

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

June 30, 2016

With Comparative Totals for 2015

Transmittal Letter

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

We have performed the Single Audit of Harborcreek Youth Services, Inc. for the year ended June 30, 2016, and have enclosed the Single Audit reporting package.

The Single Audit was done to fulfill the requirements of the Uniform Guidance and includes the following:

1. an audit of the financial statements and our opinion thereon, including our report on the schedule of expenditures of federal awards;
2. a 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*;
3. a report on compliance for each major program and on internal control over compliance required by the Uniform Guidance;

Root, Spitznagel and Smiley, Inc.

November 28, 2016

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Root, Spitznas & Smiley, Inc.

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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 statement of financial position as of June 30, 2016, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2016, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Harborcreek Youth Services, Inc.'s June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 17, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for the purpose of additional analysis, and the accompanying statement of activities by fund, schedule of county service fees, and schedule of client care days/units are also 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 November 28, 2016 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 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.



ERIE, PENNSYLVANIA
November 28, 2016

FINANCIAL STATEMENTS

HARBORCREEK YOUTH SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 1,158,880	\$ 497,306
Accounts receivable	2,439,799	2,551,139
Prepaid expenses	<u>344,658</u>	<u>224,664</u>
 TOTAL CURRENT ASSETS	 3,943,337	 3,273,109
 BUILDINGS, PROPERTY, AND EQUIPMENT, NET	 1,163,037	 1,653,934
 INVESTMENTS	 <u>2,453,746</u>	 <u>2,647,043</u>
 TOTAL ASSETS	 <u><u>\$ 7,560,120</u></u>	 <u><u>\$ 7,574,086</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 144,638	\$ 120,839
Accrued liabilities	945,334	817,453
Current portion of long-term debt	1,300,000	1,103,220
Deferred revenue	<u>3,001</u>	<u>41,000</u>
 TOTAL CURRENT LIABILITIES	 2,392,973	 2,082,512
 LONG-TERM DEBT	 -	 -
 NET ASSETS		
Unrestricted		
Board designated for replacement of property and equipment	2,364,113	2,631,940
Board designated Fahey Memorial Fund	1,842,039	1,874,171
Undesignated	<u>770,144</u>	<u>971,438</u>
	4,976,296	5,477,549
Temporarily restricted	<u>190,851</u>	<u>14,025</u>
 TOTAL NET ASSETS	 <u>5,167,147</u>	 <u>5,491,574</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 7,560,120</u></u>	 <u><u>\$ 7,574,086</u></u>

The accompanying notes are an integral part of these statements.

HARBORCREEK YOUTH SERVICES, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016 with Comparative Totals for 2015

	Unrestricted	Temporarily Restricted	Total	
			2016	2015
SUPPORT AND REVENUE				
SUPPORT				
Contributions	\$ 96,182	\$ 176,826	\$ 273,008	\$ 14,573
Grants	71,541	-	71,541	39,913
TOTAL SUPPORT	167,723	176,826	344,549	54,486
REVENUE				
County service fees	1,302,138	-	1,302,138	1,285,684
Other service fees	6,857,809	-	6,857,809	6,632,496
Government funding	1,300,251	-	1,300,251	1,461,091
Work experience program	17,386	-	17,386	31,623
Investment return	(27,352)	-	(27,352)	48,299
(Loss) gain on sale of property & equipment	(122,893)	-	(122,893)	39,960
Rental income	-	-	-	127,823
Miscellaneous	29,184	-	29,184	99,118
TOTAL REVENUE	9,356,523	-	9,356,523	9,726,094
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	-	-	-	-
TOTAL SUPPORT AND REVENUE	9,524,246	176,826	9,701,072	9,780,580
EXPENSES				
PROGRAM SERVICES				
Residential Continuum Treatment Level I	2,748,157	-	2,748,157	2,597,226
Residential Continuum Treatment Level II	3,045,040	-	3,045,040	2,790,854
Transitional living	946,209	-	946,209	942,638
Education	1,303,317	-	1,303,317	1,358,055
Community programs	738,701	-	738,701	731,547
TOTAL PROGRAM SERVICES	8,781,424	-	8,781,424	8,420,320
SUPPORTING SERVICES				
Management and general	1,195,377	-	1,195,377	1,166,669
Fund raising	48,698	-	48,698	15,774
TOTAL SUPPORTING SERVICES	1,244,075	-	1,244,075	1,182,443
TOTAL EXPENSES	10,025,499	-	10,025,499	9,602,763
CHANGE IN NET ASSETS	\$ (501,253)	\$ 176,826	\$ (324,427)	\$ 177,817

The accompanying notes are an integral part of these statements.

