



**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2016



Ketel Thorstenson, LLP
Certified Public Accountants/Business & Personal Consultants

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Youth & Family Services, Inc. and
Youth & Family Services Foundation
Rapid City, South Dakota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **YOUTH & FAMILY SERVICES, INC.** (the Organization) and **YOUTH & FAMILY SERVICES FOUNDATION** (the Foundation), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization and the Foundation as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Expenditures of Federal Awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on pages 20 through 21 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Also, the Consolidating Statement of Financial Position, Consolidating Statement of Activities and Changes in Net Assets, and Consolidating Statement of Cash Flows on pages 16 through 19 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016 on our consideration of the Organization'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

October 24, 2016

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016**

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Current Assets				
Cash and Cash Equivalents	\$ 213,204	\$ 1,105,364	\$ -	\$ 1,318,568
Inventory	15,554	-	-	15,554
Prepaid Expenses	8,086	-	-	8,086
Government Grant Funds Receivable	659,221	-	-	659,221
Accounts Receivable -- Fees and Other (Net of Allowance of \$30,902)	140,214	-	-	140,214
Promises to Give -- United Way	-	91,500	-	91,500
Promises to Give -- Portion Due Within One Year (Note 2)	-	241,753	2,418	244,171
Total Current Assets	1,036,279	1,438,617	2,418	2,477,314
Property and Equipment (Notes 5 and 6)	10,379,887	-	-	10,379,887
Less Accumulated Depreciation	4,242,370	-	-	4,242,370
Total Property and Equipment, Net	6,137,517	-	-	6,137,517
Other Assets				
Promises to Give -- Portion Due After One Year (Note 2)	-	485,897	-	485,897
Investments (Note 1 h and Note 7)	1,360,689	339,471	1,166,808	2,866,968
Total Other Assets	1,360,689	825,368	1,166,808	3,352,865
TOTAL ASSETS	\$ 8,534,485	\$ 2,263,985	\$ 1,169,226	\$ 11,967,696
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts Payable	\$ 233,262	\$ -	\$ -	233,262
Accrued Personnel Expenses	836,684	-	-	836,684
Deferred Revenue	33,000	-	-	33,000
Total Current Liabilities	1,102,946	-	-	1,102,946
Commitment (Note 3)				
Net Assets (Note 5)				
Unrestricted:				
Property and Equipment	6,137,517	-	-	6,137,517
General	330,749	-	-	330,749
	6,468,266	-	-	6,468,266
Board Designated	963,273	-	-	963,273
Total Unrestricted	7,431,539	-	-	7,431,539
Temporarily Restricted	-	2,263,985	-	2,263,985
Permanently Restricted	-	-	1,169,226	1,169,226
Total Net Assets	7,431,539	2,263,985	1,169,226	10,864,750
TOTAL LIABILITIES AND NET ASSETS	\$ 8,534,485	\$ 2,263,985	\$ 1,169,226	\$ 11,967,696

The accompanying notes are an integral part of this statement.

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Support and Revenues				
Contributions	\$ 383,978	\$ 1,309,395	\$ -	\$ 1,693,373
Memorials	-	289,789	-	289,789
Kid's Fair	109,336	-	-	109,336
Dinner Theatre	51,786	-	-	51,786
United Way	-	183,000	-	183,000
<i>Foundation and Corporate Grants:</i>				
Larson	-	35,000	-	35,000
Vucurevich Foundation	100,000	-	-	100,000
Bush Foundation	10,000	-	-	10,000
Wellmark Foundation	-	10,000	-	10,000
Gwendolyn Stearns Foundation	20,000	-	-	20,000
Rasmussen Trust	-	33,500	-	33,500
June Clark Trust	7,837	-	-	7,837
Distribution from Black Hills Community Foundation	5,537	-	-	5,537
Other	17,000	2,000	-	19,000
<i>Investment Income:</i>				
Royalties	2,218	-	-	2,218
Net Realized/Unrealized Loss on Investments (Note 1h)	(44,020)	(4,142)	(6,182)	(54,344)
Interest and Dividends	45,993	20,832	1,384	68,209
Government Grants	8,920,543	-	-	8,920,543
Membership Dues	31,070	-	-	31,070
Program Service Fees	1,509,085	11,237	-	1,520,322
Donated Rental Facilities (Note 4)	225,236	-	-	225,236
Miscellaneous	933	-	-	933
Gain on Sale of Property and Equipment	3,029	-	-	3,029
Net Assets Released from Restrictions (Note 5)	710,242	(692,557)	(17,685)	-
Total Support and Revenues	12,109,803	1,198,054	(22,483)	13,285,374
Expenses				
<i>Program Services: (Note 1a)</i>				
Counseling Center	256,197	-	-	256,197
Prevention Resource Center	175,352	-	-	175,352
Program Services Expense	10,280,571	-	-	10,280,571
Total Program Services	10,712,120	-	-	10,712,120
<i>Supporting Services:</i>				
Administrative	1,196,469	-	-	1,196,469
Fundraising	328,538	-	-	328,538
Total Supporting Services	1,525,007	-	-	1,525,007
Total Expenses	12,237,127	-	-	12,237,127
Increase (Decrease) in Net Assets	(127,324)	1,198,054	(22,483)	1,048,247
Net Assets -- Beginning of Year	7,558,863	1,065,931	1,191,709	9,816,503
Net Assets -- End of Year	\$ 7,431,539	\$ 2,263,985	\$ 1,169,226	\$ 10,864,750

The accompanying notes are an integral part of this statement.

