

**FINANCIAL STATEMENTS AND REPORTS OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
HARBORCREEK YOUTH SERVICES, INC.**

June 30, 2019 and 2018

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Independent Auditor's Report

Most Reverend, Lawrence T. Persico, J.C.L.
The Bishop of Erie
and the Board of Directors of
Harborcreek Youth Services, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Harborcreek Youth Services, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Harborcreek Youth Services, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note L to the financial statements, Harborcreek Youth Services, Inc. adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-14. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying statement of activities by fund, statement of functional expenses – community programs, schedule of county service fees, and schedule of client care days/units are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 December 9, 2019 on our consideration of Harborcreek Youth Services Inc.'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 effectiveness of Harborcreek Youth Services Inc.'s 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 Harborcreek Youth Services, Inc.'s internal control over financial reporting and compliance.

Root, Spitznagel and Smiley, Inc.

ERIE, PENNSYLVANIA
December 9, 2019

FINANCIAL STATEMENTS

HARBORCREEK YOUTH SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 760,679	\$ 1,443,764
Accounts receivable	1,907,217	1,644,470
Prepaid expenses	<u>278,825</u>	<u>261,153</u>
TOTAL CURRENT ASSETS	2,946,721	3,349,387
RESTRICTED DEPOSITS	14,723	14,723
INVESTMENTS	3,184,769	2,992,998
BUILDINGS, PROPERTY, AND EQUIPMENT, NET	<u>1,646,100</u>	<u>1,519,583</u>
TOTAL ASSETS	<u><u>\$ 7,792,313</u></u>	<u><u>\$ 7,876,691</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 312,783	\$ 225,043
Accrued liabilities	1,181,962	881,957
Current portion of long-term debt	250,000	500,000
Deferred revenue	<u>10,118</u>	<u>8,459</u>
TOTAL CURRENT LIABILITIES	1,754,863	1,615,459
LONG-TERM DEBT	-	-
NET ASSETS		
Without donor restrictions		
Board designated for replacement of property and equipment	2,829,572	2,826,882
Board designated Fahey Memorial Fund	2,105,204	2,035,273
Undesignated	<u>1,102,674</u>	<u>1,387,458</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	6,037,450	6,249,613
With donor restrictions	<u>-</u>	<u>11,619</u>
TOTAL NET ASSETS	<u>6,037,450</u>	<u>6,261,232</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,792,313</u></u>	<u><u>\$ 7,876,691</u></u>

The accompanying notes are an integral part of these statements.

HARBORCREEK YOUTH SERVICES, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
SUPPORT						
Contributions	\$ 241,282	\$ -	\$ 241,282	\$ 92,955	\$ 11,619	\$ 104,574
Grants	24,921	-	24,921	92,315	-	92,315
TOTAL SUPPORT	266,203	-	266,203	185,270	11,619	196,889
REVENUE						
County service fees	855,435	-	855,435	1,359,837	-	1,359,837
Other service fees	7,682,939	-	7,682,939	7,338,458	-	7,338,458
Government funding	1,440,673	-	1,440,673	1,250,976	-	1,250,976
Work experience program	11,828	-	11,828	28,088	-	28,088
Investment return	146,651	-	146,651	202,412	-	202,412
Gain on sale of property & equipment	1,200	-	1,200	-	-	-
Miscellaneous	17,285	-	17,285	15,037	-	15,037
TOTAL REVENUE	10,156,009	-	10,156,009	10,192,808	-	10,192,808
NET ASSETS RELEASED FROM DONOR RESTRICTIONS						
Satisfied by payments	11,619	(11,619)	-	-	-	-
TOTAL SUPPORT AND REVENUE	10,433,831	(11,619)	10,422,212	10,378,078	11,619	10,389,697
EXPENSES						
PROGRAM SERVICES						
Residential Continuum Treatment	6,285,444	-	6,285,444	5,782,307	-	5,782,307
Child residential services	857,155	-	857,155	982,032	-	982,032
Education	1,485,844	-	1,485,844	1,411,711	-	1,411,711
Community programs	646,667	-	646,667	677,557	-	677,557
TOTAL PROGRAM SERVICES	9,274,910	-	9,274,910	8,853,607	-	8,853,607
SUPPORTING SERVICES						
Management and general	1,318,533	-	1,318,533	1,241,352	-	1,241,352
Fund raising	52,551	-	52,551	58,834	-	58,834
TOTAL SUPPORTING SERVICES	1,371,084	-	1,371,084	1,300,186	-	1,300,186
TOTAL EXPENSES	10,645,994	-	10,645,994	10,153,793	-	10,153,793
CHANGE IN NET ASSETS	(212,163)	(11,619)	(223,782)	224,285	11,619	235,904
NET ASSETS, BEGINNING OF YEAR AS RESTATED						
	6,249,613	11,619	6,261,232	6,025,328	-	6,025,328
TRANSFERS						
	-	-	-	-	-	-
NET ASSETS, END OF YEAR	\$ 6,037,450	\$ -	\$ 6,037,450	\$ 6,249,613	\$ 11,619	\$ 6,261,232

The accompanying notes are an integral part of these statements.

