

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

CONSOLIDATED FINANCIAL REPORT

June 30, 2009

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS	1-2
FINANCIAL STATEMENTS	
Consolidated statement of financial position	3
Consolidated statement of activities	4
Consolidated statement of functional expenses	5
Consolidated statement of cash flows	6
Notes to consolidated financial statements	7-13
SUPPLEMENTARY INFORMATION	
Consolidating statement of financial position	14
Consolidating statement of activities	15
Schedule of expenditures of federal awards	16
Note to schedule of expenditures of federal awards	17
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 <i>GOVERNMENT AUDITING STANDARDS</i>	18-19
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	20-21
Schedule of findings and questioned costs	22

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, 2009, 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, 2009 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 August 28, 2009 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
August 28, 2009

ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

Consolidated Statement of Financial Position

June 30, 2009

Assets

Current assets:	
Cash	\$ 1,366,703
Receivables:	
Patient receivables, net of allowance for contractual adjustments and uncollectibles of \$350,000	1,764,109
Contributions receivable, net of allowance for uncollectibles of \$4,200	<u>37,661</u>
Total receivables	<u>1,801,770</u>
Prepaid expenses and inventories	<u>147,002</u>
Total current assets	<u>3,315,475</u>
Interest in the net assets of the Greater Des Moines Community Foundation	4,686,444
Property and equipment:	
Land and land improvements	1,731,710
Buildings and leasehold improvements	11,176,283
Equipment and furniture	1,563,556
Computer hardware and software	983,296
Vehicles	<u>122,604</u>
Total property and equipment	<u>15,577,449</u>
Accumulated depreciation and amortization	<u>7,831,430</u>
Net property and equipment	<u>7,746,019</u>
Beneficial interest in assets held by the Greater Des Moines Community Foundation	28,100
Assets held in trust by others	<u>196,000</u>
Total assets	<u>\$ 15,972,038</u>

Liabilities and Net Assets

Current liabilities:	
Line of credit	\$ —
Current maturities of capital lease obligations	19,574
Accounts payable and accrued expenses	<u>1,056,023</u>
Total current liabilities	<u>1,075,597</u>
Capital lease obligations	<u>27,945</u>
Total liabilities	<u>1,103,542</u>
Net assets:	
Unrestricted, including \$7,698,500 net investment in plant	13,571,660
Temporarily restricted	691,990
Permanently restricted	<u>604,846</u>
Total net assets	<u>14,868,496</u>
Commitments and contingencies	
Total liabilities and net assets	<u>\$ 15,972,038</u>

See accompanying notes to consolidated financial statements.

ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue and support:				
Net patient service revenue, contracts and grants	\$ 15,275,853	\$ —	\$ —	\$ 15,275,853
Public support	1,561,973	—	—	1,561,973
Contributions, memorials, and fundraisers, net	361,708	308,158	42,650	712,516
Other revenue	314,402	—	—	314,402
Total operating revenue and support	17,513,936	308,158	42,650	17,864,744
Net assets released from restrictions - satisfaction of program restrictions				
	483,252	(483,252)	—	—
Total operating revenue, support and net asset transfers	17,997,188	(175,094)	42,650	17,864,744
Operating expenses:				
Program services:				
Orchard Place Campus	7,130,856	—	—	7,130,856
PACE Juvenile Center	2,544,939	—	—	2,544,939
Child Guidance Center	6,198,036	—	—	6,198,036
Total program services	15,873,831	—	—	15,873,831
Administrative services	1,262,240	—	—	1,262,240
Fundraising and marketing	444,576	—	—	444,576
Total operating expenses	17,580,647	—	—	17,580,647
Change in net assets from operating activities	416,541	(175,094)	42,650	284,097
Nonoperating activities:				
Investment income, net	(1,347,277)	(175,448)	—	(1,522,725)
Change in the value of assets held in trust by others	—	(24,000)	—	(24,000)
Other nonoperating income, net	4,376	—	—	4,376
Net assets released from restrictions - property and equipment	277,969	(277,969)	—	—
Change in net assets from nonoperating activities	(1,064,932)	(477,417)	—	(1,542,349)
Change in net assets	(648,391)	(652,511)	42,650	(1,258,252)
Net assets at beginning of year	14,220,051	1,344,501	562,196	16,126,748
Net assets at end of year	\$ 13,571,660	\$ 691,990	\$ 604,846	\$ 14,868,496

See accompanying notes to the consolidated financial statements.

ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

Consolidated Statement of Functional Expenses

Year ended June 30, 2009

	Orchard Place Campus	PACE Juvenile Center	Child Guidance Center	Administrative Services	Fundraising and Marketing	Total Expenses
Salaries	\$ 4,710,052	\$ 1,749,804	\$ 3,860,293	\$ 765,466	\$ 269,521	\$ 11,355,136
Employee benefits	441,572	174,364	343,259	79,245	18,301	1,056,741
Payroll taxes and insurance	372,741	137,298	292,395	56,998	20,508	879,940
Total payroll expenses	5,524,365	2,061,466	4,495,947	901,709	308,330	13,291,817
Professional fees and contract labor	172,033	29,729	167,622	48,726	33,382	451,492
Recruiting	27,092	3,715	6,938	15,629	871	54,245
Accreditation	824	—	—	8,784	—	9,608
Information technology	9,065	8,925	26,108	113,600	9,280	166,978
Food	246,453	6,014	3,444	262	—	256,173
Office supplies	17,083	5,002	29,440	3,894	2,922	58,341
Medical and psychological supplies	7,056	2,146	14,417	—	—	23,619
Telephone	39,764	38,309	21,954	9,514	1,077	110,618
Postage	9,916	1,634	13,912	8,641	3,695	37,798
Building/grounds maint. and supplies	147,749	15,222	14,851	8,219	—	186,041
Cleaning	38,806	22,500	14,338	3,266	—	78,910
Utilities	161,166	49,990	36,476	9,418	—	257,050
Rent and security services	40,108	940	22,655	4,578	11,000	79,281
General insurance	53,149	20,173	32,467	11,047	1,441	118,277
Interest	—	—	—	3,681	—	3,681
Educational assistance	—	—	—	9,745	—	9,745
Printing and publications	2,244	12,935	25,418	3,548	29,938	74,083
Transportation and travel	18,478	74,656	86,345	14,724	2,986	197,189
Staff development and recognition	20,693	10,116	82,714	10,140	2,420	126,083
Contracted trainings	4,000	—	132,433	—	—	136,433
Training/home consulting supplies	27	560	58,788	—	—	59,375
Child care incentives and stipends	40,134	—	411,050	—	—	451,184
Area office services	—	—	299,292	—	—	299,292
Business meetings	80	1,120	28,148	3,067	8,804	41,219
Dues and subscriptions	2,278	369	2,286	725	217	5,875
Client expenses	14,327	33,837	5,077	—	3,910	57,151
Recreation	27,786	7,550	—	—	—	35,336
Bad debt expense	112,648	1,161	31,878	—	—	145,687
Work studies payments	9,365	—	—	—	—	9,365
Memberships	246	—	12,634	9,420	2,046	24,346
Equipment	25,979	3,388	14,605	687	286	44,945
Equipment maintenance	55,923	23,654	14,877	4,299	—	98,753
Copier contracts	6,986	760	8,483	1,406	9,723	27,358
Advertising and marketing	2,316	1,173	21,943	—	613	26,045
Volunteer expenses	—	—	—	—	498	498
Planned giving expenses	—	—	—	—	850	850
Other fundraising expenses	—	—	—	—	8,186	8,186
Miscellaneous	1,863	578	5,558	289	783	9,071
Depreciation and amortization	290,854	107,317	55,938	53,222	1,318	508,649
Total expenses	<u>\$ 7,130,856</u>	<u>\$ 2,544,939</u>	<u>\$ 6,198,036</u>	<u>\$ 1,262,240</u>	<u>\$ 444,576</u>	<u>\$ 17,580,647</u>

See accompanying notes to the consolidated financial statements.

ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

Consolidated Statement of Cash Flows

Year ended June 30, 2009

Cash flows from operating activities:	
Change in net assets	\$ (1,258,252)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	508,649
Loss on sales of property and equipment	2,952
Change in assets held by Greater Des Moines Community Foundation, net of transfers and distributions	1,521,415
Change in the value of assets held in trust by others	24,000
Non cash contributions	(6,911)
Change in:	
Patient receivables, net	604,305
Contributions receivable, net	146,459
Prepaid expenses and inventories	(105,090)
Accounts payable and accrued expenses	57,601
Net cash provided by operating activities	<u>1,495,128</u>
Cash flows from investing activities:	
Purchase of property and equipment	(372,332)
Proceeds from sale of investments	1,021
Distributions received from Greater Des Moines Community Foundation	348,257
Net assets transferred to Greater Des Moines Community Foundation	(42,650)
Net cash used in investing activities	<u>(65,704)</u>
Cash flows from financing activities:	
Net payments on line of credit	(240,000)
Payments on capital lease agreements	(18,463)
Net cash used in financing activities	<u>(258,463)</u>
Net increase in cash	1,170,961
Cash at beginning of year	<u>195,742</u>
Cash at end of year	<u>\$ 1,366,703</u>
Supplemental schedule of cash flow information:	
Cash paid for interest	<u>\$ 3,681</u>
Non cash contributions	<u>\$ 6,911</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 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 as well as organizing its marketing efforts.

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.

The Organization and the Foundation have elected to defer the application of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, to the fiscal year beginning July 1, 2009. Currently, the Organization and the Foundation evaluate uncertain tax positions in accordance with the "substantial authority" standard described in Treasury Regulations, which is less stringent than the "more-likely-than-not" standard required by FIN 48.

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.

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

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 consolidated statement 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.

Assets Held at the Greater Des Moines Community Foundation

Assets held at the Greater Des Moines Community Foundation 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.

Endowments

The Foundation's endowments consist of six donor-restricted individual funds established for a variety of purposes. The board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Foundation 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.

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

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by UPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Foundation and the Organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the expected total return from income and appreciation of investments; (6) other resources of the Foundation and the Organization; and (7) the investment policies of the Foundation.

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 \$196,000 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.

NOTE 2 BUSINESS AND CREDIT CONCENTRATIONS

The Organization provides services in the central Iowa area and received approximately \$12,915,000 from the Department of Human Services (the Department) during the year ended June 30, 2009. Services provided are primarily through per diem and purchase of service agreements. At June 30, 2009, the Organization had accounts receivable from the Department of approximately \$1,448,000. Future agreements with the Department are generally dependent upon appropriations by the state legislature.

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

NOTE 3 CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2009 consisted of unconditional promises expected to be collected in less than one year, net of an allowance for doubtful accounts of \$4,200.

NOTE 4 ASSETS HELD AT THE GREATER DES MOINES COMMUNITY FOUNDATION

In 2007, the Foundation 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 Foundation 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 31st 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 Foundation 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 Foundation. 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 Foundation to GDMCF, as well as earnings net of disbursements. These funds were established under the Endow Iowa provisions of the Code of Iowa. Distributions of up to but not exceeding 5% of the fund balance as of December 31st 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, 2009 was as follows:

Domestic equity	26.6%
International equity	33.0
Fixed income	16.6
Cash composite	.7
Hedge fund of funds	15.2
Real assets	3.5
Private equity	<u>4.4</u>
Total	<u>100.0%</u>

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

NOTE 5 INVESTMENT INCOME

For the year ended June 30, 2009, investment income included the following:

Interest and dividends	\$ 103,268
Realized gains (losses)	(295,999)
Unrealized gains (losses)	(1,310,240)
Investment expenses	<u>(19,754)</u>
Total investment income, net	<u><u>\$ (1,522,725)</u></u>