HARBORCREEK YOUTH SERVICES, INC.
STATEMENT OF CHANGES IN NET ASSETS
For the Year Ended June 30, 2016 with Comparative Totals for 2015

	Unrestricted	Temporarily Restricted	Total	
			2016	2015
NET ASSETS, BEGINNING OF YEAR	\$ 5,477,549	\$ 14,025	\$ 5,491,574	\$ 5,313,757
Change in Net Assets	(501,253)	176,826	(324,427)	177,817
NET ASSETS, END OF YEAR	<u>\$ 4,976,296</u>	<u>\$ 190,851</u>	<u>\$ 5,167,147</u>	<u>\$ 5,491,574</u>

The accompanying notes are an integral part of these statements.

HARBORCREEK YOUTH SERVICES, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (324,427)	\$ 177,817
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	159,101	171,972
Realized gain on sale of investments	(67,898)	(98,683)
Unrealized loss on investments	115,155	75,277
Loss (gain) on sale of property & equipment	122,893	(39,960)
Contribution of stock	(8,315)	-
Decrease (increase) in accounts receivable	111,340	(600,610)
(Increase) decrease in prepaid expenses	(119,994)	73,975
Increase (decrease) in accounts payable	23,799	(45,237)
Increase in accrued liabilities	127,881	137,084
Decrease in deferred revenue	(37,999)	(250)
	101,536	(148,615)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	101,536	(148,615)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and maturities of long term investments	623,099	333,592
Purchases of long term investments	(468,744)	(293,575)
Purchases of property & equipment	(149,546)	(163,419)
Proceeds from sale of property & equipment	358,449	58,030
	363,258	(65,372)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	363,258	(65,372)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from new borrowing	535,500	-
Payments on debt	(338,720)	-
	196,780	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	196,780	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	661,574	(213,987)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	497,306	711,293
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,158,880	\$ 497,306
Cash paid during the year for interest	<u>\$ 29,297</u>	<u>\$ 24,364</u>

The accompanying notes are an integral part of these statements.

HARBORCREEK YOUTH SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016 with Comparative Totals for 2015

	Program Services				
	RTF LEVEL I	RTF LEVEL II	Transitional Living	Education	Community Programs
SALARIES AND RELATED EXPENSES					
Wages and salaries	\$ 1,488,443	\$ 1,637,024	\$ 517,273	\$ 749,603	\$ 305,243
Employee benefits and taxes	705,571	778,084	243,898	353,957	144,077
TOTAL SALARIES AND RELATED EXPENSES	2,192,014	2,413,108	760,971	1,103,560	449,320
GENERAL EXPENSES					
Contracted services	42,225	38,896	12,329	-	8,504
Supplies	10,813	12,493	3,791	3,890	5,693
Telephone and communication	17,958	20,873	6,430	10,056	6,579
Advertising and marketing	2,685	3,270	1,263	-	8,858
Transportation and travel	2,829	3,367	1,109	366	7,368
Staff recruitment and retention	2,100	1,795	664	803	2,551
Development and training	18,681	21,636	3,938	1,932	12,193
Foster parent recruitment	-	-	-	-	-
Rentals and maintenance	657	793	277	5,238	28
Insurance	18,085	17,255	5,801	3,125	1,242
Interest expense	-	-	-	24,747	4,550
Association dues and licenses	457	549	75	151	34,452
Depreciation of equipment and vehicles	25,630	25,962	8,411	4,252	3,539
Miscellaneous	-	-	-	154	-
TOTAL GENERAL EXPENSES	142,120	146,689	44,088	54,714	98,575
OCCUPANCY					
Insurance on building and contents	4,167	4,876	1,410	3,119	1,499
Repairs and maintenance	19,802	19,301	4,725	18,662	3,621
Housekeeping and janitorial	14,942	13,819	5,603	4,087	180
Utilities	27,259	31,780	9,332	19,890	7,113
Depreciation of buildings	29,298	18,904	7,412	24,052	6,550
Property taxes	-	-	-	-	601
TOTAL OCCUPANCY	95,468	86,680	28,482	69,810	19,764
DIRECT CHILD / FAMILY EXPENSE					
Food and food service	152,624	188,323	73,811	707	4
Clothing	2,207	2,314	1,145	-	-
Medical and dental fees and supplies	5,267	5,574	1,889	-	102
Therapeutic supplies and services	41,480	57,657	18,541	11,423	3,391
Psychiatric and psychological services	86,342	113,290	4,253	2,703	24,766
Personal care	996	1,056	686	-	-
Recreational supplies and activities	5,045	4,094	1,631	-	-
Educational activities	-	-	-	49,668	-
Specific child assistance	6,419	7,967	5,778	-	287
Foster parent payments	-	-	-	-	144,105
Transportation	17,201	17,102	4,676	10,732	387
Religious services and supplies	974	1,186	458	-	-
TOTAL DIRECT EXPENSES OF CHILDREN AND FAMILIES	318,555	398,563	112,668	75,233	173,042
TOTAL EXPENSES	\$ 2,748,157	\$ 3,045,040	\$ 948,209	\$ 1,303,317	\$ 738,701