HARBORCREEK YOUTH SERVICES, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (223,782)	\$ 235,904
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	191,566	192,463
Realized gain on sale of investments	(58,991)	(205,600)
Unrealized (gain) loss on investments	(43,663)	36,223
Gain on sale of property & equipment	(1,200)	-
(Increase) decrease in accounts receivable	(262,747)	885,492
Increase in prepaid expenses	(17,672)	(34,689)
Increase in accounts payable	87,740	59,950
Increase in accrued liabilities	300,005	95,053
Increase in deferred revenue	1,659	8,459
	<u> </u>	<u> </u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(27,085)	1,273,255
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and maturities of long term investments	213,802	1,164,310
Purchases of long term investments	(302,919)	(1,194,409)
Purchases of property & equipment	(318,083)	(141,376)
Proceeds from sale of property & equipment	1,200	-
	<u> </u>	<u> </u>
NET CASH USED IN INVESTING ACTIVITIES	(406,000)	(171,475)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from new borrowing	-	-
Payments on debt	(250,000)	(500,000)
	<u> </u>	<u> </u>
NET CASH USED IN FINANCING ACTIVITIES	(250,000)	(500,000)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(683,085)	601,780
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,443,764</u>	<u>841,984</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 760,679</u>	<u>\$ 1,443,764</u>
Cash paid during the year for interest	<u>\$ 17,293</u>	<u>\$ 26,520</u>

The accompanying notes are an integral part of these statements.

HARBORCREEK YOUTH SERVICES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2019 and 2018

	2019			
	Program Services			
	PRTF	Child Residential Services	Education	Community Programs
SALARIES AND RELATED EXPENSES				
Wages and salaries	\$ 3,377,217	\$ 480,023	\$ 809,463	\$ 322,012
Employee benefits and taxes	1,573,443	225,916	388,460	160,906
TOTAL SALARIES AND RELATED EXPENSES	4,950,660	705,939	1,197,923	482,918
GENERAL EXPENSES				
Contracted services	51,692	8,577	10,674	7,796
Supplies	16,601	1,025	8,054	4,006
Telephone and communication	30,256	4,233	5,145	5,553
Advertising and marketing	4,501	574	393	1,278
Transportation and travel	9,311	540	1,849	5,787
Staff recruitment, retention and development	38,699	3,446	3,110	5,930
Rentals and maintenance	7,609	1,105	6,298	233
Insurance	31,899	4,667	3,950	415
Interest expense	-	-	17,293	-
Association dues and licenses	2,765	256	3,074	36,027
Depreciation of equipment and vehicles	62,905	9,106	6,959	3,047
Miscellaneous	33	4	-	-
TOTAL GENERAL EXPENSES	256,271	33,533	66,799	70,072
OCCUPANCY				
Insurance on building and contents	12,093	1,766	3,216	450
Repairs and maintenance	54,865	7,242	16,620	1,537
Housekeeping and janitorial	34,331	4,146	3,945	187
Utilities	66,300	9,830	17,251	2,416
Depreciation of buildings	66,404	7,075	27,197	1,423
TOTAL OCCUPANCY	233,993	30,059	68,229	6,013
DIRECT CHILD / FAMILY EXPENSE				
Food and food service	423,628	57,911	1,696	-
Clothing	-	-	-	-
Medical and dental fees and supplies	16,090	1,619	-	-
Therapeutic supplies and services	77,571	8,915	85,429	1,528
Psychiatric and psychological services	259,194	7,794	-	13,922
Personal care	5,538	767	-	-
Recreational supplies and activities	5,277	638	-	63
Educational activities	-	-	31,906	-
Specific child assistance	21,646	3,833	29,198	832
Foster parent payments	-	-	-	71,250
Transportation	33,475	5,879	4,464	69
Religious services and supplies	2,101	268	-	-
TOTAL DIRECT EXPENSES OF CHILDREN AND FAMILIES	844,520	87,624	152,693	87,664
TOTAL EXPENSES	\$ 6,285,444	\$ 857,155	\$ 1,485,644	\$ 646,667

The accompanying notes are an integral part of these statements.