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 6,130,028	\$ 827,827	\$ 227,107	\$ 7,184,962
Family Child Care Payments	861,514	-	-	861,514
Fringe Benefits (Note 3)	715,242	96,589	26,498	838,329
Payroll Taxes	452,901	61,162	16,779	530,842
Supplies	491,598	1,694	15,360	508,652
Depreciation	338,836	5,105	76	344,017
Rent (Note 4)	310,455	-	-	310,455
Professional and Contracted Services	214,879	82,019	3,133	300,031
Food	286,706	-	-	286,706
Utilities	233,748	7,649	1,093	242,490
Travel and Conferences	172,191	31,120	7,229	210,540
Transportation	116,161	1,730	112	118,003
Insurance	94,423	15,442	783	110,648
Repairs and Maintenance	75,065	1,238	-	76,303
Kid's Fair Expenses	51,474	9,333	6,879	67,686
Bad Debt Provision	32,429	-	22,158	54,587
Telephone	45,018	1,404	468	46,890
Office Supplies and Postage	5,409	27,176	49	32,634
Promotion	5,554	20,380	514	26,448
Excursions	22,498	-	-	22,498
Dues and Subscriptions	20,185	1,358	300	21,843
Grant Specific Activities	16,838	-	-	16,838
Miscellaneous	10,254	68	-	10,322
Parent Activity	8,714	-	-	8,714
Property Tax	-	5,175	-	5,175
	<u>\$ 10,712,120</u>	<u>\$ 1,196,469</u>	<u>\$ 328,538</u>	<u>\$ 12,237,127</u>

The accompanying notes are an integral part of this statement.

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

Cash Flows from Operating Activities

Increase in Net Assets	\$ 1,048,247
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash</i>	
<i>Flows Provided by Operating Activities:</i>	
Depreciation	344,017
Bad Debt Expense	54,587
Net Realized/Unrealized Loss on Investments	54,344
Gain on Sale of Property and Equipment	(3,029)
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>	
Inventory	3,897
Prepaid Expenses	(2,485)
Government Grant Receivable	(140,648)
Accounts Receivable	(50,020)
Promises to Give	(584,424)
Promises to Give -- United Way	5,000
Accounts Payable	47,407
Accrued Personnel Expenses	122,578
Deferred Revenue	33,000
Net Cash Flows Provided by Operating Activities	932,471

Cash Flows from Investing Activities

Purchases of Property and Equipment	(255,208)
Proceeds from Sale of Property and Equipment	29,689
Purchases of Investments	(462,048)
Proceeds from Sale of Investments	431,665
Net Cash Flows Used in Investing Activities	(255,902)

Net Increase in Cash and Cash Equivalents 676,569

Cash and Cash Equivalents -- Beginning of Year 641,999

Cash and Cash Equivalents -- End of Year **\$ 1,318,568**

Supplemental Disclosure of Noncash Investing Activities:

Purchases of Equipment Included In Accounts Payable \$ 215

The accompanying notes are an integral part of this statement.

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies

a. Operations

Youth & Family Services, Inc. (the Organization) operates various programs serving Black Hills area youth including: 1) Girls Incorporated® of Rapid City, providing educational, recreational, and health outreach programs for girls, ages 6-17; 2) YFS Counseling Center, providing assessment, prevention and mental health counseling services for area youth and their families, trauma assessment and treatment through the Youth Trauma Center, and a health advocacy program for boys, ages 4-17; 3) YFS Child Development Center, providing licensed, quality, affordable childcare for children, ages 4 weeks - 14 years; 4) YFS Nutrition Services, providing or overseeing provision of more than 844,000 nutritious meals and snacks annually to children within agency programs, the Summer Food Program, and enrolled in Family Child Care homes in 18 counties through the Family Child Care Nutrition program; 5) YFS Rapid City Prenatal to Five Head Start, a comprehensive, federally-funded early childhood education and preschool program that enhances the physical, social, emotional, and intellectual development of low-income children, ages 0-5, and their families through classroom activities and home visits; 6) YFS Rural Prenatal to Five Head Start, a parent-focused early childhood education program and preschool program offering home visits and at-home activities for low-income families with children, ages 0-5, in seven counties in western South Dakota; 7) YFS Western Prevention Resource Center, providing resources, research, training, and technical assistance to schools, prevention coalitions and other organizations in 22 counties for drug and alcohol abuse and violence prevention; and 8) the YFS Fatherhood First program, providing father-child activities, fatherhood education, and individual case management services that promote positive relationships between fathers and their children. The Organization is dependent on governmental grants to meet many of its program needs. For the year ended June 30, 2016, the Head Start grants comprised \$6,257,654 of government grant revenues. The Family Child Care Nutrition program is funded entirely by the Child & Adult Care Food Program through the South Dakota Department of Education & Cultural Affairs. Sources of revenue for other YFS programs include individual contributions, United Way funding, fees and interest income from two trust funds and an endowment, fundraiser proceeds, corporate and foundation grants, as well as city and federal grants.

