

**Orchard Place and Orchard Place Foundation  
Des Moines, Iowa**

**CONSOLIDATED FINANCIAL REPORT**

**June 30, 2007**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Orchard Place and Orchard Place Foundation  
Des Moines, Iowa

We have audited the accompanying consolidated statement of financial position of Orchard Place and Orchard Place Foundation as of June 30, 2007, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of Orchard Place and Orchard Place Foundation's management. Our responsibility is to express an opinion on these consolidated 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 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orchard Place and Orchard Place Foundation as of June 30, 2007 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2007 on our consideration of Orchard Place and Orchard Place Foundation'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements of Orchard and Orchard Place Foundation taken as a whole. The supplementary information, including the accompanying schedule of expenditures of federal awards required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*Denman & Company, LLP*  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
September 19, 2007

**ORCHARD PLACE AND ORCHARD PLACE FOUNDATION**

Consolidated Statement of Financial Position

June 30, 2007

**Assets**

Current assets:	
Cash	\$ 293,964
Receivables:	
Patient receivables, net of allowance for contractual adjustments and uncollectibles of \$439,414	2,039,299
Contributions receivable, net	32,441
Other receivables	42,648
Total receivables	<u>2,114,388</u>
Prepaid expenses and inventories	37,591
Total current assets	<u>2,445,943</u>
Investments	875,362
Interest in the net assets of the Greater Des Moines Community Foundation	5,959,413
Beneficial interest in assets held by the Greater Des Moines Community Foundation	20,376
Property and equipment:	
Land and land improvements	1,699,195
Buildings and leasehold improvements	10,906,950
Equipment and furniture	1,491,855
Computer hardware and software	1,020,254
Vehicles	154,090
Total property and equipment	<u>15,272,344</u>
Accumulated depreciation and amortization	7,089,971
Net property and equipment	<u>8,182,373</u>
Assets held in trust by others	<u>234,000</u>
Total assets	<u><u>\$ 17,717,467</u></u>

**Liabilities and Net Assets**

Current liabilities:	
Line of credit	\$ 220,000
Current maturities of capital lease obligations	17,410
Accounts payable and accrued expenses	961,708
Total current liabilities	<u>1,199,118</u>
Capital lease obligations	65,982
Total liabilities	<u>1,265,100</u>
Net assets:	
Unrestricted, including \$8,098,981 net investment in plant	14,829,335
Temporarily restricted	1,078,236
Permanently restricted	544,796
Total net assets	<u>16,452,367</u>
Commitments and contingencies	
Total liabilities and net assets	<u><u>\$ 17,717,467</u></u>

See accompanying notes to the consolidated financial statements.

**ORCHARD PLACE AND ORCHARD PLACE FOUNDATION**

Consolidated Statement of Activities

Year ended June 30, 2007

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Operating revenue and support:				
Net patient service revenue, contracts and grants	\$ 13,744,366	\$ —	\$ —	\$ 13,744,366
Public support	1,233,910	—	—	1,233,910
Contributions, memorials, and fundraisers, net	101,545	328,086	20,000	449,631
Other revenue	198,052	—	—	198,052
Total operating revenue and support	15,277,873	328,086	20,000	15,625,959
Net assets released from restrictions - satisfaction of program restrictions				
	446,367	(446,367)	—	—
Total operating revenue, support and net asset transfers	15,724,240	(118,281)	20,000	15,625,959
Operating expenses:				
Program services:				
Orchard Place Campus	6,303,860	—	—	6,303,860
PACE Juvenile Center	2,753,572	—	—	2,753,572
Child Guidance Center	5,679,167	—	—	5,679,167
Total program services	14,736,599	—	—	14,736,599
Administrative services	1,200,798	—	—	1,200,798
Fundraising	428,334	—	—	428,334
Total operating expenses	16,365,731	—	—	16,365,731
Change in net assets from operating activities	(641,491)	(118,281)	20,000	(739,772)
Nonoperating activities:				
Investment income, net	706,559	143,194	—	849,753
Change in the value of assets held in trust by others	—	15,000	—	15,000
Other nonoperating expense, net	(6,836)	—	—	(6,836)
Net assets released from restrictions - property and equipment	106,988	(106,988)	—	—
Change in net assets from nonoperating activities	806,711	51,206	—	857,917
Change in net assets	165,220	(67,075)	20,000	118,145
Net assets at beginning of year	14,664,115	1,145,311	524,796	16,334,222
Net assets at end of year	\$ 14,829,335	\$ 1,078,236	\$ 544,796	\$ 16,452,367

See accompanying notes to the consolidated financial statements.