2019				
Supporting Services				
Total	Management & General	Fund Raising	Total	Total 2019
\$ 4,988,715	\$ 755,068	\$ -	\$ 755,068	\$ 5,743,783
2,348,725	355,541	-	355,541	2,704,266
<u>7,337,440</u>	<u>1,110,609</u>	<u>-</u>	<u>1,110,609</u>	<u>8,448,049</u>
78,739	75,507	1,907	77,414	156,153
29,686	19,213	341	19,554	49,240
45,187	8,463	-	8,463	53,650
6,746	250	21,048	21,298	28,044
17,487	4,834	-	4,834	22,321
51,185	13,085	25,175	38,260	89,445
15,245	12,888	-	12,888	28,133
40,931	11,629	-	11,629	52,560
17,293	-	-	-	17,293
42,122	44,402	254	44,656	86,778
82,017	3,632	-	3,632	85,649
37	2,409	500	2,909	2,946
<u>426,675</u>	<u>196,312</u>	<u>49,225</u>	<u>245,537</u>	<u>672,212</u>
17,525	769	-	769	18,294
80,264	2,625	-	2,625	82,889
42,609	273	-	273	42,882
95,797	4,127	-	4,127	99,924
<u>102,099</u>	<u>3,818</u>	<u>-</u>	<u>3,818</u>	<u>105,917</u>
<u>338,294</u>	<u>11,612</u>	<u>-</u>	<u>11,612</u>	<u>349,906</u>
483,235	-	-	-	483,235
-	-	-	-	-
17,709	-	-	-	17,709
173,443	-	-	-	173,443
280,910	-	-	-	280,910
6,305	-	-	-	6,305
5,978	-	-	-	5,978
31,906	-	-	-	31,906
55,509	-	3,326	3,326	58,835
71,250	-	-	-	71,250
43,887	-	-	-	43,887
2,369	-	-	-	2,369
<u>1,172,501</u>	<u>-</u>	<u>3,326</u>	<u>3,326</u>	<u>1,175,827</u>
<u>\$ 9,274,910</u>	<u>\$ 1,318,533</u>	<u>\$ 52,551</u>	<u>\$ 1,371,084</u>	<u>\$ 10,645,994</u>

HARBORCREEK YOUTH SERVICES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2019 and 2018

	2018			
	Program Services			
	PRTF	Child Residential Services	Education	Community Programs
SALARIES AND RELATED EXPENSES				
Wages and salaries	\$ 3,206,311	\$ 547,874	\$ 758,967	\$ 324,798
Employee benefits and taxes	1,346,724	228,338	320,698	134,100
TOTAL SALARIES AND RELATED EXPENSES	4,553,035	776,212	1,079,665	458,898
GENERAL EXPENSES				
Contracted services	55,481	10,501	47,940	10,983
Supplies	29,674	4,464	4,894	1,806
Telephone and communication	32,941	5,407	5,781	5,721
Advertising and marketing	6,401	1,385	-	4,298
Transportation and travel	9,010	1,252	271	10,871
Staff recruitment, retention and development	23,135	3,767	1,766	7,876
Rentals and maintenance	2,029	368	5,542	25
Insurance	30,351	5,795	3,323	523
Interest expense	-	-	26,520	-
Association dues and licenses	2,426	350	11,968	35,949
Depreciation of equipment and vehicles	60,217	10,327	6,267	3,317
Miscellaneous	-	-	-	118
TOTAL GENERAL EXPENSES	251,665	43,616	114,272	81,487
OCCUPANCY				
Insurance on building and contents	11,995	2,044	3,258	456
Repairs and maintenance	52,926	8,782	21,345	1,660
Housekeeping and janitorial	52,891	10,694	4,598	142
Utilities	62,843	10,820	16,687	2,337
Depreciation of buildings	64,821	7,871	27,197	1,423
TOTAL OCCUPANCY	245,476	40,211	73,085	6,018
DIRECT CHILD / FAMILY EXPENSE				
Food and food service	401,326	90,675	2,218	12
Clothing	5,715	703	-	-
Medical and dental fees and supplies	18,236	3,461	-	18
Therapeutic supplies and services	37,090	6,946	87,804	1,789
Psychiatric and psychological services	209,209	5,235	-	17,713
Personal care	5,190	1,020	-	-
Recreational supplies and activities	7,198	2,252	-	-
Educational activities	-	-	18,615	-
Specific child assistance	14,229	4,653	31,303	964
Foster parent payments	-	-	-	110,235
Transportation	31,992	6,627	4,749	423
Religious services and supplies	1,946	421	-	-
TOTAL DIRECT EXPENSES OF CHILDREN AND FAMILIES	732,131	121,993	144,689	131,154
TOTAL EXPENSES	\$ 5,782,307	\$ 982,032	\$ 1,411,711	\$ 677,557

The accompanying notes are an integral part of these statements.