Youth & Family Services Foundation (the Foundation) was created to help provide long-term financial security and stability for the Organization. Its sole purpose is to provide funding for the programs and services of the Organization and ensure that Organization services provided to children and families continue uninterrupted.

b. Principles of Consolidation

The consolidated financial statements include the accounts of Youth & Family Services, Inc. and Youth & Family Services Foundation. The Foundation is consolidated into the financial statements of the Organization as the Organization has control and an economic interest in the Foundation. All material inter-organization transactions have been eliminated.

c. Use of 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 the amounts and disclosures reported in the financial statements. Actual results could differ from those estimates.

d. Method of Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting.

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies (Continued)

e. Cash and Cash Equivalents

For financial statement purposes, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents; however, donor restricted and board designated investments are classified as long-term. The Organization maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

f. Inventory

Inventory, primarily consisting of food and postage, is stated at the lower of cost or market, using the first-in, first-out method of valuation.

g. Property and Equipment

Property and equipment purchases of \$5,000 or more are capitalized at cost. Donated property and equipment is stated at fair market value at the date of the donation. Grantors (primarily Head Start) retain a reversionary interest in property and equipment purchased with their funds (see Note 6). Depreciation is computed over the estimated service lives of the respective assets on a straight-line basis. The estimated service lives of the property and equipment are as follows:

Buildings	15-39 Years
Equipment and Furnishings	3-25 Years
Equipment and Vehicles -- Head Start	3-10 Years
Vehicles	5-7 Years

h. Investments

The Organization accounts for investments at fair market value with changes in fair market value accounted for in the Statement of Activities and Changes in Net Assets. Investments are presented in the financial statements at the quoted market value of the securities. Realized and unrealized gains and losses, determined on the basis of the amortized cost of specific investments, are recognized in the Statement of Activities and Changes in Net Assets. Investment management fees totaling \$35,506 at June 30, 2016 are included as Professional and Contracted Services in the Consolidated Statement of Functional Expenses. Management's policy is to credit (charge) all gains and losses against the three classes of net assets according to where the investment is being held. According to donor stipulation, investment income earned on permanently and temporarily restricted investments is recorded as unrestricted or temporarily restricted until such time as the restriction is met.

i. Presentation of Net Assets

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

j. Grants and Contracts

The Organization recognizes revenue from grants and contracts under various methods. For the Head Start grant, revenue is recognized as expenses are incurred in accordance with the terms of the agreements. For the Division of Behavioral Health/Prevention Program counseling and prevention education contracts and the Child and Adult Nutrition Services grant, revenue is recognized on a service unit basis as services are rendered. For the remaining grants and contracts, revenue is recognized under various methods (primarily as expenses are incurred) over their respective terms.

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies (Continued)

k. Contributions and Promises to Give

Unconditional contributions and promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Conditional promises are not recorded in the financial statements until such time as the donor's intent is irrevocable. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Amounts due after one year are recorded at their present value. Management has estimated an allowance for doubtful accounts based on their knowledge of current environmental conditions and historical losses.

The Organization also receives different types of noncash donations such as tickets for children's entertainment, expendable equipment, furnishings, use of vehicles, food for Dinner Theatre, and volunteer help for program and fund raising activities. Due to the nature of these types of donations, no value for these items has been recorded in these financial statements.

l. Expense Allocation

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

m. Federal Income Tax

The Organization and the Foundation qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are not subject to federal income tax. In addition, the Organization and the Foundation have been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code.

At June 30, 2016, the Organization and the Foundation believe no significant uncertain tax positions or liabilities exist.

n. Accounts Receivable

Accounts receivable are recorded monthly at the time the revenue is billed. Client receivables not paid within two weeks of the invoice date are considered past due. As of June 30, 2016, receivables totaling \$55,874 are over ninety days delinquent. Management has estimated an allowance for doubtful accounts based on their knowledge of current environmental conditions and historical losses. Receivables will be charged off as uncollectible when management feels they have exhausted all reasonable collection efforts or after two years.

o. Subsequent Events

Management has assessed the Organization and Foundation for significant subsequent events through October 24, 2016, the date which the financial statements were available to be issued.

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies (Continued)

p. Emerging Accounting Standard

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, provides more useful information to users of financial statements through improved disclosure requirements, and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The ASU outlines five steps to achieve proper revenue recognition: identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the entity satisfies the performance obligation. This standard is effective for annual reporting periods beginning after December 15, 2018. The Organization will be evaluating the impact implementation will have on the financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new standard revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The standard requires equity investments (excluding those accounted for under the equity method or those that result in consolidation) to be measured at fair value, with changes in fair value recognized in net income. An entity may elect to measure at cost equity investments for which fair value is not readily determinable, minus impairment, if any, plus or minus the change as a result of an observable price change. This standard simplifies the impairment assessment of equity investments for which fair value is not readily determinable by requiring an entity to perform a qualitative assessment to identify impairment. If qualitative indicators are identified, the entity will be required to measure the investment at fair value. This standard is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization will be evaluating the impact implementation will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which supersedes FASB ASC *Topic 840, Leases (Topic 840)* and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. If the available accounting election is made, leases with a term of twelve months or less can be accounted for similar to existing guidance for operating leases. The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on the financial statements.