NOTE 6 ENDOWMENTS

The change in endowment net assets was as follows for the year ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at beginning of year	\$ -	\$ 192,444	\$ 562,196	\$ 754,640
Investment return				
Investment income	-	12,632	-	12,632
Investment expenses	-	(1,522)	-	(1,522)
Net depreciation (realized and unrealized)	<u>(46,034)</u>	<u>(142,395)</u>	<u>-</u>	<u>(188,429)</u>
Total investment return	<u>(46,034)</u>	<u>(131,285)</u>	<u>-</u>	<u>(177,319)</u>
Contributions	-	-	42,650	42,650
Expenditures	-	(29,957)	-	(29,957)
Balance at end of year	<u><u>\$ (46,034)</u></u>	<u><u>\$ 31,202</u></u>	<u><u>\$ 604,846</u></u>	<u><u>\$ 590,014</u></u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$46,034 at June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

NOTE 7 LINE OF CREDIT

At June 30, 2009, the Organization had a \$1 million line of credit with Bankers Trust Company (the Bank), maturing November 28, 2009. Interest is payable monthly at the three month London Interbank Offered Rate (LIBOR) plus 1.25 percent, which totaled 1.90 percent at June 30, 2009. The Organization had no borrowings outstanding under this line of credit at June 30, 2009.

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

NOTE 7 LINE OF CREDIT (continued)

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, 2009.

NOTE 8 OBLIGATIONS UNDER CAPITAL LEASES

The Organization leases eleven copy machines under a master capital lease agreement. The obligation under this capital lease has been recorded in the accompanying consolidated 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, 2009 is \$50,960. This amount includes interest totaling \$3,441, resulting in a net principal balance outstanding of \$47,519.

Assets under capital leases totaled \$94,447 at June 30, 2009 and are included in "Equipment and furniture" on the consolidated statement of financial position. Accumulated amortization on the leased equipment was \$48,798 at June 30, 2009. The amount included for amortization of leased equipment financed by the above lease for the year ended June 30, 2009 was \$18,889. The related interest expense for the year ended June 30, 2009 was \$3,378.

NOTE 9 NET ASSETS

Temporarily restricted net assets are restricted to the following purposes at June 30, 2009:

Aliber House fund	\$ 31,202
Charitable remainder trust	196,000
Capital improvements	38,617
Child Guidance Center	87,751
Recreational and summer programming	160,006
Hansell scholarship fund	68,502
Club Chris greenhouse	10,674
Other programs	<u>99,238</u>
Total temporarily restricted net assets	<u>\$ 691,990</u>

Permanently restricted net assets are restricted to the following purposes at June 30, 2009:

Educational activities	\$ 283,770
Aliber House fund	241,026
Sexual abuse survivors' programming	10,000
Cultural enrichment activities	40,000
General support	<u>30,050</u>
Total permanently restricted net assets	<u>\$ 604,846</u>

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

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 December 31, 2008, the Organization elected to freeze plan benefits for all existing participants and to discontinue the admittance of new participants. Amounts charged to pension cost and contributed to the plan totaled \$94,602 for the year ended June 30, 2009.

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, 2009, the Organization made contributions to the plan totaling \$147,541.

NOTE 11 RENT EXPENSE

Effective July 1, 2004, the Child Guidance Center division occupies a building in Des Moines, Iowa 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. Rent expense under this lease agreement was \$25,265 for the year ended June 30, 2009. Future minimum payments under the ground lease based on the current appraised value of the land total are as follows: 2010: \$23,580; 2011: \$23,580; 2012: \$23,580; 2013: \$23,580; 2014: \$23,580 and later years: \$1,033,590.

Effective July 1, 2009, the Organization is leasing office space in Des Moines, Iowa for its administrative offices. Rent is paid monthly at various rates during the term of the lease agreement, which expires June 30, 2014. The lease is subject to one five-year extension with 180 days notice prior to the completion of the original lease term. Future minimum rental payments under this office lease are as follows: 2010: \$55,307; 2011: \$60,335; 2012: \$65,820; 2013: \$71,305; and 2014: \$76,790

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, 2009 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.

NOTE 13 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through August 28, 2009, the date which the consolidated financial statements were available to be issued. There were no subsequent events that required disclosure.

ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

Consolidating Statement of Financial Position

June 30, 2009

Assets	<u>Orchard Place</u>	<u>Orchard Place Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Current assets:				
Cash	\$ 1,345,424	\$ 21,279	\$ —	\$ 1,366,703
Receivables:				
Patient receivables, net	1,764,109	—	—	1,764,109
Contributions receivable, net	—	37,661	—	37,661
Other receivables	18,820	—	(18,820) (1)	—
Total receivables	<u>1,782,929</u>	<u>37,661</u>	<u>(18,820)</u>	<u>1,801,770</u>
Prepaid expenses and inventories	142,361	4,641	—	147,002
Total current assets	<u>3,270,714</u>	<u>63,581</u>	<u>(18,820)</u>	<u>3,315,475</u>
Interest in the net assets of the Greater Des Moines Community Foundation	—	4,686,444	—	4,686,444
Property and equipment:				
Land and land improvements	1,731,710	—	—	1,731,710
Buildings and leasehold improvements	11,176,283	—	—	11,176,283
Equipment and furniture	1,563,556	—	—	1,563,556
Computer hardware and software	952,716	30,580	—	983,296
Vehicles	122,604	—	—	122,604
Total property and equipment	<u>15,546,869</u>	<u>30,580</u>	<u>—</u>	<u>15,577,449</u>
Accumulated depreciation and amortization	7,804,351	27,079	—	7,831,430
Net property and equipment	<u>7,742,518</u>	<u>3,501</u>	<u>—</u>	<u>7,746,019</u>
Beneficial interest in assets held by the Greater Des Moines Community Foundation	—	28,100	—	28,100
Assets held in trust by others	—	196,000	—	196,000
Total assets	<u>\$ 11,013,232</u>	<u>\$ 4,977,626</u>	<u>\$ (18,820)</u>	<u>\$ 15,972,038</u>
Liabilities and Net Assets				
Current liabilities:				
Line of credit	\$ —	\$ —	\$ —	\$ —
Current maturities of capital lease obligations	19,574	—	—	19,574
Accounts payable and accrued expenses	1,054,047	20,796	(18,820) (1)	1,056,023
Total current liabilities	<u>1,073,621</u>	<u>20,796</u>	<u>(18,820)</u>	<u>1,075,597</u>
Capital lease obligations	27,945	—	—	27,945
Total liabilities	<u>1,101,566</u>	<u>20,796</u>	<u>(18,820)</u>	<u>1,103,542</u>
Net assets:				
Unrestricted	9,911,666	3,659,994	—	13,571,660
Temporarily restricted	—	691,990	—	691,990
Permanently restricted	—	604,846	—	604,846
Total net assets	<u>9,911,666</u>	<u>4,956,830</u>	<u>—</u>	<u>14,868,496</u>
Commitments and contingencies				
Total liabilities and net assets	<u>\$ 11,013,232</u>	<u>\$ 4,977,626</u>	<u>\$ (18,820)</u>	<u>\$ 15,972,038</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, 2009