2018				
Supporting Services				
Total	Management & General	Fund Raising	Total	Total 2018
\$ 4,837,950	\$ 728,782	\$ -	\$ 728,782	\$ 5,566,732
2,029,860	304,776	-	304,776	2,334,636
6,867,810	1,033,558	-	1,033,558	7,901,368
124,905	95,038	790	95,828	220,733
40,838	13,689	928	14,617	55,455
49,850	10,669	-	10,669	60,519
12,084	1,676	29,161	30,837	42,921
21,404	4,825	-	4,825	26,229
36,544	8,519	26,690	35,209	71,753
7,964	17,047	-	17,047	25,011
39,992	10,831	-	10,831	50,823
26,520	-	-	-	26,520
50,693	25,433	-	25,433	76,126
80,128	7,205	-	7,205	87,333
118	1,115	-	1,115	1,233
491,040	196,047	57,569	253,616	744,656
17,753	779	-	779	18,532
84,713	2,835	-	2,835	87,548
68,325	323	-	323	68,648
92,687	3,992	-	3,992	96,679
101,312	3,818	-	3,818	105,130
364,790	11,747	-	11,747	376,537
494,231	-	-	-	494,231
6,418	-	-	-	6,418
21,715	-	-	-	21,715
133,629	-	-	-	133,629
232,157	-	-	-	232,157
6,210	-	-	-	6,210
9,450	-	-	-	9,450
18,615	-	-	-	18,615
51,149	-	1,265	1,265	52,414
110,235	-	-	-	110,235
43,791	-	-	-	43,791
2,367	-	-	-	2,367
1,129,967	-	1,265	1,265	1,131,232
<u>\$ 8,853,607</u>	<u>\$ 1,241,352</u>	<u>\$ 58,834</u>	<u>\$ 1,300,186</u>	<u>\$ 10,153,793</u>

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

The Commonwealth of Pennsylvania, Department of State, approved Harborcreek Youth Services, Inc. as a not-for-profit corporation on May 3, 1985. Effective July 1, 1985, the Agency commenced to continue the programs of the Harborcreek School for Boys, an unincorporated activity of the Roman Catholic Diocese of Erie, Pennsylvania (the Diocese). All of the real, personal and intangible assets, subject to any liabilities, of the Harborcreek School for Boys were given, granted and conveyed by the Bishop of the Diocese to Harborcreek Youth Services, Inc. under the Articles of Subvention made by and between the parties as of July 1, 1985.

The Agency is a residential continuum treatment facility licensed by both the State Departments of Public Welfare and Education serving children and adolescents who demonstrate a history of mental illness, delinquent behavior, self-abuse behavior, aggression, or other behaviors that require intensive levels of residential treatment services. The main campus of the Agency consists of four Psychiatric Residential Treatment Facilities (PRTFs), one child residential treatment program, and a Private Residential Rehabilitative Institution school. The Agency also operates a Multisystemic Therapy program that teaches and supports parenting techniques that discourage adolescent truancy, disrespect, violence, and substance abuse. In addition, the Agency operates a Community Residential Rehabilitation Host Home Treatment Program that provides children with individualized mental health care in a foster family setting.

2. Estimates in Financial Statements

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

4. Asset Valuation

As documented in the Articles of Subvention dated July 1, 1985, the basis of the assets acquired and amounts of the liabilities incurred prior to July 1, 1985 are recorded at the values presented in the audited financial statements of the Harborcreek School for Boys as of June 30, 1985.

The basis of the assets acquired and amounts of the liabilities incurred following the incorporation are recorded at cost for those items purchased or constructed and fair market or appraised value at the date of the gift for those items acquired by gift.

5. Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term highly liquid investments that are readily convertible to known amounts of cash with an initial maturity of 30 days or less. The Agency places its temporary cash investments with high credit quality financial institutions.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Investments

Investments in marketable securities are stated at fair market value (see Note A14).

7. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and collection losses have historically been immaterial. As a result, no allowance for credit losses has been recorded.

8. Buildings, Property and Equipment

Buildings, property and equipment are recorded at cost, with the exception of those assets acquired prior to April 1, 1970, which are based on an appraisal which approximates \$755,000, as determined by an independent appraisal company at that date.

Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred, while expenditures for additions, replacements and major renewals are capitalized and depreciated using the straight-line method over their estimated useful lives.

9. Contributions

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated for support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as contributions without donor restrictions. The Agency reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

10. Functional Expenses

The costs of providing various programs and supporting activities have been summarized on a functional basis in the Statements of Activities. The Statements of Functional Expenses presents the natural classification of expenses by function. Expenses that can be directly identified to a program are charged to that program. Any support costs or program expenditures not directly chargeable are allocated to a program based on a multiple allocation base method.