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(1) Summary of Significant Accounting Policies (Concluded)

p. Emerging Accounting Standard (Continued)

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to provide more useful information to financial statement users. Changes include: 1) presenting only two classes of net assets (with and without donor restrictions), 2) no longer requiring a reconciliation with the indirect method when choosing to utilize the direct method of cash flows, 3) reporting investment return net of expenses with no additional disclosure of expense amounts, and 4) eliminating the option to release donor-imposed restrictions of long-lived assets over the estimate useful life of the asset acquired. In addition, enhanced disclosures are required for board designated and donor restricted net assets, the entity's liquidity and how that liquidity is managed, expenses by both natural and functional classification, the allocation methods among program and support functions, and underwater endowment funds (which will now be classified as net assets with donor restrictions). The standard is effective for fiscal years beginning after December 15, 2017. The Organization is currently evaluating the impact this standard will have on the financial statements.

(2) Capital Campaign and Promises to Give

In the spring of 2009, the Foundation began the quiet phase of a combined Endowment/Land Campaign. The Campaign pledges to date consist primarily of pledges from employees, board members, and several major donors that have a history of supporting Youth & Family Services.

Unconditional promises to give that are outstanding are as follows as of June 30, 2016:

Receivable in less than one year	\$ 244,171
Receivable in one to five years	436,115
Receivable over five years	100,072
Total unconditional promises to give	780,358
Less allowance for uncollectible promises to give	26,415
Total unconditional promises to give net of allowance	753,943
Less discounts to net present value (*)	23,875
Net Unconditional Promises to Give	730,068
Total Promises to Give	\$ 730,068

(*) Based on 2.67% for pledges in 2009-2010, 1.41 % for pledges in 2010-2011, 1.03% for pledges in 2011-2012, 1.1% for pledges in 2012-2013, 1.55% for pledges in 2013-2014, 1.57% for pledges in 2014-2015, 1.31% for pledges in 2015-2016.

(3) Employee Benefits

The Organization has a defined contribution profit-sharing and 401(k) plan that covers all employees at least 18 years of age and having at least one year of service. Profit-sharing contributions to this plan are at the discretion of the Board of Directors. Employer matching contributions are required under the terms of the plan document. The expense recognized related to the plan for the year ended June 30, 2016 is \$225,951.

(4) Leases

The Organization leases several buildings on a month to month basis at a cost below prevailing market rates. The Organization recorded the difference between the aggregate annual market value of the leases and the amount paid by the Organization of \$225,236 as Donated Facilities Revenue and Rent Expense in the Statement of Activities and Changes in Net Assets.

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(5) Net Assets

Temporarily and permanently restricted net assets at June 30, 2016, include the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Released FY Ended June 30, 2016</u>
<i>Restricted Net Assets:</i>			
East Adams Facilities and Operations Endowment	\$ -	\$ 50,000	\$ -
United Way	91,500	-	188,000
Foundation Campaign Time Restriction (Foundation)	80,180	-	133,108
Caremobile	450	-	5,000
John Vucurevich Endowment (Foundation)	-	408,824	-
Foundation Campaign 10-Year Donor Restriction (Foundation)	3,268	-	146
Foundation Campaign Land/Building Improvements (Foundation)	1,623,687	-	98,027
Foundation Campaign Child Development Center (Foundation)	575	-	-
Adams New Complex, Maintenance and Program (Foundation)	99,378	-	1,283
Girls Inc. Program Restricted (Foundation)	495	-	2,245
Foundation - No Program Restriction (Foundation)	-	17,922	-
Foundation Campaign Endowment Fatherhood (Foundation)	-	65,453	(109)
Fatherhood Project Reserves/Endowment (Foundation)	44,404	25,000	1,120
Foundation Campaign Reserves/Endowment Girls Inc. (Foundation)	-	1,025	-
Lemley Funds Endowment Girls Inc. Restricted (Foundation)	603	463,834	30,786
Rasmussen Trust Distribution	18,373	-	35,754
Lemley Trust Distribution	17,055	-	(7,447)
Foundation Campaign - No Program Restriction (Foundation)	-	137,168	(548)
Garden Work	-	-	2,472
Foundation Campaign - Rural Programming (Foundation)	1,000	-	-
Girls Inc Program Restricted	189,789	-	109,534
Larson Family Foundation	29,167	-	5,833
Wellmark Foundation	8,583	-	1,417
Izaak Walton Foundation	2,500	-	-
Dollar General Literacy Foundation	2,000	-	-
Share South Dakota	-	-	711
Whole Kids Foundation	500	-	1,500
Holiday Gifts/Family Needs	1,960	-	40
Vucurevich Foundation	-	-	96,313
East Adams Garden Funds (Foundation)	1,760	-	-
Made for Shade	-	-	5,000
Child and Adult Care Food Program	7,482	-	57
Youth Trauma	39,276	-	-
	\$ 2,263,985	\$ 1,169,226	\$ 710,242

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(5) Net Assets (Continued)

Unrestricted net assets at June 30, 2016 include the following:

Property and Equipment	\$ 6,137,517
General	330,749
<i>Board Designated:</i>	
East Adams Facilities and Operations	669,096
Hail Damage Vehicles	7,197
Endowment	120,188
Endowment - Foundation	100,000
Kid's Fair	7,677
Emergency Child Care Funds	42,000
Child Development Center Transportation	12,840
East Adams Flooring	4,275
	\$ 7,431,539

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

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

- The duration and preservation of the fund;
- The purposes of the Organization and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Organization;
- The investment policies of the Organization.

