

LYDIA HOME ASSOCIATION

FINANCIAL STATEMENTS

June 30, 2008 and 2007

SCANLON & MATHEWS LLP

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MEMBERS

AMERICAN INSTITUTE OF CERTIFIED
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lydia Home Association

We have audited the accompanying statements of financial position of Lydia Home Association (the Association) as of June 30, 2008 and 2007, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lydia Home Association as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2009 on our consideration of Lydia Home Association'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.

Scanlon + Mathews LLP

Chicago, Illinois
January 30, 2009

LYDIA HOME ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

	2008	2007
Assets		
Cash	\$ 269,605	\$ 94,413
Receivables:		
Due from State of Illinois - Department of Children and Family Services	339,773	295,601
Other	162,807	160,482
Investments	1,041,342	1,103,123
Prepaid expenses	114,788	173,296
Land, buildings and equipment, net	1,156,131	1,142,506
Total assets	\$ 3,084,446	\$ 2,969,421
Liabilities and Net Assets		
Accounts payable	\$ 554,761	\$ 515,945
Accrued vacation pay	194,336	178,067
Deferred revenue	168,536	168,536
Line of credit	263,431	249,003
Note payable	21,731	28,794
Total	1,202,795	1,140,345
Net assets:		
Unrestricted net assets	1,514,704	1,688,430
Temporarily restricted net assets	366,947	140,646
Total net assets	1,881,651	1,829,076
Total liabilities and net assets	\$ 3,084,446	\$ 2,969,421

See accompanying notes to financial statements.

LYDIA HOME ASSOCIATION
STATEMENTS OF ACTIVITIES
for the years ended June 30, 2008 and 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:						
Department of Children and Family Services						
Residential	\$ 3,460,179		\$ 3,460,179	\$ 3,468,315		\$ 3,468,315
Foster care	1,074,167		1,074,167	1,095,722		1,095,722
Other - grants	934,836		934,836	535,351		535,351
Program services fees	764,419		764,419	755,022		755,022
Milk and Lunch program	34,611		34,611	31,635		31,635
Contributions and bequests	981,114	\$ 311,353	1,292,467	906,723	\$ 61,252	967,975
Special events net of direct benefits to donors	216,156		216,156	103,966		103,966
Investment income	(61,333)		(61,333)	131,194		131,194
Other revenue	112,184		112,184	16,759		16,759
Net assets released from restrictions	<u>85,052</u>	<u>(85,052)</u>		<u>44,704</u>	<u>(44,704)</u>	
Total revenues, gains and other support	<u>7,601,385</u>	<u>226,301</u>	<u>7,827,686</u>	<u>7,089,391</u>	<u>16,548</u>	<u>7,105,939</u>
Expenses:						
Program services:						
Residential	3,619,305		3,619,305	3,552,172		3,552,172
Day child care	347,676		347,676	290,480		290,480
Foster care	1,365,583		1,365,583	1,108,816		1,108,816
Rockford Shelter				3,109		3,109
Non-residential counseling	309,317		309,317	366,303		366,303
Other	<u>1,780,787</u>		<u>1,780,787</u>	<u>1,572,546</u>		<u>1,572,546</u>
Total program services	7,422,668		7,422,668	6,893,426		6,893,426
Supporting services:						
Management and general	6,924		6,924	22,997		22,997
Fund raising	<u>345,519</u>		<u>345,519</u>	<u>322,391</u>		<u>322,391</u>
Total expenses	<u>7,775,111</u>		<u>7,775,111</u>	<u>7,238,814</u>		<u>7,238,814</u>
Change in net assets	(173,726)	226,301	52,575	(149,423)	16,548	(132,875)
Net assets at beginning of year	<u>1,688,430</u>	<u>140,646</u>	<u>1,829,076</u>	<u>1,837,853</u>	<u>124,098</u>	<u>1,961,951</u>
Net assets at end of year	<u>\$ 1,514,704</u>	<u>\$ 366,947</u>	<u>\$ 1,881,651</u>	<u>\$ 1,688,430</u>	<u>\$ 140,646</u>	<u>\$ 1,829,076</u>