The accompanying notes are an integral part of these statements.

Supporting Services					
Total	Management & General	Fund Raising	Total	Total Expenses	
				2016	2015
\$ 4,695,586	\$ 703,173	\$ -	\$ 703,173	\$ 5,398,759	\$ 5,247,195
2,223,387	333,211	-	333,211	2,556,598	2,275,502
<u>6,918,973</u>	<u>1,036,384</u>	<u>-</u>	<u>1,036,384</u>	<u>7,955,357</u>	<u>7,522,697</u>
101,954	38,197	593	38,790	140,744	174,154
36,680	18,160	662	18,822	55,502	73,468
61,696	13,211	-	13,211	74,907	82,502
17,076	3,915	38,001	41,916	58,992	23,515
15,057	1,385	-	1,385	16,442	28,318
7,913	7,596	8,916	16,512	24,425	32,134
58,360	6,595	284	6,879	65,259	60,580
-	-	-	-	-	-
6,993	14,086	-	14,086	21,079	20,981
45,508	12,707	-	12,707	58,215	48,126
29,297	-	-	-	29,297	24,364
35,684	21,850	225	22,075	57,759	65,513
67,794	4,604	-	4,604	72,398	66,223
154	1,155	17	1,172	1,326	3,411
<u>484,186</u>	<u>143,461</u>	<u>48,698</u>	<u>192,159</u>	<u>676,345</u>	<u>703,269</u>
15,071	746	-	746	15,817	29,434
66,311	2,421	-	2,421	68,732	61,897
38,631	307	-	307	38,938	80,415
85,374	4,759	-	4,759	100,133	100,642
84,216	2,487	-	2,487	86,703	105,749
601	-	-	-	601	965
<u>300,204</u>	<u>10,720</u>	<u>-</u>	<u>10,720</u>	<u>310,924</u>	<u>379,102</u>
415,269	6	-	6	415,275	465,694
5,666	-	-	-	5,666	6,195
12,832	-	-	-	12,832	14,708
132,492	-	-	-	132,492	35,517
231,354	-	-	-	231,354	215,886
2,738	-	-	-	2,738	2,760
10,770	-	-	-	10,770	20,705
49,668	-	-	-	49,668	64,564
20,451	-	-	-	20,451	4,300
144,105	-	-	-	144,105	104,910
50,098	4,808	-	4,808	54,904	59,859
2,618	-	-	-	2,618	2,577
<u>1,078,061</u>	<u>4,812</u>	<u>-</u>	<u>4,812</u>	<u>1,082,873</u>	<u>997,675</u>
<u>\$ 8,781,424</u>	<u>\$ 1,195,377</u>	<u>\$ 48,698</u>	<u>\$ 1,244,075</u>	<u>\$ 10,025,499</u>	<u>\$ 9,602,763</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 two Level I programs for acute care, two Level II programs for intermediate care, one residential program for discharge preparation, and a Private Residential Rehabilitative Institution. 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. Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

5. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

6. 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.

7. Investments

Investments in marketable securities are stated at fair market value (see Note A15).

8. 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.

9. 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.

10. Contributions

Contributions received and unconditional promises to give are measured at their fair market 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 a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. The Agency reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

11. Functional Expenses

Expenses are charged to each program based on direct expenditures incurred. Any support costs or program expenditures not directly chargeable are allocated to a program based on a multiple allocation base method.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. 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.

13. 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, 2016 and 2015, there were no unrecognized tax benefits or interest and penalty expense incurred. Tax years that remain subject to examination are years 2013 and forward.

14. Date of Management's Review

Management has evaluated subsequent events through November 28, 2016, the date the financial statements were available to be issued.