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment Net Assets - June 30, 2015	\$ 222,599	\$ 52,516	\$ 1,191,709	\$ 1,466,824
Investment Income (Loss)	(847)	5,554	(4,798)	(91)
Contributions	-	500	-	500
Appropriation for Expenditure	(1,564)	(13,563)	(17,685)	(32,812)
Endowment Net Assets - June 30, 2016	\$ 220,188	\$ 45,007	\$ 1,169,226	\$ 1,434,421

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(5) Net Assets (Concluded)

The Organization has an investment policy which dictates investment principles, objectives, and guidelines. The Organization also has a distribution policy which provides the guidance for disbursement of funds. Both of these policies work together to attempt to provide a predictable growth for the Organization's endowment. Over a ten-year investment horizon, the Organization's objective is to meet or exceed a rate of return equal to the CPI (inflation rate) plus five percent (5%). Actual returns in any given year may vary from this amount.

(6) Property and Equipment

Property and equipment consist of the following at June 30, 2016:

Buildings	\$ 5,283,102
Buildings -- Federal Reversionary Interest	1,086,872
Buildings - East Adams New Complex Work in Progress	91,183
Equipment and Vehicles -- Federal Reversionary Interest	1,603,333
Equipment and Furnishings	494,232
Vehicles	664,631
	<hr/> 9,223,353
Less Accumulated Depreciation	4,242,370
	<hr/> 4,980,983
	<hr/>
Land	1,156,534
	<hr/> \$ 6,137,517 <hr/>

(7) Fair Value

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three-level hierarchy for defining classification of input levels is defined as follows:

- Level One: observable inputs such as quoted market prices for identical assets or liabilities in active markets. The types of assets and liabilities included in Level One are highly liquid and actively traded instruments with quoted market prices.
- Level Two: inputs include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. The types of assets and liabilities included in Level Two are typically either comparable to actively traded securities or priced with models using observable inputs.
- Level Three: inputs are based on prices or valuation techniques that are unobservable. These types of assets and liabilities require significant management judgment or estimation.

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2016**

(7) Fair Value (Continued)

The following table presents the assets carried at fair value as of June 30, 2016 on the accompanying Consolidated Statement of Financial Position by fair value hierarchy, as described above. All are measured on a recurring basis. The Organization carried no other assets or liabilities measured at fair value on a recurring or non-recurring basis. Level Two investments include only fixed income securities and money market accounts. Fixed income securities are comprised of various types of bonds and mutual funds valued at either the yields currently available on comparable securities of issuers with similar credit ratings or valued under a discounted cash flow approach that maximizes observable inputs such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable such as credit and liquidity risks. Money market accounts are valued at an exit price of \$1 per share. Investment real estate totaling \$220,000 is valued at cost as of June 30, 2016.

	Level One	Level Two	Level Three	Total
Money Market Funds	\$ -	\$ 195,483	\$ -	\$ 195,483
<i>Stocks:</i>				
Emerging Markets	61,848	-	-	61,848
Large Cap	1,283,362	-	-	1,283,362
Mid Cap	130,119	-	-	130,119
Other	486,596	-	-	465,908
<i>Fixed Income Securities:</i>				
Short/Intermediate Corporate	-	150,661	-	150,661
US Taxable	-	160,915	-	160,915
High Yield	-	5,345	-	5,345
Other	-	172,639	-	172,639
	\$ 1,961,925	\$ 685,043	\$ -	\$ 2,646,968

Balances included in investments on accompanying statement of financial position, recorded at cost:

Land - John Vucurevich Endowment	160,000
Land	60,000
Total Investments	\$ 2,866,968

SUPPLEMENTARY INFORMATION

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016**

<u>ASSETS</u>	<u>Youth & Family Services</u>	<u>YFS Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Current Assets				
Cash and Cash Equivalents	\$ 333,151	\$ 985,417	\$ -	\$ 1,318,568
Inventory	15,554	-	-	15,554
Prepaid Expenses	8,086	-	-	8,086
Government Grant Funds Receivable	659,221	-	-	659,221
Accounts Receivable -- Fees and Other (Net of Allowance of \$30,902)	140,429	-	(215)	140,214
Promises to Give -- United Way	91,500	-	-	91,500
Promises to Give -- Portion Due Within One Year	-	244,171	-	244,171
Total Current Assets	1,247,941	1,229,588	(215)	2,477,314
Property and Equipment	10,379,887	-	-	10,379,887
Less Accumulated Depreciation	4,242,370	-	-	4,242,370
Total Property and Equipment, Net	6,137,517	-	-	6,137,517
Other Assets				
Promises to Give -- Portion Due After One Year	-	485,897	-	485,897
Investments	1,177,524	1,689,444	-	2,866,968
Total Other Assets	1,177,524	2,175,341	-	3,352,865
TOTAL ASSETS	\$ 8,562,982	\$ 3,404,929	\$ (215)	\$ 11,967,696
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts Payable	\$ 227,978	\$ 5,499	\$ (215)	\$ 233,262
Accrued Personnel Expenses	836,684	-	-	836,684
Deferred Revenue	33,000	-	-	33,000
Total Current Liabilities	1,097,662	5,499	(215)	1,102,946
Net Assets				
Unrestricted:				
Property and Equipment	6,137,517	-	-	6,137,517
General	5,895	324,854	-	330,749
	6,143,412	324,854	-	6,468,266
Board Designated	863,273	100,000	-	963,273
Total Unrestricted	7,006,685	424,854	-	7,431,539
Temporarily Restricted	408,635	1,855,350	-	2,263,985
Permanently Restricted	50,000	1,119,226	-	1,169,226
Total Net Assets	7,465,320	3,399,430	-	10,864,750
TOTAL LIABILITIES AND NET ASSETS	\$ 8,562,982	\$ 3,404,929	\$ (215)	\$ 11,967,696