**ORCHARD PLACE AND ORCHARD PLACE FOUNDATION**

Consolidated Statement of Functional Expenses

Year ended June 30, 2007

	<b>Orchard Place Campus</b>	<b>PACE Juvenile Center</b>	<b>Child Guidance Center</b>	<b>Administrative Services</b>	<b>Fundraising</b>	<b>Total Expenses</b>
Salaries	\$ 4,083,629	\$ 1,929,575	\$ 3,370,650	\$ 698,023	\$ 271,090	\$ 10,352,967
Employee benefits	416,643	194,899	297,360	69,777	18,432	997,111
Payroll taxes and insurance	<u>328,493</u>	<u>159,157</u>	<u>263,668</u>	<u>53,977</u>	<u>20,997</u>	<u>826,292</u>
Total payroll expenses	4,828,765	2,283,631	3,931,678	821,777	310,519	12,176,370
Professional fees and contract labor	235,012	20,548	119,727	56,255	37,138	468,680
Recruiting	23,023	3,993	9,912	8,711	2,790	48,429
Accreditation	1,782	230	731	10,412	—	13,155
Information technology	7,466	1,482	19,340	110,033	4,812	143,133
Food	244,836	15,184	7,698	1,511	—	269,229
Office supplies	14,969	7,311	20,737	5,655	3,086	51,758
Medical and psychological supplies	6,496	1,832	16,072	—	—	24,400
Telephone	33,464	42,076	22,537	12,109	1,151	111,337
Postage	8,826	2,101	14,871	7,475	2,679	35,952
Building/grounds maint. and supplies	113,351	14,668	17,255	2,832	606	148,712
Cleaning	28,774	26,727	19,971	2,980	450	78,902
Utilities	153,791	50,949	53,213	11,441	2,304	271,698
Security services	49,652	—	1,749	459	85	51,945
General insurance	64,521	28,485	48,056	15,775	1,971	158,808
Rent	580	11,470	12,306	2,826	1,448	28,630
Interest	—	—	—	4,589	—	4,589
Educational assistance	—	—	—	8,863	—	8,863
Printing	3,015	12,048	10,065	1,110	24,213	50,451
Newsletter	—	—	16,782	—	—	16,782
Transportation and travel	21,819	50,825	50,228	14,866	1,436	139,174
Staff development and recognition	17,276	6,340	101,734	5,996	3,571	134,917
Contracted trainings	—	—	81,122	—	—	81,122
Training/home consulting supplies	—	374	84,881	—	—	85,255
Provider incentives and stipends	3,600	—	595,966	—	—	599,566
Area office payments	—	—	245,429	—	—	245,429
Business meetings	57	1,379	2,879	2,700	3,533	10,548
Dues and subscriptions	2,250	488	1,757	932	450	5,877
Client expenses	14,026	2,873	962	—	—	17,861
Recreation	28,317	11,235	3,614	—	—	43,166
Bad debt expense	31,039	13,796	40,511	—	—	85,346
Work studies payments	8,629	1,763	—	—	—	10,392
Memberships	898	600	10,402	8,785	1,135	21,820
Equipment	8,693	1,229	1,816	746	336	12,820
Equipment maintenance	47,426	22,771	19,553	4,292	1,168	95,210
Copier contracts	6,301	1,409	8,045	928	9,478	26,161
Advertising and marketing	1,611	792	17,127	780	50	20,360
Volunteer expenses	—	—	—	—	793	793
Other fundraising expenses	—	—	—	—	6,216	6,216
Miscellaneous	1,382	1,029	676	236	279	3,602
Depreciation and amortization	292,213	113,934	69,765	75,724	6,637	558,273
Total expenses	<u>\$ 6,303,860</u>	<u>\$ 2,753,572</u>	<u>\$ 5,679,167</u>	<u>\$ 1,200,798</u>	<u>\$ 428,334</u>	<u>\$ 16,365,731</u>

See accompanying notes to the consolidated financial statements.

## ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

### Consolidated Statement of Cash Flows

Year ended June 30, 2007

Cash flows from operating activities:	
Change in net assets	\$ 118,145
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	558,273
Loss on sales of property and equipment	837
Realized gains on sales of investments	(738,292)
Unrealized losses on investments	56,935
Change in the value of assets held in trust by others	(15,000)
Non cash contributions	(7,638)
Change in:	
Patient receivables, net	(684,726)
Contributions receivable, net	136,230
Other receivables	(14,947)
Prepaid expenses and inventories	3,631
Accounts payable and accrued expenses	<u>167,866</u>
Net cash used in operating activities	<u>(418,686)</u>
Cash flows from investing activities:	
Purchase of property and equipment	(292,472)
Proceeds from sale of property and equipment	6,759
Purchase of investments and assets held by the Greater Des Moines Community Foundation	(7,787,298)
Proceeds from sale of investments	<u>7,947,358</u>
Net cash used in investing activities	<u>(125,653)</u>
Cash flows from financing activities:	
Net proceeds from line of credit	220,000
Payments on capital lease agreements	<u>(26,472)</u>
Net cash provided by financing activities	<u>193,528</u>
Net decrease in cash	(350,811)
Cash at beginning of year	<u>644,775</u>
Cash at end of year	<u>\$ 293,964</u>
Supplemental schedule of cash flow information:	
Cash paid for interest	<u>\$ 4,589</u>
Non cash contributions	<u>\$ 7,638</u>
Capital lease obligation incurred in the purchase of property and equipment	<u>\$ 94,447</u>

See accompanying notes to the consolidated financial statements.

**Orchard Place and Orchard Place Foundation**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The consolidated financial statements include Orchard Place (the Organization) and Orchard Place Foundation (the Foundation), both private non-profit organizations organized under the laws of the State of Iowa. The Organization was founded in 1886 and is accredited through The Joint Commission. It provides a continuum of services to children with mental and behavioral health problems through its three divisions:

- Orchard Place Campus: This division provides 24-hour inpatient care to children needing intensive treatment related to a mental illness. It offers an individualized treatment program including individual and family psychotherapy, social skills building, and life skills training.
- PACE Juvenile Center: This division is designed to meet the needs of at-risk youth who have been unable to attain success in their school or community. It serves these youth and families by providing community-based services, which develop social, academic, and functional life skills, allowing for positive growth of youth and their families.
- Child Guidance Center: This division promotes community mental health through multiple professional services to children and their families and to those persons and organizations influential in the emotional development and well being of children. It is accredited as a Community Mental Health Center. Outpatient and day treatment services are provided by a multi-disciplined staff in the fields of child psychiatry, clinical psychology, clinical social work, nursing, and child development. Child care resource and referral services are also offered.

The Foundation exists primarily for the benefit of the Organization in carrying out its charitable purposes through the receipt and management of gifts, grants and special events revenue.

The Organization and the Foundation are exempt from income taxes under Section 501(a) of the Internal Revenue Code as nonprofit corporations as described in Section 501(c)(3). All significant intercompany transactions between the Organization and the Foundation have been eliminated.

**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.

**Basis of Presentation**

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

- Unrestricted net assets – net assets that are not subject to donor-imposed stipulations;
- Temporarily restricted net assets – net assets that are subject to donor-imposed stipulations that may or will be met either by the actions of the Organization and/or the passage of time; and
- Permanently restricted net assets – net assets that are subject to donor-imposed stipulations that they be maintained permanently. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

**Orchard Place and Orchard Place Foundation**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. 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 statements of activities as net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

**Donated Services**

The value of donated services is not recognized in the accompanying consolidated financial statements because no objective basis is available to measure the value of such services. It should be noted that a number of volunteers donated time to fundraising and mentoring services.

**Investments and Assets Transferred to the Greater Des Moines Community Foundation**

Investments are carried at fair value, with gains and losses resulting from market fluctuations recognized in the period in which the fluctuations occur. Investment income is reported as an increase or decrease in unrestricted net assets, unless the use of the assets is restricted by the donor.