Certain salaries and related taxes and fringe benefits are allocated among the programs and supporting services on the basis of estimates of time and effort. Those estimates are evaluated on an annual basis. Vehicle and travel related expenses are allocated on the basis of total miles driven. Food and kitchen expenses are allocated on the basis of meals served. Facilities maintenance and occupancy costs are allocated on the basis of square footage utilized. Costs related to Residential Treatment Facilities are allocated on the basis of client care days. All costs related to the administrative aspect of the Agency are allocated on the basis of total program costs in relation to total agency costs.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Title IV-E allowable costs, which include operational costs (supplies, communication, professional fees, postage, printing, transportation, equipment, dues, insurance), occupancy costs, and/or direct care expenses are allocated on the basis of eligible salaries in relation to total salaries. The Agency believes that the bases are reasonable and are consistently applied.

11. Concentration of Credit Risk

The Agency's financial instruments that are exposed to concentrations of credit risk consist primarily of cash in the bank, money market funds with an investment broker and other investment accounts consisting primarily of equity securities and fixed income securities, as well as unconditional promises to give and accounts receivable.

The Agency's cash is primarily at one bank and is FDIC insured up to \$250,000. At various times, the Agency's cash and investment balances may be in excess of the FDIC insurance limit. The accounts receivable are primarily due from various counties and managed care agencies throughout Pennsylvania and certain state funding from the Commonwealth of Pennsylvania.

12. Tax Status

Harborcreek Youth Services, Inc. is exempt from income taxes under section 501(c) (3) of the Internal Revenue Code and comparable state laws. The Agency files annual informational returns with the IRS and the Commonwealth of Pennsylvania. The Agency has adopted the provisions of FASB ASC 740, *Income Taxes*. FASB ASC 740 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken in a tax return. The Agency records any related interest expense and penalties, if any, as a tax expense. For the years ended June 30, 2019 and 2018, there were no unrecognized tax benefits or interest and penalty expense incurred. Tax years that remain subject to examination are years 2016 and forward.

13. Date of Management's Review

Management has evaluated subsequent events through December 9, 2019, the date the financial statements were available to be issued.

14. Fair Value Measurements

Fair value, as defined in FASB ASC 820, *Fair Value Measurements and Disclosures*, is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, FASB ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels.

Level 1 consists of quoted market prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs. Level 2 consists of observable prices that are based on inputs not quoted on active markets, but are corroborated by market data. Level 3 consists of unobservable inputs which are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs. In determining fair value, the Agency utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Agency recognizes transfers between levels of the fair value hierarchy, if any, at the end of the reporting period. There were no such transfers at June 30, 2019.

The fair market value of a financial instrument is defined in FASB ASC 825 as "the amount at which the instrument could be exchanged in a current transaction between willing parties." The carrying amount reported in the accompanying statement of financial position for trade accounts receivables and payables, prepaid expenses, accrued liabilities, deferred revenue, and debt approximate fair value given the short-term nature of the financial instruments or conversely are based on a non-recurring assessment of fair value. Financial assets carried at fair value are classified using Level 1 inputs and consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Investments	<u>\$ 3,184,769</u>	<u>\$ 2,992,998</u>

NOTE B – RESTRICTED DEPOSITS

In 1989, the Agency elected to reimburse the Unemployment Compensation Fund of the Pennsylvania Department of Labor & Industry for benefits paid that are attributable to it, in accordance with Section 1104(a) of the Pennsylvania Unemployment Compensation Law. This election requires filing a surety bond or depositing with the Department money or securities equal to one percent of the Agency's taxable wages for the most recent four calendar quarters prior to such election. Accordingly, as of June 30, 2019 and 2018, the Agency has \$14,723 and \$14,723, respectively, on deposit with the Department to fulfill this requirement.

NOTE C - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Service Contracts	\$ 1,364,950	\$ 1,280,632
Grants and entitlements	296,854	344,758
Stop-loss reimbursements	226,096	10,909
Other	<u>19,317</u>	<u>8,171</u>
	<u>\$ 1,907,217</u>	<u>\$ 1,644,470</u>

NOTE D - BUILDINGS, PROPERTY AND EQUIPMENT

Buildings, property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>	<u>Estimated Useful Life</u>
Land	\$ 99,900	\$ 69,900	-
Land improvements	275,972	275,972	5-10 years
Buildings and improvements	3,016,720	2,818,634	5-40 years
Equipment and furnishings	714,224	712,762	3-15 years
Vehicles	<u>357,647</u>	<u>335,918</u>	5 years
	4,464,463	4,213,186	
Less accumulated depreciation	<u>2,818,363</u>	<u>2,693,603</u>	
	<u>\$ 1,646,100</u>	<u>\$ 1,519,583</u>	

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018

NOTE D - BUILDINGS, PROPERTY AND EQUIPMENT - Continued

Depreciation expense for the years ended June 30, 2019 and 2018 was \$191,566 and \$192,463, respectively.