See accompanying notes to financial statements

LYDIA HOME ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended June 30, 2008

	Program Services					Supporting Services		Total
	Residential	Day child care	Foster care	Non - Residential Counseling	Other	Management and general	Fund Raising	
Employee compensation:								
Salaries	\$ 2,077,564	\$ 148,062	\$ 418,031	\$ 190,186	\$ 978,218	\$ 302,123	\$ 211,323	\$ 4,325,507
Payroll taxes and employee benefits	<u>383,333</u>	<u>36,600</u>	<u>85,802</u>	<u>29,804</u>	<u>197,976</u>	<u>80,438</u>	<u>47,909</u>	<u>861,862</u>
Total employee compensation	2,460,897	184,662	503,833	219,990	1,176,194	382,561	259,232	5,187,369
Occupancy	160,436	19,324	48,791	3,412	44,999	98,360	1,466	376,788
Supplies	195,943	2,641	11,006	1,605	71,192	35,674	8,392	326,453
Specific assistance to individuals	162,919	14,295	263,733		52,945		5,972	499,864
Foster parent payments			297,387					297,387
Transportation	120,727	80	31,684	701	34,101	2,188	1,536	191,017
Rent	7,375	248	1,674	60	33,512	17,560	715	61,144
Operational support	68,182	1,933	17,724	5,224	73,439	74,396	22,500	263,398
Contractual employees/consultants	22,525				98,632	36,445	9,035	166,637
Miscellaneous	<u>31,174</u>	<u>86,664</u>	<u>21,791</u>	<u>52,637</u>	<u>53,922</u>	<u>6,903</u>	<u>35,128</u>	<u>288,219</u>
Total direct expenses before depreciation of buildings and equipment	3,230,178	309,847	1,197,623	283,629	1,638,936	654,087	343,976	7,658,276
Depreciation of buildings and equipment	<u>38,204</u>	<u>3,701</u>	<u>33,737</u>	<u>63</u>	<u>7,891</u>	<u>31,696</u>	<u>1,543</u>	<u>116,835</u>
Total direct expenses	3,268,382	313,548	1,231,360	283,692	1,646,827	685,783	345,519	7,775,111
Management and general								
Salary and benefits	214,402	20,851	82,006	15,656	81,846	(414,761)		
Administrative	120,136	11,684	45,951	8,773	45,858	(232,402)		
Other	<u>16,385</u>	<u>1,593</u>	<u>6,266</u>	<u>1,196</u>	<u>6,256</u>	<u>(31,696)</u>		
Total expenses	<u>\$ 3,619,305</u>	<u>\$ 347,676</u>	<u>\$ 1,365,583</u>	<u>\$ 309,317</u>	<u>\$ 1,780,787</u>	<u>\$ 6,924</u>	<u>\$ 345,519</u>	<u>\$ 7,775,111</u>

See accompanying notes to financial statements.

LYDIA HOME ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended June 30, 2007