**Property and Equipment**

Property and equipment acquisitions are recorded at cost or, if received by gift, are carried at fair value on the date received. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

Gifts of long-lived assets such as land, buildings, or equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

**Assets Held in Trust by Others**

Assets held in trust by others are carried at fair value and include \$234,000 in a charitable remainder trust. Changes in value resulting from market fluctuations and earnings or losses are recognized in the period in which the changes occur, in the net asset class stipulated by the donor.

**Net Patient Service Revenue**

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others 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, if determinable and adjusted in future periods as final settlements are determined.

**Orchard Place and Orchard Place Foundation**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 BUSINESS AND CREDIT CONCENTRATIONS**

The Organization provides services in the central Iowa area and received approximately \$10,884,037 from the Department of Human Services (the Department) during the year ended June 30, 2007. Services provided are primarily through per diem and purchase of service agreements. At June 30, 2007, the Organization had accounts receivable from the Department of \$1,397,129. Future agreements with the Department are generally dependent upon appropriations by the state legislature.

**NOTE 3 CONTRIBUTIONS RECEIVABLE**

Contributions receivable at June 30, 2007 consisted of unconditional promises expected to be collected in less than one year, net of an allowance for doubtful accounts of \$3,333.

In April 2007, the Foundation received from a donor a conditional promise to give for \$165,000. The conditional promise to give is dependent upon the Foundation raising an equal amount of matching funds for a building renovation campaign and thus has not been recorded in the consolidated financial statements. The Foundation expects to meet this condition during the year ending June 30, 2008.

**NOTE 4 INVESTMENTS**

At June 30, 2007, investments included the following:

Domestic equity	\$429,117
International equity	143,070
Cash and cash equivalents	<u>303,175</u>
Total investments	<u>\$875,362</u>

**NOTE 5 ASSETS TRANSFERRED TO THE GREATER DES MOINES COMMUNITY FOUNDATION**

The Organization transferred assets to the Greater Des Moines Community Foundation (GDMCF), specifying itself as beneficiary, under two types of agreements.

Amounts reported in the consolidated statement of financial position as interest in the net assets of the Greater Des Moines Community Foundation represent the net cumulative transfers by the Organization to GDMCF, as well as earnings net of disbursements. Distributions are to be made in accordance with the "spending formula" adopted by GDMCF's Board of Directors, currently 5% of the fund balance as of December 31<sup>st</sup> of the previous year. Distributions in excess of net income may be made in order to make a distribution in accordance with the spending formula. The Organization may request distributions of net income in excess of the spending formula distributions, administrative fees and direct expenses. The GDMCF Board of Directors shall make additional distributions in excess of amounts determined under the spending formula, up to 100% of the fund, pursuant to requests by the Organization. GDMCF has been granted variance power over the assets.

Amounts reported in the consolidated statement of financial position as beneficial interest in assets held by the Greater Des Moines Community Foundation represent the net cumulative transfers by the Organization to GDMCF, as well as earnings net of disbursements. These funds were established under the Endow Iowa provisions of the

**Orchard Place and Orchard Place Foundation**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 ASSETS TRANSFERRED TO THE GREATER DES MOINES COMMUNITY FOUNDATION (continued)**

Code of Iowa. Distributions of up to but not exceeding 5% of the fund balance as of December 31<sup>st</sup> of the previous year may be made each year. Net income in excess of the distributions, administrative fees and direct expenses will be added to the fund principal. GDMCF has been granted variance power over the assets.

The assets transferred to GDMCF are invested in a pooled endowment at the direction of GDMCF's Investment Committee. The investment allocation at June 30, 2007 was as follows:

Domestic equity	39.8%
International equity	24.1
Fixed income	15.1
Cash and cash equivalents	.3
Hedge fund of funds	10.4
Real assets	9.3
Private equity	<u>1.0</u>
Total	<u>100.0%</u>

**NOTE 6 INVESTMENT INCOME**

For the year ended June 30, 2007, investment income included the following:

Interest and dividends	\$190,071
Realized gains (losses)	738,292
Unrealized gains (losses)	(56,935)
Investment expenses	<u>(21,675)</u>
Total investment income, net	<u>\$849,753</u>

**NOTE 7 LINE OF CREDIT**

At June 30, 2007, the Organization had a \$700,000 line of credit with Bankers Trust Company (the Bank), maturing November 28, 2007. Interest is payable monthly at the three month London Interbank Offered Rate (LIBOR) plus 1.25 percent, which totaled 6.61 percent at June 30, 2007. There was a balance of \$220,000 outstanding under this line of credit at June 30, 2007.