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016**

	Youth and <u>Family Services</u>	YFS <u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Support and Revenues				
Contributions	\$ 408,739	\$ 1,284,634	\$ -	\$ 1,693,373
Memorials	289,789	-	-	289,789
Kid's Fair	109,336	-	-	109,336
Dinner Theatre	51,786	-	-	51,786
United Way	183,000	-	-	183,000
Dr. Lemley Trust Funds	24,679	-	(24,679)	-
<i>Foundation and Corporate Grants:</i>				
Larson	35,000	-	-	35,000
Vucurevich Foundation	100,000	-	-	100,000
Bush Foundation	10,000	-	-	10,000
Wellmark Foundation	10,000	-	-	10,000
Gwendolyn Stearns Foundation	20,000	-	-	20,000
Rasmussen Trust	33,500	-	-	33,500
June Clark Trust	7,837	-	-	7,837
Distribution from Black Hills Community Foundation	-	5,537	-	5,537
Other	19,000	-	-	19,000
<i>Investment Income:</i>				
Royalties	2,218	-	-	2,218
Net Realized/Unrealized Loss on Investments	(24,419)	(29,925)	-	(54,344)
Interest and Dividends	25,327	42,882	-	68,209
Donation Income from Foundation	110,456	-	(110,456)	-
Government Grants	8,920,543	-	-	8,920,543
Membership Dues	31,070	-	-	31,070
Program Service Fees	1,520,322	-	-	1,520,322
Donated Rental Facilities	225,236	-	-	225,236
Miscellaneous	933	-	-	933
Gain on Sale of Property and Equipment	3,029	-	-	3,029
Contract Service Fees	78,369	-	(78,369)	-
Total Support and Revenues	12,195,750	1,303,128	(213,504)	13,285,374

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

	Youth and <u>Family Services</u>	YFS <u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Expenses				
Salaries	\$ 7,184,962	\$ -	\$ -	\$ 7,184,962
Family Child Care Payments	861,514	-	-	861,514
Fringe Benefits	838,329	-	-	838,329
Payroll Taxes	530,842	-	-	530,842
Supplies	508,652	-	-	508,652
Depreciation	344,017	-	-	344,017
Rent	310,455	-	-	310,455
Professional and Contracted Services	276,359	102,041	(78,369)	300,031
Food	286,706	-	-	286,706
Utilities	242,490	-	-	242,490
Travel and Conferences	210,540	-	-	210,540
Transportation	118,003	-	-	118,003
Insurance	108,583	2,065	-	110,648
Repairs and Maintenance	76,303	-	-	76,303
Kid's Fair Expenses	67,686	-	-	67,686
Bad Debt Provision	32,429	22,158	-	54,587
Telephone	46,890	-	-	46,890
Office Supplies & Postage	32,278	356	-	32,634
Promotion	25,934	514	-	26,448
Excursions	22,498	-	-	22,498
Dues and Subscriptions	21,843	-	-	21,843
Grant Specific Activities	16,838	-	-	16,838
Miscellaneous	10,322	-	-	10,322
Parent Activity	8,714	-	-	8,714
Property Tax	(249)	5,424	-	5,175
Donation Expense to YFS, Inc.	-	135,135	(135,135)	-
Total Expenses	12,182,938	267,693	(213,504)	12,237,127
Increase in Net Assets	12,812	1,035,435	-	1,048,247
Net Assets -- Beginning of Year	7,452,508	2,363,995	-	9,816,503
Net Assets -- End of Year	\$ 7,465,320	\$ 3,399,430	\$ -	\$ 10,864,750