	Program Services					Supporting Services		Total	
	Residential	Day child care	Foster care	Rockford Shelter	Non - Residential Counseling	Other	Management and general		Fund Raising
Employee compensation:									
Salaries	\$ 2,036,561	\$ 143,459	\$ 324,305	\$ 206	\$ 242,256	\$ 856,347	\$ 304,837	\$ 192,119	\$ 4,100,090
Payroll taxes and employee benefits	<u>473,199</u>	<u>44,173</u>	<u>84,134</u>	<u>26</u>	<u>51,900</u>	<u>211,843</u>	<u>111,180</u>	<u>49,064</u>	<u>1,025,519</u>
Total employee compensation	2,509,760	187,632	408,439	232	294,156	1,068,190	416,017	241,183	5,125,609
Occupancy	141,464	13,618	57,926		1,801	34,283	103,426	954	353,472
Supplies	195,250	6,106	14,262	648	1,010	60,583	39,305	5,647	322,811
Specific assistance to individuals	93,919	8,599	152,656			27,899	5		283,078
Foster parent payments			263,553						263,553
Transportation	95,818	1,194	27,297		137	23,302	1,760	1,988	151,496
Rent	5,655		1,207	925		28,225	4,321		40,333
Operational support	22,752	1,609	15,212	747	5,449	63,400	87,346	19,975	216,490
Contractual employees/consultants	37,390				21,190	73,100	36,398	9,750	177,828
Miscellaneous	<u>17,590</u>	<u>43,552</u>	<u>5,350</u>		<u>1,552</u>	<u>41,039</u>	<u>28,715</u>	<u>40,890</u>	<u>178,688</u>
Total direct expenses before depreciation of buildings and equipment	3,119,598	262,310	945,902	2,552	325,295	1,420,021	717,293	320,387	7,113,358
Depreciation of buildings and equipment	<u>36,254</u>	<u>501</u>	<u>39,327</u>	<u>209</u>	<u>156</u>	<u>10,325</u>	<u>36,680</u>	<u>2,004</u>	<u>125,456</u>
Total direct expenses	3,155,852	262,811	985,229	2,761	325,451	1,430,346	753,973	322,391	7,238,814
Management and general									
Salary and benefits	245,290	17,125	76,490	216	25,284	88,009	(452,414)		
Administrative	131,143	9,156	40,895	115	13,518	47,055	(241,882)		
Other	<u>19,887</u>	<u>1,388</u>	<u>6,202</u>	<u>17</u>	<u>2,050</u>	<u>7,136</u>	<u>(36,680)</u>		
Total expenses	<u>\$ 3,552,172</u>	<u>\$ 290,480</u>	<u>\$ 1,108,816</u>	<u>\$ 3,109</u>	<u>\$ 366,303</u>	<u>\$ 1,572,546</u>	<u>\$ 22,997</u>	<u>\$ 322,391</u>	<u>\$ 7,238,814</u>

See accompanying notes to financial statements.

LYDIA HOME ASSOCIATION
STATEMENTS OF CASH FLOWS
for the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Change in net assets	\$ 52,575	\$ (132,875)
Change in unrealized and realized appreciation on investments	77,407	(114,888)
Gain on sale of land, buildings and equipment	(817)	
Adjustments to reconcile excess of public support and revenue over expenses to net cash provided (used) by operating activities		
Depreciation	116,835	125,456
Changes in assets and liabilities:		
Receivables	(46,497)	(126,929)
Prepaid expenses	58,508	9,374
Accounts payable and accrued expenses	<u>55,085</u>	<u>(110,658)</u>
Net cash provided (used) by operating activities	<u>313,096</u>	<u>(350,520)</u>
Cash flows from investing activities		
Additions to land, buildings, and equipment	(131,668)	(16,272)
Proceeds from sale of land, buildings and equipment	2,025	
Purchase of investments	(385,703)	(260,532)
Proceeds from sales of investments	<u>370,077</u>	<u>259,661</u>
Net cash (used) by investing activities	<u>(145,269)</u>	<u>(17,143)</u>
Cash flows from financing activities		
Proceeds from borrowings	14,428	269,003
Payments on borrowings	<u>(7,063)</u>	<u>(6,325)</u>
Net cash provided (used) by financing activities	<u>7,365</u>	<u>262,678</u>
Net increase (decrease) in cash	175,192	(104,985)
Cash balance at beginning of year	<u>94,413</u>	<u>199,398</u>
Cash balance at end of year	<u>\$ 269,605</u>	<u>\$ 94,413</u>
Supplementary cash flow information:		
Interest paid	<u>\$ 20,043</u>	<u>\$ 10,730</u>

See accompanying notes to financial statements.

LYDIA HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1 - NATURE OF ACTIVITIES

Lydia Home Association (the Association) provides residential and foster care to needy children. The Association also provides day care services for preschool and kindergarten children and counseling.

The organization is supported primarily by the State of Illinois, Department of Children and Family Services. Support is also received from churches, community organizations, foundations, corporations and individuals. Approximately 62% and 68% of the association's support for the years ended June 30, 2008 and 2007, respectively, came from State of Illinois contracts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Promises To Give

Contributions are recognized when the donor makes a promise to give to the Association that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Association uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Contributed Materials and Services

The Association receives donations of clothing, furniture, toys and food which are recorded as contributions and expensed in the accompanying financial statements at their estimated fair market value. In kind donations for the years ended June 30, 2008 and 2007 totaled \$281,410 and \$106,503.