The line of credit is guaranteed by the Foundation. The guarantee is unsecured; however, the Foundation is not allowed to pledge or encumber any of its assets except as disclosed and consented to by the Bank. The debt is secured by a first security interest in all the Organization's assets including but not limited to accounts receivable, inventory, equipment, machinery, and general intangibles. The line of credit agreement contains a number of covenants regarding operations of the Organization. The Organization is in substantial compliance with those covenants at June 30, 2007.

**Orchard Place and Orchard Place Foundation**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 OBLIGATIONS UNDER CAPITAL LEASES**

During the year ended June 30, 2007, the Organization paid off its capital lease for copy machines and entered into a new agreement to lease eleven new copy machines under a master capital lease. The obligation under this capital lease has been recorded in the accompanying financial statements at the present value of future minimum payments discounted at the interest rate implicit in the lease of 5.87 percent. The aggregate requirement on the obligation under capital lease for the year ending June 30, 2007 is \$94,640. This amount includes interest totaling \$11,248, resulting in a net principal balance outstanding of \$83,392.

Assets under capital leases totaled \$94,447 at June 30, 2007 and are included in "Equipment and furniture" on the consolidated statement of financial position. Accumulated amortization on the leased equipment was \$11,019 at June 30, 2007. The amount included for amortization of leased equipment financed by the above lease and the prior lease for the year ended June 30, 2007 was \$20,513. The related interest expense for the year ended June 30, 2007 was \$3,859.

**NOTE 9 NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30, 2007:

Educational activities	\$ 78,211
Aliber House fund	152,475
Charitable remainder trust	234,000
Capital improvements	35,814
Child Guidance Center	227,829
Recreational and summer programming	131,476
Hansell scholarship fund	71,189
Club Chris greenhouse	16,665
Other programs	<u>130,577</u>
Total temporarily restricted net assets	<u>\$1,078,236</u>

Permanently restricted net assets are available for the following purposes at June 30, 2007:

Educational activities	\$283,770
Aliber House fund	241,026
General support	<u>20,000</u>
Total permanently restricted net assets	<u>\$544,796</u>

**NOTE 10 RETIREMENT PLANS**

The Organization participates in a multiemployer defined benefit plan sponsored by the United Way of Central Iowa. The plan provides defined benefits to all employees age 21 or older with one year of service in which the employee is credited with at least 1,000 hours of service. Effective July 1, 2001, an amendment was made to the plan reducing the accrued benefit calculation for non-grandfathered employees from 1.8 percent to 1.0 percent of average compensation as determined by the plan agreement. Maximum accrual service was also increased from 25 years to 30 years for these non-grandfathered employees. No changes were made to the plan for employees who met all the requirements for grandfathering at June 30, 2001. Amounts charged to pension cost and contributed to the plan totaled \$145,854 for the year ended June 30, 2007.

**Orchard Place and Orchard Place Foundation**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 RETIREMENT PLANS (continued)**

The Organization participates in a defined contribution retirement plan sponsored by the United Way of Central Iowa. Eligible employees are allowed to make contributions of pre-tax compensation into the plan. The Organization may make matching and/or discretionary contributions, subject to certain restrictions. During the year ended June 30, 2007, the Organization made contributions to the plan totaling \$128,816.

**NOTE 11 RENT EXPENSE**

Effective July 1, 2004, the Child Guidance Center division occupies a building situated on land leased through a long-term ground lease ending April 30, 2058. Payments are based on 6 percent of the appraised value of the land adjusted at various points during the term of the lease and are payable monthly. Future minimum payments under the ground lease based on the current appraised value of the land total as follows: 2008: \$14,130; 2009: \$14,130; 2010: \$14,130; 2011: \$14,130; 2012: \$14,130; and later years: \$647,625.