15. 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.

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, 2016.

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 at June 30, 2016 are classified in the following schedule in one of the three categories previously described:

	<u>Level 1</u>
Investments	<u>\$ 2,453,746</u>

NOTE B - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Service Contracts	\$ 1,034,332	\$ 951,712
Grants and entitlements	1,401,933	1,596,286
Other	<u>3,534</u>	<u>3,141</u>
	<u>\$ 2,439,799</u>	<u>\$ 2,551,139</u>

NOTE C - BUILDINGS, PROPERTY AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>	<u>Estimated Useful Life</u>
Land	\$ 69,900	\$ 69,900	-
Land improvements	275,972	275,972	5-10 years
Buildings and improvements	2,476,695	2,978,220	5-40 years
Equipment and furnishings	724,811	668,551	3-15 years
Vehicles	<u>311,137</u>	<u>361,140</u>	5 years
	3,858,515	4,353,783	
Less accumulated depreciation	<u>2,695,478</u>	<u>2,699,849</u>	
	<u>\$ 1,163,037</u>	<u>\$ 1,653,934</u>	

Depreciation expense for the years ended June 30, 2016 and 2015 was \$159,101 and \$171,972, respectively.

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE D - INVESTMENTS

Investments are stated at fair market value (see Note A15) and consist of the following at June 30:

	2016		
	<u>Quoted Market Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Equity funds	\$ 1,511,182	\$ 1,424,490	\$ 86,692
Taxable fixed income funds	928,539	921,949	6,590
Certificates of deposit	<u>14,025</u>	<u>14,025</u>	<u>-</u>
	<u>\$ 2,453,746</u>	<u>\$ 2,360,464</u>	<u>\$ 93,282</u>

	2015		
	<u>Quoted Market Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Equity funds	\$ 1,504,730	\$ 1,280,949	\$ 223,781
Taxable fixed income funds	1,128,288	1,143,632	(15,344)
Certificates of deposit	<u>14,025</u>	<u>14,025</u>	<u>-</u>
	<u>\$ 2,647,043</u>	<u>\$ 2,438,606</u>	<u>\$ 208,437</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>2016</u>	<u>2015</u>
Investment income	\$ 19,905	\$ 24,893
Gain on the sale of investments	67,898	98,683
Unrealized loss	(115,155)	(75,277)
	<u>(\$ 27,352)</u>	<u>\$ 48,299</u>

NOTE E - ACCRUED LIABILITIES

Accrued liabilities consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Payroll withholdings and accruals	\$ 177,872	\$ 210,003
Vacation pay	338,461	325,181
Hospitalization	194,730	35,638
Pension expense	<u>234,271</u>	<u>246,631</u>
	<u>\$ 945,334</u>	<u>\$ 817,453</u>

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE F - UNRESTRICTED NET ASSETS DESIGNATED BY THE BOARD OF DIRECTORS

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 in these funds.

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Unemployment compensation		
security collateral	\$ 14,025	\$ 14,025
Therapeutic arts initiative	<u>176,826</u>	<u>-</u>
	<u>\$ 190,851</u>	<u>\$ 14,025</u>

In 1989, the Agency elected to reimburse the Unemployment Compensation Fund 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. A certificate of deposit in the amount of \$14,025 has been restricted in fulfillment of this requirement.

The therapeutic arts initiative represents donations received that are restricted for the construction of a new Therapeutic Arts Center for the residents of the Agency.

NOTE H - 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, 2016 and 2015, the Agency's matching contributions totaled \$71,718 and \$70,180, 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, 2016 and 2015, the Agency contributed \$162,553 and \$176,451, respectively, to the plan.

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I- LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2016</u>	<u>2015</u>
Revolving line of credit bearing interest at 2.18%, due on demand, with monthly payments of interest only, collateralized by investments in the Fahey Memorial Fund	\$ -	\$ 338,720
Revolving line of credit bearing interest at 2.46%, due on demand, with monthly payments of interest only, collateralized by investments in the Fahey Memorial Fund	<u>1,300,000</u>	<u>764,500</u>
	1,300,000	1,103,220
Less: current portion	<u>(1,300,000)</u>	<u>(1,103,220)</u>
	<u>\$ -</u>	<u>\$ -</u>

The maturities of long-term debt in each of the five years subsequent to June 30, 2016 are as follows:

<u>Year</u>	<u>Amount</u>
June 30, 2017	\$ 1,300,000
June 30, 2018	-
June 30, 2019	-
June 30, 2020	-
June 30, 2021	-
Thereafter	<u>-</u>
	<u>\$ 1,300,000</u>