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

	Youth and <u>Family Services</u>	YFS <u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Cash Flows from Operating Activities				
Increase in Net Assets	\$ 12,812	\$ 1,035,435	\$ -	\$ 1,048,247
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash Flows Provided by Operating Activities:</i>				
Depreciation	344,017	-	-	344,017
Bad Debt Expense	32,429	22,158	-	54,587
Net Realized/Unrealized Loss on Investments	24,419	29,925	-	54,344
Gain on Sale of Property and Equipment	(3,029)	-	-	(3,029)
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>				
Inventory	3,897	-	-	3,897
Prepaid Expenses	(2,485)	-	-	(2,485)
Government Grant Receivable	(140,648)	-	-	(140,648)
Accounts Receivable	(50,235)	-	215	(50,020)
Promises to Give	-	(584,424)	-	(584,424)
Promises to Give - United Way	5,000	-	-	5,000
Accounts Payable	47,688	(66)	(215)	47,407
Accrued Personnel Expenses	122,578	-	-	122,578
Deferred Revenue	33,000	-	-	33,000
Net Cash Flows Provided by Operating Activities	429,443	503,028	-	932,471
Cash Flows from Investing Activities				
Purchases of Property and Equipment	(255,208)	-	-	(255,208)
Proceeds from Sale of Property and Equipment	29,689	-	-	29,689
Purchases of Investments	(253,325)	(208,723)	-	(462,048)
Proceeds from Sale of Investments	52,786	378,879	-	431,665
Net Cash Flows Provided by (Used In) Investing Activities	(426,058)	170,156	-	(255,902)
Net Increase (Decrease) in Cash and Cash Equivalents	3,385	673,184	-	676,569
Cash and Cash Equivalents -- Beginning of Year	329,766	312,233	-	641,999
Cash and Cash Equivalents -- End of Year	\$ 333,151	\$ 985,417	\$ -	\$ 1,318,568
Supplemental Disclosure of Noncash Investing Activities:				
Purchases of Equipment Included In Accounts Payable	\$ 215	\$ -	\$ -	\$ 215

FEDERAL GRANT REPORTS

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

<u>FEDERAL GRANTOR/ PROGRAM TITLE</u>	<u>Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>Identifying Number</u>	<u>Accrued Revenue at 6/30/2015</u>	<u>Program Expenditures</u>	<u>Program Receipts</u>	<u>Accrued Revenue at 6/30/2016</u>
<u>Department of Agriculture</u>							
<i>Pass Through Funding:</i>							
Child and Adult Care Food Program (Note 1)	SD Department of Education	10.558	5140500	\$ 107,231	\$ 1,412,385	\$ 1,413,564	\$ 106,052
Summer Food Service Program for Children (Note 1)	SD Department of Education	10.559	5140500	31,776	117,940	124,496	25,220
Total -- Department of Agriculture				139,007	1,530,325	1,538,060	131,272
<u>Department of Housing and Urban Development</u>							
<i>Pass Through Funding:</i>							
Community Development Block Grant	City of Rapid City	14.253	B-15-MC-46-0002 B-16-MC-46-0002	2,160	2,660	4,820	-
<u>Department of Justice</u>							
<i>Pass Through Funding:</i>							
Crime Victim Assistance	SD Department of Social Services	16.575	15-0832-675 16-0832-676	4,347	29,409	33,043	713
<u>Department of Education</u>							
<i>Pass Through Funding:</i>							
21st Century Grant	SD Department of Education	84.287C	16-21-138	-	150,000	129,996	20,004

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

<u>FEDERAL GRANTOR/ PROGRAM TITLE</u>	<u>Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>Identifying Number</u>	<u>Accrued Revenue at 6/30/2015</u>	<u>Program Expenditures</u>	<u>Program Receipts</u>	<u>Accrued Revenue at 6/30/2015</u>
<u>Department of Health and Human Services</u>							
<i>Direct Funding:</i>							
Head Start 0-5	N/A	93.600		\$ 302,316	\$ 5,378,815	\$ 5,336,768	\$ 344,363
Early Head Start Expansion	N/A	93.600		21,913	878,839	851,665	49,087
Total Head Start Cluster				324,229	6,257,654	6,188,433	393,450
YFS Healthy Marriage and Relationship Education Project	N/A	93.086		-	355,528	304,031	51,497
YFS Youth Trauma Center	N/A	93.243		33,659	397,541	390,500	40,700
Total -- Department of Health and Human Services				357,888	7,010,723	6,882,964	485,647
TOTAL				\$503,402	\$ 8,723,117	\$ 8,588,883	\$ 637,636

This schedule is presented on the accrual basis of accounting.

Note 1: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.

Note 2: The 10% de minimis indirect cost rate was not elected.

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unmodified opinion on the financial statements.
2. No findings were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. No findings were disclosed during the audit of the major federal award programs and none are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by Uniform Guidance.
5. The independent auditor's report on compliance for the major federal award programs expresses an unmodified opinion.
6. No audit findings relative to the major federal award program for the Organization are reported in Part C of this schedule.
7. The programs tested as major programs were the Child and Adult Care Food Program - CFDA #10.558 and the Healthy Marriage Promotion and Responsible Fatherhood Grants – CFDA #93.086.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The Organization was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

STATUS OF PRIOR YEAR FINDINGS

None



Ketel Thorstenson, LLP

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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
Youth & Family Services, Inc. and
Youth & Family Services Foundation
Rapid City, SD

We have audited, in accordance with the 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, the consolidated financial statements of **YOUTH & FAMILY SERVICES, INC.** (the Organization) and **YOUTH & FAMILY SERVICES FOUNDATION** (the Foundation) which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



KETEL THORSTENSON, LLP
Certified Public Accountants

October 24, 2016



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Youth & Family Services, Inc. and
Youth & Family Services Foundation
Rapid City, SD