	Unrestricted				Temporarily Restricted				Permanently Restricted	Total
	Orchard Place	Orchard Place Foundation	Eliminating Entries	Total Unrestricted	Orchard Place	Orchard Place Foundation	Eliminating Entries	Total Temporarily Restricted	Orchard Place Foundation	
Operating revenue and support:										
Net patient service revenue, contracts and grants	\$ 15,275,853	\$ —	\$ —	\$ 15,275,853	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 15,275,853
Public support	1,561,973	—	—	1,561,973	—	—	—	—	—	1,561,973
Contributions, memorials, and fundraisers, net	—	361,708	—	361,708	578,402	308,158	(578,402) (1)	308,158	42,650	712,516
Other revenue	311,049	3,353	—	314,402	—	—	—	—	—	314,402
Total operating revenue and support	17,148,875	365,061	—	17,513,936	578,402	308,158	(578,402)	308,158	42,650	17,864,744
Net assets released from restrictions - satisfaction of program and time restrictions	578,402	483,252	(578,402) (1)	483,252	(578,402)	(483,252)	578,402 (1)	(483,252)	—	—
Total operating revenue, support, net asset transfers	17,727,277	848,313	(578,402)	17,997,188	—	(175,094)	—	(175,094)	42,650	17,864,744
Operating expenses:										
Program services:										
Orchard Place Campus	7,130,856	—	—	7,130,856	—	—	—	—	—	7,130,856
PACE Juvenile Center	2,544,939	—	—	2,544,939	—	—	—	—	—	2,544,939
Child Guidance Center	6,198,036	—	—	6,198,036	—	—	—	—	—	6,198,036
Orchard Place Foundation	—	856,371	(856,371) (1)	—	—	—	—	—	—	—
Total program services	15,873,831	856,371	(856,371)	15,873,831	—	—	—	—	—	15,873,831
Administrative services	1,262,240	—	—	1,262,240	—	—	—	—	—	1,262,240
Fundraising and marketing	—	444,576	—	444,576	—	—	—	—	—	444,576
Total operating expenses	17,136,071	1,300,947	(856,371)	17,580,647	—	—	—	—	—	17,580,647
Change in net assets from operating activities	591,206	(452,634)	277,969	416,541	—	(175,094)	—	(175,094)	42,650	284,097
Nonoperating activities:										
Contributions from Orchard Place Foundation - restricted for property and equipment	—	—	—	—	277,969	—	(277,969) (1)	—	—	—
Investment income, net	—	(1,347,277)	—	(1,347,277)	—	(175,448)	—	(175,448)	—	(1,522,725)
Change in the value of assets held in trust by others	—	—	—	—	—	(24,000)	—	(24,000)	—	(24,000)
Other nonoperating income, net	4,376	—	—	4,376	—	—	—	—	—	4,376
Net assets released from restrictions - property and equipment	277,969	277,969	(277,969) (1)	277,969	(277,969)	(277,969)	277,969 (1)	(277,969)	—	—
Change in net assets from nonoperating activities	282,345	(1,069,308)	(277,969)	(1,064,932)	—	(477,417)	—	(477,417)	—	(1,542,349)
Change in net assets	873,551	(1,521,942)	—	(648,391)	—	(652,511)	—	(652,511)	42,650	(1,258,252)
Net assets at beginning of year	9,038,115	5,181,936	—	14,220,051	—	1,344,501	—	1,344,501	562,196	16,126,748
Net assets at end of year	\$ 9,911,666	\$ 3,659,994	\$ —	\$ 13,571,660	\$ —	\$ 691,990	\$ —	\$ 691,990	\$ 604,846	\$ 14,868,496

(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, 2009

<u>Federal grantor/pass-through grantor/ pass through grant description</u>	<u>Federal CFDA number</u>	<u>Federal CFDA name</u>	<u>Federal expenditures</u>
United States Department of Agriculture			
<i>Passed through State of Iowa Department of Education</i>			
National School Breakfast, Lunch and Snack Program	10.553 and 10.555	After School Snack Program, School Breakfast Program, and National School Lunch Program	<u>\$ 146,082</u>
United States Department of Health and Human Services			
<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)	448,530
<i>Passed through the Polk County Decatergorization</i>			
Early Services Project	93.558	Temporary Assistance for Needy Families (TANF)	3,485
			<u>642,015</u>
<i>Passed through State of Iowa Department of Human Services</i>			
Child Care Resource and Referral	93.575	Child Care and Development Block Grant	742,939
Program for Infant/Toddler Care	93.575	Child Care and Development Block Grant	174,773
Program for Infant/Toddler Care			
Director Support	93.575	Child Care and Development Block Grant	4,372
Welcome to Child Care Revision	93.575	Child Care and Development Block Grant	1,830
Welcome to School-Age Care Series	93.575	Child Care and Development Block Grant	8,384
			<u>932,298</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	115,461
			<u>1,689,774</u>
Total federal expenditures			<u><u>\$ 1,835,856</u></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, 2009

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, 2009. 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, 2009, and have issued our report thereon dated August 28, 2009. 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
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 28, 2009

**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, 2009. 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, 2009.

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

DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 28, 2009

Orchard Place and Orchard Place Foundation
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2009

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 #93.575 - 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.