**NOTE 12 MALPRACTICE CLAIMS**

The Organization is insured for protection against liability claims resulting from professional services provided or which should have been provided. Umbrella coverage limits are \$2,000,000 per occurrence and \$2,000,000 in the aggregate, with underlying professional liability coverage of \$1,000,000 per claim and \$3,000,000 in the aggregate.

Presently no claims alleging malpractice have been asserted against the Organization. However, incidents occurring through June 30, 2007 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

## ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

## Consolidating Statement of Financial Position

June 30, 2007

Assets	<u>Orchard Place</u>	<u>Orchard Place Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Current assets:				
Cash	\$ 84,884	\$ 209,080	\$ —	\$ 293,964
Receivables:				
Patient receivables, net	2,039,299	—	—	2,039,299
Contributions receivable, net	—	32,441	—	32,441
Other receivables	79,551	42,648	(79,551) (1)	42,648
Total receivables	<u>2,118,850</u>	<u>75,089</u>	<u>(79,551)</u>	<u>2,114,388</u>
Prepaid expenses and inventories	34,166	3,425	—	37,591
Total current assets	<u>2,237,900</u>	<u>287,594</u>	<u>(79,551)</u>	<u>2,445,943</u>
Investments	—	875,362	—	875,362
Interest in the net assets of the Greater Des Moines Community Foundation	—	5,959,413	—	5,959,413
Beneficial interest in assets held by the Greater Des Moines Community Foundation	—	20,376	—	20,376
Property and equipment:				
Land and land improvements	1,699,195	—	—	1,699,195
Buildings and leasehold improvements	10,906,950	—	—	10,906,950
Equipment and furniture	1,491,855	—	—	1,491,855
Computer hardware and software	987,156	33,098	—	1,020,254
Vehicles	154,090	—	—	154,090
Total property and equipment	<u>15,239,246</u>	<u>33,098</u>	<u>—</u>	<u>15,272,344</u>
Accumulated depreciation and amortization	<u>7,065,162</u>	<u>24,809</u>	<u>—</u>	<u>7,089,971</u>
Net property and equipment	<u>8,174,084</u>	<u>8,289</u>	<u>—</u>	<u>8,182,373</u>
Assets held in trust by others	—	234,000	—	234,000
Total assets	<u>\$ 10,411,984</u>	<u>\$ 7,385,034</u>	<u>\$ (79,551)</u>	<u>\$ 17,717,467</u>
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Line of credit	\$ 220,000	\$ —	\$ —	\$ 220,000
Current maturities of capital lease obligations	17,410	—	—	17,410
Accounts payable and accrued expenses	959,081	82,178	(79,551) (1)	961,708
Total current liabilities	<u>1,196,491</u>	<u>82,178</u>	<u>(79,551)</u>	<u>1,199,118</u>
Capital lease obligations	65,982	-	—	65,982
Total liabilities	<u>1,262,473</u>	<u>82,178</u>	<u>(79,551)</u>	<u>1,265,100</u>
Net assets:				
Unrestricted	9,149,511	5,679,824	—	14,829,335
Temporarily restricted	—	1,078,236	—	1,078,236
Permanently restricted	—	544,796	—	544,796
Total net assets	<u>9,149,511</u>	<u>7,302,856</u>	<u>—</u>	<u>16,452,367</u>
Commitments and contingencies				
Total liabilities and net assets	<u>\$ 10,411,984</u>	<u>\$ 7,385,034</u>	<u>\$ (79,551)</u>	<u>\$ 17,717,467</u>

## Eliminating entries:

(1) To eliminate the intercompany payable and receivable balance

See accompanying notes to the consolidated financial statements.

## ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

## Consolidating Statement of Activities

Year ended June 30, 2007

	Unrestricted				Temporarily Restricted				Permanently Restricted	
	Orchard Place	Orchard Place Foundation	Eliminating Entries	Total Unrestricted	Orchard Place	Orchard Place Foundation	Eliminating Entries	Total Temporarily Restricted	Orchard Place Foundation	Total
Operating revenue and support:										
Net patient service revenue, contracts and grants	\$ 13,744,366	\$ —	\$ —	\$ 13,744,366	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 13,744,366
Public support	1,233,910	—	—	1,233,910	—	—	—	—	—	1,233,910
Contributions, memorials, and fundraisers, net	—	101,545	—	101,545	435,573	328,086	(435,573) (1)	328,086	20,000	449,631
Other revenue	189,028	9,024	—	198,052	—	—	—	—	—	198,052
Total operating revenue and support	15,167,304	110,569	—	15,277,873	435,573	328,086	(435,573)	328,086	20,000	15,625,959
Net assets released from restrictions - satisfaction of program and time restrictions	435,573	446,367	(435,573) (1)	446,367	(435,573)	(446,367)	435,573 (1)	(446,367)	—	—
Total operating revenue, support, net asset transfers	15,602,877	556,936	(435,573)	15,724,240	—	(118,281)	—	(118,281)	20,000	15,625,959
Operating expenses:										
Program services:										
Orchard Place Campus	6,303,860	—	—	6,303,860	—	—	—	—	—	6,303,860
PACE Juvenile Center	2,753,572	—	—	2,753,572	—	—	—	—	—	2,753,572
Child Guidance Center	5,679,167	—	—	5,679,167	—	—	—	—	—	5,679,167
Orchard Place Foundation	—	542,561	(542,561) (1)	—	—	—	—	—	—	—
Total program services	14,736,599	542,561	(542,561)	14,736,599	—	—	—	—	—	14,736,599
Administrative services	1,200,798	—	—	1,200,798	—	—	—	—	—	1,200,798
Fundraising	—	428,334	—	428,334	—	—	—	—	—	428,334
Total operating expenses	15,937,397	970,895	(542,561)	16,365,731	—	—	—	—	—	16,365,731
Change in net assets from operating activities	(334,520)	(413,959)	106,988	(641,491)	—	(118,281)	—	(118,281)	20,000	(739,772)
Nonoperating activities:										
Contributions from Orchard Place Foundation - restricted for property and equipment	—	—	—	—	106,988	—	(106,988) (1)	—	—	—
Investment income, net	—	706,559	—	706,559	—	143,194	—	143,194	—	849,753
Change in the value of assets held in trust by others	—	—	—	—	—	15,000	—	15,000	—	15,000
Other nonoperating expense, net	(6,836)	—	—	(6,836)	—	—	—	—	—	(6,836)
Net assets released from restrictions - property and equipment	106,988	106,988	(106,988) (1)	106,988	(106,988)	(106,988)	106,988 (1)	(106,988)	—	—
Change in net assets from nonoperating activities	100,152	813,547	(106,988)	806,711	—	51,206	—	51,206	—	857,917
Change in net assets	(234,368)	399,588	—	165,220	—	(67,075)	—	(67,075)	20,000	118,145
Net assets at beginning of year	9,383,879	5,280,236	—	14,664,115	—	1,145,311	—	1,145,311	524,796	16,334,222
Net assets at end of year	\$ 9,149,511	\$ 5,679,824	\$ —	\$ 14,829,335	\$ —	\$ 1,078,236	\$ —	\$ 1,078,236	\$ 544,796	\$ 16,452,367

(1) To eliminate intercompany transfers

See accompanying notes to the consolidated financial statements.

**Orchard Place and Orchard Place Foundation**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year ended June 30, 2007**