Report on Compliance for Each Major Federal Program

We have audited the **YOUTH & FAMILY SERVICES, INC.** (the Organization) and **YOUTH & FAMILY SERVICES FOUNDATION** (the Foundation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Organization'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



KETEL THORSTENSON, LLP
Certified Public Accountants

October 24, 2016

HEAD START FINANCIAL STATEMENTS



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Youth & Family Services, Inc. and
Youth & Family Services Foundation
Rapid City, South Dakota

We have audited the consolidated financial statements of **YOUTH & FAMILY SERVICES, INC.** (the Organization) and **YOUTH & FAMILY SERVICES FOUNDATION** (the Foundation) as of and for the year ended June 30, 2016, and have issued our report thereon dated October 24, 2016, which expressed an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The Statement of Revenue and Expenditures for the Head Start Program for twelve months ended February 29, 2016 and the Statement of Revenue and Expenditures for the Early Head Start Expansion Program for the eighteen months ended June 30, 2016, relating to the 2016 consolidated financial statements, is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in dark ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

October 24, 2016

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION
HEAD START AND EARLY HEAD START PROGRAMS GRANT NO. 08CH1076/02**

**UNAUDITED STATEMENT OF REVENUE AND EXPENDITURES
FOR THE TWELVE MONTHS ENDING FEBRUARY 29, 2016
PROJECT PERIOD JULY 1, 2014 - JUNE 30, 2019**

March 1, 2015 to February 29, 2016

	----- Head Start -----		-- Early Head Start --		
	Grant	Grant	Grant	Grant	
	<u>CAN 4122</u>	<u>CAN 4120</u>	<u>CAN 4125</u>	<u>CAN 4121</u>	Total
Revenue (Note 1)					
Grant	\$ 3,262,939	\$ 42,597	\$ 1,958,262	\$ 48,514	\$ 5,312,312
Expenditures (Notes 1 and 2)					
Personnel	1,950,231	-	1,080,191	1,648	3,032,070
Fringe Benefits	383,456	-	201,943	330	585,729
Travel	-	6,538	-	13,697	20,235
Equipment	55,321	-	26,049	-	81,370
Supplies	180,230	-	103,431	-	283,661
Contractual	474,956	-	416,910	-	891,866
Other	218,745	36,059	129,738	32,839	417,381
Total Expenditures	3,262,939	42,597	1,958,262	48,514	5,312,312
Unspent Federal Funds -- February 29, 2016	\$ -	\$ -	\$ -	\$ -	\$ -

Note 1: The Program uses a modified accrual basis of accounting for purposes of this special report as permitted by the U.S. Department of Health and Human Services. Grant revenue is reported as income as eligible expenditures are incurred. Expenditures are recognized when the liability is incurred with the exception of the following: (1) encumbrances for purchase orders or commitments for expenditures are recorded as expenses when incurred (none recognized during the year) and (2) equipment purchased is expensed in the year acquired.

Note 2: These expenditures represent only the federal share. The grantee's minimum matching contributions for these grants is \$1,328,078.

Actual matching contributions were in excess of the minimum required match for CAN 4120, CAN 4121, CAN 4122, and CAN 4125 (minimum required match – 20% of total project costs).

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION
EARLY HEAD START EXPANSION PROGRAMS GRANT NO. 08HP0006/01**

**UNAUDITED STATEMENT OF REVENUE AND EXPENDITURES
FOR THE EIGHTEEN MONTHS ENDING JUNE 30, 2016
PROJECT PERIOD JANUARY 1, 2015 - JUNE 30, 2019**

January 1, 2015 to June 30, 2016

-- Early Head Start Expansion --

	Grant <u>CAN 3120</u>	Grant <u>CAN 3121</u>	Grant <u>CAN 3125</u>	Grant <u>CAN 3128</u>	<u>Total</u>
Revenue (Note 1)					
Grant	\$ 21,908	\$ 109,539	\$ 876,316	\$ 575,458	\$ 1,583,221
Expenditures (Notes 1 and 2)					
Personnel	-	11,677	172,291	40,318	224,286
Fringe Benefits	-	3,502	29,300	8,114	40,916
Travel	6,164	9,502	-	-	15,666
Equipment	-	-	-	33,381	33,381
Supplies	-	-	37,718	109,271	146,989
Contractual	-	-	622,288	139,318	761,606
Other	15,744	15,395	14,719	18,396	64,254
Total Expenditures	21,908	40,076	876,316	348,798	1,287,098
Unspent Federal Funds -- June 30, 2016	\$ -	\$ 69,463	\$ -	\$ 226,660	\$ 296,123

Note 1: The Program uses a modified accrual basis of accounting for purposes of this special report as permitted by the U.S. Department of Health and Human Services. Grant revenue is reported as income as eligible expenditures are incurred. Expenditures are recognized when the liability is incurred with the exception of the following: (1) encumbrances for purchase orders or commitments for expenditures are recorded as expenses when incurred (none recognized during the year) and (2) equipment purchased is expensed in the year acquired.

Note 2: These expenditures represent only the federal share. The grantee's minimum matching contributions for these grants is \$321,775.

Actual matching contributions were in excess of the minimum required match for CAN 3120, CAN 3121, CAN 3125, and CAN 3128 (minimum required match – 20% of total project costs).