain tax positions using provisions of FASB ASC 450, *Contingencies*. Accordingly, a loss contingency is recognized when it is

YOUTH QUEST, INC.

NOTES TO FINANCIAL STATEMENTS

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Income Tax (Continued).

probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

If applicable, penalties and interest assessed by income taxing authorities are included as expenses in the statement of activities. Under the statute of limitations, the federal informational returns of the Organization for 2006, 2007, and 2008, are subject to examination by the Internal Revenue Service. Management evaluated tax positions for the 2006, 2007, and 2008 returns and concluded that there are no uncertain tax positions and believes there is no income tax affect on the financial statements.

I. Functional Allocation of Expenses.

The costs of providing the program and supporting services of the Organization have been summarized on a functional basis in the statement of functional expenses. Certain costs have been allocated on the basis of estimates made by the Organization's management.

RELATED PARTIES

The founders of Youth Quest, Inc., have several related party transactions, including personal loans to the Organization and unpaid salaries due to cash flow constraints. The balances for such personal loans and unpaid salaries total \$13,049 and \$103,000, respectively, at December 31, 2009. The Organization pays \$3,500 per month for rental of a group home which is owned by the founders. In addition, the Organization pays \$300 per month to rent the office space of the personal home office used by the Executive Director and \$75 per month for storage of archived medical records at the director's residence. There is also an employee benefit account which is solely used to provide fringe benefits to the Executive Director, which includes day care and house cleaning.

YOUTH QUEST, INC.

NOTES TO FINANCIAL STATEMENTS

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OPERATING LEASES

The Organization leases a group home under an agreement which expires January 2010, with total monthly rent of \$3,500. The Organization also leases home office and storage space under an agreement that expires January 2010, with total monthly rent of \$375. In addition, the Organization leases office space for administrative purposes under an agreement which expires August 2011, with total monthly rent of \$600. Total rental expense for the year ended December 31, 2009, was \$53,700.

Future minimum lease payments are as follows:

Year Ending December 31,	Amount
2010	\$ 7,200
2011	4,200
	<u>\$ 11,400</u>

SUBSEQUENT EVENTS

The group home rental agreement was renewed as of January 2010 through January 2014, with total monthly rent remaining at \$3,500. The home office and storage space agreement was not renewed in January 2010.

Due to the state budget agenda to close the majority of Level III residential treatment facilities, the Organization opted to terminate admissions to the Quest as of January 31, 2010.

Management has evaluated subsequent events for recognition or disclosure through the date the financial statements were issued, and determined there were no other subsequent events that required disclosure.

GOING CONCERN

As shown in the accompanying financial statements, the Organization incurred a change in net assets of (\$51,574) during the year ended December 31, 2009, and as of that date, the Organization's total liabilities exceed total assets by \$86,806. These factors, as well as the uncertain environment in regard to mental health funding, create an uncertainty about the Organization's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Organization is unable to continue as a going concern.

YOUTH QUEST, INC.

NOTES TO FINANCIAL STATEMENTS

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GOING CONCERN (CONTINUED)

As disclosed above, the Organization terminated admissions to the Quest in early 2010. As a result of the termination of the Level III residential treatment facility, the Quest was converted over to a Level II therapeutic foster home and will remain a therapeutic foster home until a decision is made for the future of the Quest. It is anticipated that this home will remain a therapeutic foster care home throughout the remainder of 2010 and 2011.

The Organization's therapeutic foster care program has grown from approximately one client per month to approximately nine clients during 2010. This program continues to have high demand on the budget agenda for the state and new homes are in the process of licensure. While funding has continued to decline with inflation for the past twenty years, legislation is in review with the state to modify this program's clinical credentials which will provide more adequate funding in 2011.

The Organization received endorsement from the Durham Center, a local mental health management entity, to become an intensive in-home provider for Medicaid in June 2010. The application has been submitted to North Carolina State Medicaid and is pending approval by the state. The Organization expects to launch this program in the spring of 2011 if additional start-up grants funds can be obtained.

The Organization applied to become an outpatient behavioral health group in November 2009. This application to North Carolina Medicaid is still pending, but is expecting approval in the fall of 2010. This will allow the Organization to have internal licensed clinical social workers to provide out-patient therapy, comprehensive clinical assessments, and case management services.

The Organization became nationally accredited with the Council on Accreditation on July 20, 2010.

In 2010, the Organization made a major shift from a primarily staff run board to a primarily community volunteer organizing board. The goal for this board is to transition from an organizing board to a fully governing board.