<b>Federal grantor/pass-through grantor/ pass through grant description</b>	<b>Federal CFDA number</b>	<b>Federal CFDA name</b>	<b>Federal expenditures</b>
<b>United States Department of Agriculture</b>			
<i>Passed through State of Iowa Department of Education</i>			
National School Breakfast, Lunch and Snack Program	10.553 and 10.555	School Breakfast Program (SBP) National School Lunch Program (NSLP)	\$ 135,153
Commodities	10.555	National School Lunch Program (NSLP)	718
			<u>135,871</u>
<b>United States Department of Justice:</b>			
<i>Passed through Polk County Decategorization</i>			
Enforcing Underage Drinking Laws	16.727	Enforcing Underage Drinking Laws Program	<u>19,640</u>
<b>United States Department of Health and Human Services</b>			
<i>Passed through State of Iowa Department of Human Services, Juvenile Court Services</i>			
Diversion and Monitoring Services	93.558	Temporary Assistance for Needy Families (TANF)	190,000
<i>Passed through the Polk County Empowerment Board</i>			
Early Childhood Empowerment Grant	93.558	Temporary Assistance for Needy Families (TANF)	492,375
<i>Passed through the Polk County Decatergorization</i>			
Early Services Project	93.558	Temporary Assistance for Needy Families (TANF)	43,552
Community Sanctions	93.558	Temporary Assistance for Needy Families (TANF)	32,266
			<u>75,818</u>
			<u>758,193</u>
<b>United States Department of Health and Human Services</b>			
<i>Passed through State of Iowa Department of Human Services</i>			
Child Care Resource and Referral	93.575	Child Care and Development Block Grant	744,398
Program for Infant/Toddler Care	93.575	Child Care and Development Block Grant	174,552
Enhancement - Home Consultant, Parent Support	93.575	Child Care and Development Block Grant	112,921
Quality Rating Scale	93.575	Child Care and Development Block Grant	67,572
Welcome to School-Age Care Series	93.575	Child Care and Development Block Grant	4,107
			<u>1,103,550</u>
<i>Passed through State of Iowa Department of Human Services, Division of Mental Health and Developmental Disabilities</i>			
Community Mental Health Services	93.958	Block Grants for Community Mental Health Services	<u>121,812</u>
Total federal expenditures			<u>\$ 2,139,066</u>

See Independent Auditor's Report and Note to Schedule of Federal Expenditures.

**Orchard Place and Orchard Place Foundation**  
**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year ended June 30, 2007**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Orchard Place and Orchard Place Foundation and is presented on the accrual basis of accounting. The Orchard Place Foundation received no federal awards for the year ended June 30, 2007. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**INDEPENDENT AUDITOR'S 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  
Orchard Place and Orchard Place Foundation  
Des Moines, Iowa

We have audited the consolidated financial statements of Orchard Place and Orchard Place Foundation as of and for the year ended June 30, 2007, and have issued our report thereon dated September 19, 2007. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Orchard Place and Orchard Place Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Orchard Place and Orchard Place Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Orchard Place and Orchard Place Foundation'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 determination of financial statement amounts. 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*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
September 19, 2007

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Orchard Place and Orchard Place Foundation  
Des Moines, Iowa

**Compliance**

We have audited the compliance of Orchard Place and Orchard Place Foundation with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Orchard Place and Orchard Place Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Orchard Place and Orchard Place Foundation's management. Our responsibility is to express an opinion on Orchard Place and Orchard Place Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Orchard Place and Orchard Place Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Orchard Place and Orchard Place Foundation's compliance with those requirements.

In our opinion, Orchard Place and Orchard Place Foundation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

## **Internal Control Over Compliance**

The management of Orchard Place and Orchard Place Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Orchard Place and Orchard Place Foundation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Orchard Place and Orchard Place Foundation's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
September 19, 2007

**Orchard Place and Orchard Place Foundation**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year ended June 30, 2007**

**SECTION I—SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

- (a) Type of auditor’s report issued: Unqualified opinion
- (b) Internal control over financial reporting:
  - Material weakness identified? No
  - Significant deficiency identified that is not considered to be material weakness? None reported
- (c) Noncompliance material to financial statements noted? No

**Federal Awards**

- (d) Internal control over major programs:
  - Material weakness identified? No
  - Significant deficiency identified that is not considered to be material weakness? None reported
- (e) Type of auditor’s report issued on compliance for major programs: Unqualified opinion
- (f) Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No
- (g) Identification of major program:  
CFDA #93.558 - Temporary Assistance for Needy Families (TANF)  
CFDA #93.575 - Child Care and Development Block Grant
- (h) Dollar threshold used to distinguish between type A and type B programs: \$300,000
- (i) Auditee qualified as low-risk auditee: Yes

**SECTION II—FINANCIAL STATEMENT FINDINGS**

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance related to the financial statements were reported.

**SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters regarding significant deficiencies, material weaknesses, or instances of noncompliance with federal program requirements, including questioned costs, were reported.