SUPPLEMENTAL INFORMATION

HARBORCREEK YOUTH SERVICES, INC.
STATEMENT OF ACTIVITIES BY FUND
For the Year Ended June 30, 2016 with Comparative Totals for 2015

	Operating Fund	Property, Plant & Equipment Fund	Father Fahey Memorial Fund	Total	
				2016	2015
SUPPORT AND REVENUE					
SUPPORT					
Contributions	\$ 15,367	\$ 257,381	\$ 260	\$ 273,008	\$ 14,573
Grants	71,541	-	-	71,541	39,913
TOTAL SUPPORT	86,908	257,381	260	344,549	54,486
REVENUE					
County service fees	1,302,138	-	-	1,302,138	1,285,684
Other service fees	6,857,809	-	-	6,857,809	6,632,486
Government funding	1,300,251	-	-	1,300,251	1,461,091
Work experience program	17,386	-	-	17,386	31,623
Investment return	-	(4,376)	(22,976)	(27,352)	48,299
(Loss) gain on sale of property & equipment	-	(122,893)	-	(122,893)	39,960
Rental income	-	-	-	-	127,823
Miscellaneous	29,184	-	-	29,184	99,118
TOTAL REVENUE	9,506,768	(127,269)	(22,976)	9,356,523	9,726,094
NET ASSETS RELEASED FROM DONOR RESTRICTIONS					
	-	-	-	-	-
TOTAL SUPPORT AND REVENUE	9,593,676	130,112	(22,716)	9,701,072	9,780,580
EXPENSES					
PROGRAM SERVICES					
Residential Continuum Treatment Level I	2,748,157	-	-	2,748,157	2,597,226
Residential Continuum Treatment Level II	3,045,040	-	-	3,045,040	2,790,854
Transitional living	946,209	-	-	946,209	942,638
Education	1,303,317	-	-	1,303,317	1,358,055
Community programs	738,701	-	-	738,701	731,547
TOTAL PROGRAM SERVICES	8,781,424	-	-	8,781,424	8,420,320
SUPPORTING SERVICES					
Management and general	1,195,377	-	-	1,195,377	1,166,669
Fund raising	48,698	-	-	48,698	15,774
TOTAL SUPPORTING SERVICES	1,244,075	-	-	1,244,075	1,182,443
TOTAL EXPENSES	10,025,499	-	-	10,025,499	9,602,763
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES					
	(431,823)	130,112	(22,716)	(324,427)	177,817
INTERFUND TRANSFERS					
	238,820	(238,820)	-	-	-
CHANGE IN NET ASSETS	\$ (193,003)	\$ (108,708)	\$ (22,716)	\$ (324,427)	\$ 177,817

HARBORCREEK YOUTH SERVICES, INC.
SCHEDULE OF COUNTY SERVICE FEES
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Allegheny Co Juvenile Probation	\$ 402,895	\$ 683,067
Chautauqua County	39,690	3,430
Clarion Co Juvenile Probation	9,141	-
Crawford Co Juvenile Probation	22,408	-
Dauphin Co Juvenile Probation	32,800	-
Erie Co Children & Youth	180,917	204,519
Erie Co Juvenile Probation	232,620	86,351
Erie Co MH/MR	69,249	41,006
Indiana Co Children & Youth	5,646	-
Lackawanna Co Juvenile Probation	-	18,182
Luzerne Co Juvenile Probation	40,865	22,583
Mercer Co Juvenile Probation	8,872	39,408
Northumberland Co Juvenile Probation	6,990	8,066
Philadelphia Probation	3,252	578
Susquehanna Co Children & Youth	-	64,255
Warren Co Juvenile Probation	216,915	73,988
Washington Co Juvenile Probation	29,878	5,151
Westmoreland Co Children's Bureau	-	35,100
	<u> </u>	<u> </u>
Totals	<u>\$ 1,302,138</u>	<u>\$ 1,285,684</u>

HARBORCREEK YOUTH SERVICES, INC.
SCHEDULE OF CLIENT CARE DAYS/UNITS
For the Years Ended June 30, 2016 and 2015