During the years ended June 30, 2008 and 2007, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Association at the residents' facilities and which do not meet the requirements for recognition in the financial statements.

LYDIA HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Land, Buildings and Equipment

Donations of real estate, furniture, fixtures, equipment and vehicles are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated using the straight-line method over the estimated useful life of the assets.

Investments

Amounts invested in money market funds, certificates of deposit and savings accounts are stated at cost plus reinvested interest which approximates market value. Investments in common stock and corporate and U.S. Treasury bonds are stated at market value. The cost of investments sold is determined using the specific identification method with realized gains and losses included in investment income. Dividend and interest income are accrued when earned.

Income Taxes

The Association has received a determination letter from the Internal Revenue Service which stated that the Association is exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code and that it has been classified as an organization that is not a private foundation under Section 509 (a)(2).

LYDIA HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Association considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTE 3 - RESTRICTIONS ON ASSETS

Temporarily restricted net assets at June 30, 2008 and 2007 are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Lawndale Community PCIT	\$ 8,644	\$ 8,644
Rockford Academy	15,000	15,000
Safe Families	221,134	35,000
Kellogg grant - Safe Families		70,000
Residential	14,973	
Ground force - Iowa	750	750
Abstinence	2,185	
Romania		10,578
Equipment	87,440	
International	<u>16,822</u>	<u>674</u>
	<u>\$ 366,948</u>	<u>\$ 140,646</u>

Temporarily restricted net assets released from restrictions during 2008 and 2007 were comprised of the following:

	<u>2008</u>	<u>2007</u>
Romania	\$ 10,578	\$ 14,712
Safe Families		2,445
Kellogg grant - Safe Families	70,000	21,667
Family relief		1,499
Ground force - Iowa		3,000
France		1,381
International	674	
Equipment	<u>3,800</u>	
	<u>\$ 85,052</u>	<u>\$ 44,704</u>

LYDIA HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 4 - INVESTMENTS

The components of the Association's investments as of June 30, 2008 and 2007 are as follows:

	<u>June 30, 2008</u>		
	<u>Cost</u>	<u>Quoted Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Common stock	\$ 579,088	\$ 644,301	\$ 65,213
Money market funds	258,479	258,479	
Certificates of deposit	50,000	47,524	(2,476)
Annuity	45,000	66,732	21,732
Corporate and U.S. Treasury notes	<u>25,000</u>	<u>24,306</u>	<u>(694)</u>
Total	<u>\$ 957,567</u>	<u>\$ 1,041,342</u>	<u>\$ 83,775</u>
		<u>June 30, 2007</u>	
	<u>Cost</u>	<u>Quoted Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Common stock	\$ 570,566	\$ 723,658	\$ 153,092
Money market funds	123,623	123,623	
Certificates of deposit	100,000	94,340	(5,660)
Annuity	45,000	62,983	17,983
Corporate and U.S. Treasury notes	<u>100,000</u>	<u>98,519</u>	<u>(1,481)</u>
Total	<u>\$ 939,189</u>	<u>\$ 1,103,123</u>	<u>\$ 163,934</u>

LYDIA HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 4 - INVESTMENTS (Continued)

Investment return for the years ended June 30, 2008 and 2007 follows:

	<u>2008</u>	<u>2007</u>
Dividends and interest net of fees of \$11,706 and \$10,942, respectively	\$ 16,074	\$ 16,306
Realized gain	2,752	42,634
Unrealized (loss) gain	<u>(80,159)</u>	<u>72,254</u>
Net (loss) gain	<u>(77,407)</u>	<u>114,888</u>
 Total investment return on investments	 <u>\$ (61,333)</u>	 <u>\$ 131,194</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Land, buildings and equipment consist of:

	<u>2008</u>	<u>2007</u>
Land and buildings	\$ 3,157,417	\$ 3,138,794
Furniture and fixtures	707,764	618,924
Automobiles	<u>214,624</u>	<u>192,418</u>
	4,079,805	3,950,136
Less accumulated depreciation	<u>2,923,674</u>	<u>2,807,630</u>
	<u>\$ 1,156,131</u>	<u>\$ 1,142,506</u>

Depreciation expense was \$116,835 for the year ended June 30, 2008 and \$125,456 for the year ended June 30, 2007.