NOTE E - INVESTMENTS

Investments are stated at fair market value (see Note A14) based on quoted market prices. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met in the same reporting period in which the income and gains are recognized. Investments consist of the following at June 30:

	2019		
	<u>Quoted Market Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Equity funds	\$ 1,865,740	\$ 1,584,350	\$ 281,390
Fixed income funds	<u>1,319,029</u>	<u>1,317,525</u>	<u>1,504</u>
	<u>\$ 3,184,769</u>	<u>\$ 2,901,875</u>	<u>\$ 282,894</u>
	2018		
	<u>Quoted Market Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Equity funds	\$ 1,835,750	\$ 1,556,351	\$ 279,399
Fixed income funds	<u>1,157,248</u>	<u>1,197,416</u>	<u>(40,168)</u>
	<u>\$ 2,992,998</u>	<u>\$ 2,753,767</u>	<u>\$ 239,231</u>

These funds are designated by the Board of Directors for long-term investment and the replacement of capital assets, and are included in the designated net assets on the statements of financial position.

The following schedule summarizes the investment return and its classification in the statement of activities:

	<u>2019</u>	<u>2018</u>
Investment income	\$ 43,997	\$ 33,035
Gain on the sale of investments	58,991	205,600
Unrealized gain/(loss)	<u>43,663</u>	<u>(36,223)</u>
	<u>\$ 146,651</u>	<u>\$ 202,412</u>

For the years ended June 30, 2019 and 2018, expenses relating to investment income, including custodial fees and investment advisory fees, amounted to \$29,957 and \$25,942, respectively, and have been netted against investment return in the statement of activities.

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018

NOTE F - ACCRUED LIABILITIES

Accrued liabilities consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Payroll withholdings and accruals	\$ 215,871	\$ 224,847
Vacation pay	370,904	356,742
Hospitalization	346,866	50,308
Pension expense	<u>248,321</u>	<u>250,060</u>
	<u>\$ 1,181,962</u>	<u>\$ 881,957</u>

NOTE G - NET ASSETS WITHOUT DONOR RESTRICTIONS

It is the policy of the Board of Directors of the Agency to review its plans for future property improvements and acquisitions from time to time and to designate appropriate sums to assure adequate financing of such improvements and acquisitions. The Board has also designated a Fahey Memorial Fund to provide financial stability to the Agency. The Board must approve all expenditures from these funds.

NOTE H - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30:

Subject to expenditure for specific purpose

	<u>2019</u>	<u>2018</u>
Therapeutic arts initiative	\$ -	\$ 11,619
	<u>\$ -</u>	<u>\$ 11,619</u>

NOTE I - PENSION PLAN

Effective July 1, 2009 the Agency's defined contribution pension plan and tax deferred annuity plan were merged into the Harborcreek Youth Services Retirement Savings Plan. Participation in the plan is voluntary with employees allowed to defer up to the maximum amount allowed by law. The agency's matching contribution will be determined each plan year. For the years ended June 30, 2019 and 2018, the Agency's matching contributions totaled \$77,187 and \$75,565, respectively.

The Agency may make discretionary contributions to the plan. The amount of the contribution, if any, will be determined on an annual basis. Contributions are based proportionately on annual compensation. For the years ended June 30, 2019 and 2018, the Agency contributed \$171,134 and \$174,495, respectively, to the plan.

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018

NOTE J- LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2019</u>	<u>2018</u>
2 revolving lines of credit bearing interest at 4.44% and 4.51%, due on demand, with monthly payments of interest only, collateralized by investments in the Fahey Memorial Fund	<u>\$ 250,000</u>	<u>\$ 500,000</u>
	250,000	500,000
Less: current portion	<u>(250,000)</u>	<u>(500,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The maturities of long-term debt in each of the five years subsequent to June 30, 2019 are as follows:

<u>Year</u>	<u>Amount</u>
June 30, 2020	\$ 250,000
June 30, 2021	-
June 30, 2022	-
June 30, 2023	-
June 30, 2024	-
Thereafter	-
	<u>\$ 250,000</u>

NOTE K - LIQUIDITY

As part of the Agency's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Agency places excess cash in excess of daily requirements in short-term investments. In the event of an unanticipated liquidity need, the Agency could also draw upon \$2,000,000 of available lines of credit (as further discussed in Note J) or the Fahey Memorial Fund (see Note G)

The following reflects the Agency's financial assets as of June 30, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets at year end:	\$ 5,867,388
Less those unavailable to meet cash needs for general expenditures within one year due to:	
Unemployment collateral (Note B)	(14,723)
Designation for Fahey Memorial Fund (Note G)	<u>(2,105,204)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,747,461</u>

Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Agency must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018

NOTE L – CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2018, the Agency adopted the provisions of Financial Accounting Standards Update No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. As a result of this change, the Agency determined that the amounts on deposit with the Pennsylvania Department of Labor & Industry (see Note B) had been improperly recorded as an investment and net assets with donor restrictions. Therefore, net assets as of July 1, 2017 have been restated as follows:

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total Net Assets</u>
Balance, July 1, 2017 as previously stated	\$ 6,011,303	\$ 14,025	\$ 6,025,328
Remove net assets with donor restrictions	<u>14,025</u>	<u>(14,025)</u>	<u>-</u>
Balance, July 1, 2017 as restated	<u>\$ 6,025,328</u>	<u>\$ -</u>	<u>\$ 6,025,328</u>

In addition, as a result of this change, \$14,723 of investments have been reclassified as restricted deposits on the Statements of Financial Positions as of June 30, 2019 and 2018.