LYDIA HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 5 - PROPERTY AND EQUIPMENT (Continued)

In 2003, the Association received a grant in the form of a housing unit. In exchange for the property the Association has entered into an Operating Agreement and agreed to, among other things, use the property in a program to provide certain foster care services for a term of 10 years. Furthermore, during the term of the Operating Agreement, in the event the Association is unable or unwilling to continue to operate the property in accordance with the terms and conditions of the Operating Agreement and all licensing standards of the Department of Children and Family Services (DCFS) or if the license issued by DCFS is revoked or suspended, the grantor has the right to compel the Association to convey the property to another entity. At June 30, 2008, this property is included in the statement of financial position in land, buildings and equipment, net at its carrying value of \$257,500 net of \$42,500 accumulated depreciation.

NOTE 6 - PENSION PLAN

The Association has sponsored a qualified defined benefit plan which covered substantially all full-time employees. Benefits were based on years of service and the employee's compensation during the five consecutive years of employment which produce the highest average. As of June 30, 2006, the Association froze the plan with no future benefits accruing to employees past June 30, 2006. As a result, all active participants at July 1, 2006 had their vesting increased to 100%. In January 2008, the Association's Board of Directors approved termination of the Plan effective June 30, 2008.

As a result, the Association estimated the total amount needed to fund the purchase of annuities or lump sum payments of vested benefits to participants and determined that the plan's assets approximate this cost at June 30, 2008. Accordingly, the Association adjusted an accrual established in prior years and recognized \$95,000 of other revenue in the year ended June 30, 2008. In the year ended June 30, 2007, \$72,522 of employee benefits expense was recognized.

NOTE 7 - RELATED - PARTY TRANSACTIONS

The Association entered into various transactions with individuals or organizations in which certain Board members or employees have a direct or indirect interest. The total value of these transactions in 2008 was \$15,530 and in 2007 was \$16,252, all of which was expensed.

LYDIA HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 8 - NOTES PAYABLE

The Association's obligation at June 30, 2008 under terms of a note payable consists of:

Note payable to a bank, due in 60 monthly installments of \$340 including interest with a final payment due September 2010, bearing interest at 6.43% collateralized by a vehicle.	\$ 8,522
Note payable to a bank, due in 60 monthly installments of \$403 including interest with a final payment due July 2011, bearing interest at 7.59% collateralized by a vehicle.	<u>13,209</u> <u>\$ 21,731</u>

The future schedule maturities of the note payable are as follows:

	Year ending <u>June 30</u>
2009	\$ 7,607
2010	8,160
2011	5,614
2012	<u>350</u>
	<u>\$ 21,731</u>

The Association has a revolving line of credit with its investment broker bearing interest at the brokers base rate (5.75% at June 30, 2008). The line of credit is collateralized by the investment portfolio and is due on demand. The maximum loanable value is 65% - 95% of the market value of the portfolio depending on the type of securities in the portfolio. Interest is payable monthly. At June 30, 2008, there was \$263,431 outstanding on the line of credit.

LYDIA HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 9 - SALEM CHILDREN'S HOME

During fiscal 2005 Lydia entered into an Agreement of Affiliation (Agreement) with Salem Children's Home (Salem). Salem is an Illinois not-for-profit Christian charitable organization founded in 1896. Its purpose is to provide services and programs to help families and children.

The Agreement generally facilitates Lydia's providing management and operational services to Salem. The Agreement (and Salem's modified Bylaws) provides Lydia with certain rights regarding Salem. These rights involve, but are not limited to, the following areas: Board of Directors, governance agreements, Executive Director, budgets and other financial matters, certain major expenditures, distribution of assets, and dissolution. Management believes these rights, while significant, do not create a requirement for the consolidation of the accounts of Salem into Lydia's financial statements. Accordingly, none of the accounts of Salem are included in these financial statements.

As indicated above, Lydia provides certain management and operational services for Salem including the processing of cash disbursements. During fiscal 2008 and 2007, Lydia charged Salem \$24,000 each year for these services.

NOTE 10 - SUBSEQUENT EVENT

Since June 30, 2008, the fair value of certain investments have declined significantly from the June 30, 2008 fair value and such decline has not been reflected in the accompanying statement of financial position as of June 30, 2008 or statement of activities for the year ended June 30, 2008.

Independent Auditors' Report
On Supplementary Statements of Functional Expenses

Our report on our audit of the basic financial statements of Lydia Home Association for the years ended June 30, 2008 and 2007 appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary statements of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Scanlon + Mathews LLP

Chicago, Illinois
January 30, 2009

LYDIA HOME ASSOCIATION
SUPPLEMENTAL STATEMENT OF FUNCTIONAL EXPENSES - RESIDENTIAL
for the year ended June 30, 2008

	Resident child care	Education	Total
	<u> </u>	<u> </u>	<u> </u>
Employee compensation:			
Salaries	\$ 2,074,914	\$ 2,650	\$ 2,077,564
Payroll taxes and employee benefits	<u>382,813</u>	<u>520</u>	<u>383,333</u>
Total employee compensation	2,457,727	3,170	2,460,897
Occupancy	160,436		160,436
Supplies	195,943		195,943
Specific assistance to individuals	162,919		162,919
Transportation	120,552	175	120,727
Rent	7,375		7,375
Operational support	67,673	509	68,182
Contractual employees/consultants	22,525		22,525
Miscellaneous	<u>30,340</u>	<u>834</u>	<u>31,174</u>
Total direct expenses before depreciation of buildings and equipment	3,225,490	4,688	3,230,178
Depreciation of buildings and equipment	<u>38,204</u>		<u>38,204</u>
Total direct expenses	3,263,694	4,688	3,268,382
Management and general			
Salary and benefits	214,123	279	214,402
Administrative	119,980	156	120,136
Other	<u>16,364</u>	<u>21</u>	<u>16,385</u>
Total expenses	<u>\$ 3,614,161</u>	<u>\$ 5,144</u>	<u>\$ 3,619,305</u>

LYDIA HOME ASSOCIATION
SUPPLEMENTAL STATEMENT OF FUNCTIONAL EXPENSES - RESIDENTIAL
for the year ended June 30, 2007

	Resident child care	Education	Total
	<u> </u>	<u> </u>	<u> </u>
Employee compensation:			
Salaries	\$ 2,025,421	\$ 11,140	\$ 2,036,561
Payroll taxes and employee benefits	<u>470,320</u>	<u>2,879</u>	<u>473,199</u>
Total employee compensation	2,495,741	14,019	2,509,760
Occupancy	141,464		141,464
Supplies	195,225	25	195,250
Specific assistance to individuals	93,919		93,919
Transportation	95,694	124	95,818
Rent	5,655		5,655
Operational support	22,248	504	22,752
Contractual employees/consultants	37,390		37,390
Miscellaneous	<u>17,590</u>		<u>17,590</u>
Total direct expenses before depreciation of buildings and equipment	3,104,926	14,672	3,119,598
Depreciation of buildings and equipment	<u>36,254</u>		<u>36,254</u>
Total direct expenses	3,141,180	14,672	3,155,852
Management and general			
Salary and benefits	244,145	1,145	245,290
Administrative	130,531	612	131,143
Other	<u>19,794</u>	<u>93</u>	<u>19,887</u>
Total expenses	<u>\$ 3,535,650</u>	<u>\$ 16,522</u>	<u>\$ 3,552,172</u>

LYDIA HOME ASSOCIATION
SUPPLEMENTAL STATEMENT OF FUNCTIONAL EXPENSES - FOSTER CARE
for the year ended June 30, 2008