SUPPLEMENTAL INFORMATION

HARBORCREEK YOUTH SERVICES, INC.
STATEMENT OF ACTIVITIES BY FUND
For the Year Ended June 30, 2019 with Comparative Totals for 2018

	Operating Fund	Property, Plant & Equipment Fund	Father Fahey Memorial Fund	Total	
				2019	2018
SUPPORT AND REVENUE					
SUPPORT					
Contributions	\$ 91,282	\$ 150,000	\$ -	\$ 241,282	\$ 104,574
Grants	24,921	-	-	24,921	92,315
TOTAL SUPPORT	116,203	150,000	-	266,203	196,889
REVENUE					
County service fees	855,435	-	-	855,435	1,359,837
Other service fees	7,682,939	-	-	7,682,939	7,338,458
Government funding	1,440,673	-	-	1,440,673	1,250,976
Work experience program	11,826	-	-	11,826	26,088
Investment return	-	51,545	95,106	146,651	202,412
Gain on sale of property & equipment	-	1,200	-	1,200	-
Miscellaneous	12,764	4,521	-	17,285	15,037
TOTAL REVENUE	10,003,637	57,266	95,106	10,156,009	10,192,808
NET ASSETS RELEASED FROM DONOR RESTRICTIONS					
	-	-	-	-	-
TOTAL SUPPORT AND REVENUE	10,119,840	207,266	95,106	10,422,212	10,389,697
EXPENSES					
PROGRAM SERVICES					
Residential Continuum Treatment	6,156,135	129,309	-	6,285,444	5,782,307
Child residential services	840,974	16,181	-	857,155	982,032
Education	1,451,488	34,156	-	1,485,644	1,411,711
Community programs	642,197	4,470	-	646,667	677,557
TOTAL PROGRAM SERVICES	9,090,794	184,116	-	9,274,910	8,853,607
SUPPORTING SERVICES					
Management and general	1,311,083	7,450	-	1,318,533	1,241,352
Fund raising	26,421	955	25,175	52,551	58,834
TOTAL SUPPORTING SERVICES	1,337,504	8,405	25,175	1,371,084	1,300,186
TOTAL EXPENSES	10,428,298	192,521	25,175	10,645,994	10,153,793
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES					
	(308,458)	14,745	69,931	(223,782)	235,904
INTERFUND TRANSFERS					
	12,055	(12,055)	-	-	-
CHANGE IN NET ASSETS	\$ (296,403)	\$ 2,690	\$ 69,931	\$ (223,782)	\$ 235,904

HARBORCREEK YOUTH SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES - COMMUNITY PROGRAMS
For the Year Ended June 30, 2019

	<u>CRR</u>	<u>MST</u>	<u>Total</u>
SALARIES AND RELATED EXPENSES			
Wages and salaries	\$ 128,816	\$ 193,196	\$ 322,012
Employee benefits and taxes	69,761	91,145	160,906
TOTAL SALARIES AND RELATED EXPENSES	198,577	284,341	482,918
GENERAL EXPENSES			
Contracted services	3,479	4,317	7,796
Supplies	1,267	2,739	4,006
Telephone and communication	2,667	2,886	5,553
Advertising and marketing	1,278	-	1,278
Transportation and travel	1,471	4,316	5,787
Staff recruitment, retention and development	4,491	1,439	5,930
Rentals and maintenance	68	165	233
Insurance	120	295	415
Association dues and licenses	951	35,076	36,027
Depreciation of equipment and vehicles	1,450	1,597	3,047
TOTAL GENERAL EXPENSES	17,242	52,830	70,072
OCCUPANCY			
Insurance on building and contents	131	319	450
Repairs and maintenance	449	1,088	1,537
Housekeeping and janitorial	40	147	187
Utilities	705	1,711	2,416
Depreciation of buildings	415	1,008	1,423
TOTAL OCCUPANCY	1,740	4,273	6,013
DIRECT CHILD / FAMILY EXPENSE			
Therapeutic supplies and services	1,197	331	1,528
Psychiatric and psychological services	13,305	617	13,922
Recreational supplies and activities	-	63	63
Specific child assistance	314	518	832
Foster parent payments	71,250	-	71,250
Transportation	19	50	69
TOTAL DIRECT EXPENSES OF CHILDREN AND FAMILIES	86,085	1,579	87,664
TOTAL EXPENSES	\$ 303,644	\$ 343,023	\$ 646,667