	<u>Traditional</u>	<u>Special Treatment</u>	<u>Total</u>
Employee compensation:			
Salaries	\$ 324,443	\$ 93,588	\$ 418,031
Payroll taxes and employee benefits	<u>66,383</u>	<u>19,419</u>	<u>85,802</u>
Total employee compensation	390,826	113,007	503,833
Occupancy	40,753	8,038	48,791
Supplies	7,786	3,220	11,006
Specific assistance to individuals	233,064	30,669	263,733
Foster parent payments	213,465	83,922	297,387
Transportation	21,556	10,128	31,684
Rent	1,283	391	1,674
Operational support	14,156	3,568	17,724
Miscellaneous	<u>16,912</u>	<u>4,879</u>	<u>21,791</u>
Total direct expenses before depreciation of buildings and equipment	939,801	257,822	1,197,623
Depreciation of buildings and equipment	<u>24,828</u>	<u>8,909</u>	<u>33,737</u>
Total direct expenses	964,629	266,731	1,231,360
Management and general			
Salary and benefits	64,517	17,489	82,006
Administrative	36,151	9,800	45,951
Other	<u>4,930</u>	<u>1,336</u>	<u>6,266</u>
Total expenses	<u>\$ 1,070,227</u>	<u>\$ 295,356</u>	<u>\$ 1,365,583</u>

LYDIA HOME ASSOCIATION
SUPPLEMENTAL STATEMENT OF FUNCTIONAL EXPENSES - FOSTER CARE
for the year ended June 30, 2007

	<u>Traditional</u>	<u>Mothers Program</u>	<u>Special Treatment</u>	<u>Total</u>
Employee compensation:				
Salaries	\$ 223,729		\$ 100,576	\$ 324,305
Payroll taxes and employee benefits	<u>57,823</u>		<u>26,311</u>	<u>84,134</u>
Total employee compensation	281,552		126,887	408,439
Occupancy	46,375	\$ 130	11,421	57,926
Supplies	9,053		5,209	14,262
Specific assistance to individuals	132,243		20,413	152,656
Foster parent payments	162,603		100,950	263,553
Transportation	16,031		11,266	27,297
Rent	831		376	1,207
Operational support	11,459		3,753	15,212
Miscellaneous	<u>3,747</u>		<u>1,603</u>	<u>5,350</u>
Total direct expenses before depreciation of buildings and equipment	663,894	130	281,878	945,902
Depreciation of buildings and equipment	<u>25,242</u>		<u>14,085</u>	<u>39,327</u>
Total direct expenses	689,136	130	295,963	985,229
Management and general				
Salary and benefits	53,502	10	22,978	76,490
Administrative	28,605	5	12,285	40,895
Other	<u>4,338</u>	<u>1</u>	<u>1,863</u>	<u>6,202</u>
Total expenses	<u>\$ 775,581</u>	<u>\$ 146</u>	<u>\$ 333,089</u>	<u>\$1,108,816</u>

LYDIA HOME ASSOCIATION
SUPPLEMENTAL STATEMENT OF FUNCTIONAL EXPENSES - OTHER
for the year ended June 30, 2008

	<u>Salem</u>	<u>Urban Academy</u>	<u>Doula/ Healthy Families/ Abstinence</u>	<u>Safe Families</u>	<u>International Projects</u>	<u>New Jersey/ Quad Cities</u>	<u>Crossroads</u>	<u>Post Adoption</u>	<u>Total</u>
Employee compensation:									
Salaries	\$ 23,947	\$ 196,449	\$ 425,853	\$ 167,301	\$ 36,340	\$ 108,294		\$ 20,034	\$ 978,218
Payroll taxes and employee benefits	<u>4,738</u>	<u>26,917</u>	<u>91,504</u>	<u>35,355</u>	<u>13,458</u>	<u>22,865</u>		<u>3,139</u>	<u>197,976</u>
Total employee compensation	28,685	223,366	517,357	202,656	49,798	131,159		23,173	1,176,194
Occupancy		7,344	23,625	5,083	597	7,290	\$ 701	359	44,999
Supplies	329	20,545	35,051	9,608	1,161	4,247	82	169	71,192
Specific assistance to individuals		795	36,121	6,425	9,604				52,945
Transportation		714	9,066	20,551	2,902	794		74	34,101
Rent		19,602	10,104	47	3,744		9	6	33,512
Operational support	1,716	7,967	33,671	14,091	5,861	9,519	64	550	73,439
Contractual employees/ consultants	170	714	71,299	24,000		2,449			98,632
Miscellaneous	<u>638</u>	<u>15,393</u>	<u>32,695</u>	<u>2,136</u>	<u>524</u>	<u>2,446</u>	<u>1</u>	<u>89</u>	<u>53,922</u>
Total direct expenses before depreciation of buildings and equipment	31,538	296,440	768,989	284,597	74,191	157,904	857	24,420	1,638,936
Depreciation of buildings and equipment		<u>268</u>	<u>98</u>			<u>7,335</u>	<u>183</u>	<u>7</u>	<u>7,891</u>
Total direct expenses	31,538	296,708	769,087	284,597	74,191	165,239	1,040	24,427	1,646,827
Management and general									
Salary and benefits	2,119	18,761	27,945	18,751	1,380	11,170	70	1,649	81,845
Administrative	1,188	10,512	15,658	10,507	773	6,259	39	924	45,860
Other	<u>162</u>	<u>1,434</u>	<u>2,136</u>	<u>1,433</u>	<u>106</u>	<u>853</u>	<u>5</u>	<u>126</u>	<u>6,255</u>
Total expenses	<u>\$ 35,007</u>	<u>\$ 327,415</u>	<u>\$ 814,826</u>	<u>\$ 315,288</u>	<u>\$ 76,450</u>	<u>\$ 183,521</u>	<u>\$ 1,154</u>	<u>\$ 27,126</u>	<u>\$ 1,780,787</u>

LYDIA HOME ASSOCIATION
SUPPLEMENTAL STATEMENT OF FUNCTIONAL EXPENSES - OTHER
for the year ended June 30, 2007

	Salem	Urban Academy	Doula/ Healthy Families/ Abstinence	Safe Families	International Projects	New Jersey/ Quad Cities	Crossroads	Total
Employee compensation:								
Salaries	\$ 10,976	\$ 154,693	\$ 358,746	\$ 118,835	\$ 42,129	\$ 170,968		\$ 856,347
Payroll taxes and employee benefits	<u>3,499</u>	<u>28,580</u>	<u>93,007</u>	<u>27,506</u>	<u>22,919</u>	<u>36,332</u>		<u>211,843</u>
Total employee compensation	14,475	183,273	451,753	146,341	65,048	207,300		1,068,190
Occupancy		5,547	14,816	1,305	458	11,681	\$ 476	34,283
Supplies		17,076	29,751	2,402	3,077	8,277		60,583
Specific assistance to individuals	800	1,556	11,074	1,825	12,568	76		27,899
Transportation		491	8,183	12,113	1,285	1,230		23,302
Rent		18,325	9,900					28,225
Operational support	714	8,460	27,448	7,101	4,713	14,964		63,400
Contractual employees/ consultants		1,740	47,537	5,690		18,133		73,100
Miscellaneous		<u>749</u>	<u>19,686</u>			<u>20,604</u>		<u>41,039</u>
Total direct expenses before depreciation of buildings and equipment	15,989	237,217	620,148	176,777	87,149	282,265	476	1,420,021
Depreciation of buildings and equipment		<u>59</u>	<u>1,602</u>			<u>8,481</u>	<u>183</u>	<u>10,325</u>
Total direct expenses	15,989	237,276	621,750	176,777	87,149	290,746	659	1,430,346
Management and general								
Salary and benefits	1,248	18,483	31,722	13,799	1,618	21,088	51	88,009
Administrative	668	9,882	16,960	7,378	865	11,274	28	47,055
Other	<u>101</u>	<u>1,499</u>	<u>2,572</u>	<u>1,119</u>	<u>131</u>	<u>1,710</u>	<u>4</u>	<u>7,136</u>
Total expenses	<u>\$ 18,006</u>	<u>\$ 267,140</u>	<u>\$ 673,004</u>	<u>\$ 199,073</u>	<u>\$ 89,763</u>	<u>\$ 324,818</u>	<u>\$ 742</u>	<u>\$1,572,546</u>