HARBORCREEK YOUTH SERVICES, INC.
SCHEDULE OF COUNTY SERVICE FEES
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Allegheny Co Children & Youth	\$ -	\$ 45,257
Allegheny Co Juvenile Probation	240,592	473,382
Chautauqua County	54,432	80,892
Cambria Co Children & Youth	2,200	-
Chester Co Juvenile Probation	-	17,688
Clarion Co Children & Youth	61,050	-
Crawford Co Juvenile Probation	47,025	120,899
Erie Co Children & Youth	76,159	130,897
Erie Co Juvenile Probation	10,854	1,080
Erie Co MH/MR	13,783	23,485
Franklin Co Juvenile Probation	6,325	70,675
Indiana Co Children & Youth	27,225	100,375
Lackawanna Co Juvenile Probation	9,872	38,785
Lawrence Co Children & Youth	269	98,130
Mercer Co Juvenile Probation	5,225	43,450
Mifflin Co Juvenile Probation	-	9,191
Venango Co Juvenile Probation	56,100	-
Venango Co Children & Youth	9,075	-
Warren Co Juvenile Probation	50,050	38,715
Washington Co Juvenile Probation	92,983	24,727
Westmoreland Co Children's Bureau	-	17,206
Westmoreland Co Juvenile Probation	92,216	25,003
	<u>855,435</u>	<u>1,359,837</u>
Totals	\$ 855,435	\$ 1,359,837

**HARBORCREEK YOUTH SERVICES, INC.
 SCHEDULE OF CLIENT CARE DAYS/UNITS
 For the Years Ended June 30, 2019 and 2018**

<u>Residential Programs - Days</u>	<u>2019</u>	<u>2018</u>
<u>Psychiatric Residential Treatment</u>		
St. Joseph House	4,330	3,673
Conway House	5,074	5,195
Wagner House	5,532	5,110
Columbus House	5,659	4,836
<u>Child Residential Services</u>		
Liberty House	2,627	4,070
Total Residential Program Client Care Days	23,222	22,884

<u>Community Programs - Days/Units</u>	<u>2019</u>	<u>2018</u>
<u>CRR Host Home - Days</u>	1,070	1,629
<u>Multi-Systemic Therapy - Units*</u>	6,291	6,839

* - one unit equal to 1/4 hour

Root, Spitznas & Smiley, Inc.

Certified Public Accountants

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Michael N. Barko, CPA
J. Randolph Gehrlein, CPA
James T. Scavona, CPA

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

Most Reverend, Lawrence T. Persico, J.C.L.
The Bishop of Erie
and the Board of Directors of
Harborcreek Youth Services, Inc.

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 financial statements of Harborcreek Youth Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, 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 December 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harborcreek Youth Services, Inc.'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harborcreek Youth Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Harborcreek Youth Services, Inc.'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 Harborcreek Youth Services, Inc.'s 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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Root, Spitznagel and Smiley, Inc.

ERIE, PENNSYLVANIA
December 9, 2019

**HARBORCREEK YOUTH SERVICES, INC.
EXIT CONFERENCE
June 30, 2019**

An exit conference was held on December 9, 2019. Participating were:

Elizabeth A. Iadeluca
Harborcreek Youth Services, Inc.

Aaron T. Bissell, CPA
Senior
Root, Spitznas and Smiley, Inc.

A draft of the audit report for Harborcreek Youth Services, Inc. for the year ended June 30, 2019 was reviewed. Special attention was devoted to reviewing the various reports on internal controls and compliance.

**HARBORCREEK YOUTH SERVICES, INC.
LIST OF REPORT DISTRIBUTION
June 30, 2019**

Number of Copies

1	Commonwealth of Pennsylvania Department of Human Services Office of Medical Assistance Programs Bureau of Fee-For-Service Programs P.O. Box 8047 Harrisburg, PA 17105
1	Commonwealth of Pennsylvania Comptroller's Office Bureau of Audits 555 Walnut Street, 9 th Floor Harrisburg, PA 17101
Varies	Various counties

HARBORCREEK YOUTH SERVICES, INC.

MANAGEMENT'S CERTIFICATION

We hereby certify that we have examined the accompanying financial statements and supplemental information of Harborcreek Youth Services, Inc. and, to the best of our knowledge and belief, the same are accurate and fairly represent the financial condition and operations of the organization.



John Petulla
Chief Executive Officer
December 9, 2019



Elizabeth Iadeluca
Chief Financial Officer
December 9, 2019