<u>Residential Programs - Days</u>	<u>2016</u>	<u>2015</u>
<u>Level One</u>		
St. Joseph House	3,429	3,313
Conway House	4,926	5,152
<u>Level Two</u>		
Wagner House	5,137	4,951
Columbus House	5,036	4,716
<u>Transitional Living</u>		
Liberty Street House	3,930	4,201
Total Residential Program Client Care Days	22,458	22,333
<u>Community Programs - Days/Units</u>	<u>2016</u>	<u>2015</u>
<u>CRR Host Home - Days</u>	2,116	1,496
<u>Multi-Systemic Therapy - Units*</u>	5,470	5,134

* - one unit equal to 1/4 hour

HARBORCREEK YOUTH SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

<u>Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Date</u>	<u>Program or Award Amount</u>	<u>Total Received For the Year</u>
<u>U.S. Department of Education</u>					
<u>Passed through the Pa. Department of Education</u>					
<u>Passed through the NW Tri-County Intermediate Unit</u>					
Title I, Part A Cluster					
Title I	84.010	N/A	7/1/15-6/30/16	\$ 171,402	\$ 171,402
Total passed through the NW Tri-County Intermediate Unit				<u>171,402</u>	<u>171,402</u>
<u>U.S. Department of Agriculture</u>					
<u>Nutrition Cluster</u>					
<u>Passed through the Pa. Department of Education</u>					
National School Lunch Program	10.555	359,362	7/1/15-6/30/16	69,225	69,537
Severe Need Breakfast	10.553	367	7/1/15-6/30/16	<u>38,159</u>	<u>38,012</u>
Total passed through the Pa. Department of Education				<u>107,384</u>	<u>107,549</u>
<u>Passed through the Pa. Department of Agriculture</u>					
National School Lunch Program (Non-Cash Donated Commodities)	10.555	N/A	7/1/15-6/30/16	N/A	7,467
Total U.S. Department of Agriculture				<u>107,384</u>	<u>115,016</u>
<u>U.S. Department of Health & Human Services</u>					
<u>Temporary Assistance for Needy Families Passed through Various Counties (Notes C & D)</u>					
Chautauqua Co	93.558	N/A	7/1/15-6/30/16	N/A	27,912
Total Temporary Assistance for Needy Families passed through Various Counties				<u>-</u>	<u>27,912</u>
<u>Title IV-B Passed through Various Counties (Notes C & D)</u>					
Warren Co Juvenile Probation	93.645	N/A	7/1/15-6/30/16	N/A	13,329
Total Title IV-B passed through Various Counties				<u>-</u>	<u>13,329</u>
<u>Title IV-E Passed through Various Counties (Notes C & D)</u>					
Mercer Co Juvenile Probation	93.658	N/A	7/1/15-6/30/16	N/A	1,400
Warren Co Juvenile Probation	93.658	N/A	7/1/15-6/30/16	N/A	31,676
Erie Co Children & Youth	93.658	N/A	7/1/15-6/30/16	N/A	57,667
Erie Co Juvenile Probation	93.658	N/A	7/1/15-6/30/16	N/A	<u>8,386</u>
Total Title IV-E passed through Various Counties				<u>-</u>	<u>99,129</u>
<u>Title XX Passed through Various Counties (Notes C & D)</u>					
Warren Co Juvenile Probation	93.667	N/A	7/1/15-6/30/16	N/A	20,937
Total Title XX passed through Various Counties				<u>-</u>	<u>20,937</u>

Accrued or (Deferred) Revenue at July 1, 2015	Revenue Recognized	Federal Expenditures For the Year Ended June 30, 2016			Passed Through to Subrecipients	Accrued or (Deferred) Revenue at June 30, 2016
		Pass-Thru	Direct	Total		
\$ -	\$ 171,402	\$ 171,402	\$ -	\$ 171,402	\$ -	\$ -
-	171,402	171,402	-	171,402	-	-
6,156	69,225	69,225	-	69,225	-	5,844
3,501	38,159	38,159	-	38,159	-	3,648
9,657	107,384	107,384	-	107,384	-	9,492
-	7,467	7,467	-	7,467	-	-
9,657	114,851	114,851	-	114,851	-	9,492
-	39,690	39,690	-	39,690	-	11,778
-	39,690	39,690	-	39,690	-	11,778
2,772	12,189	12,189	-	12,189	-	1,632
2,772	12,189	12,189	-	12,189	-	1,632
1,400	-	-	-	-	-	-
-	36,572	36,572	-	36,572	-	4,896
4,505	61,670	61,670	-	61,670	-	8,508
784	8,767	8,767	-	8,767	-	1,165
6,689	107,009	107,009	-	107,009	-	14,569
2,112	21,735	21,735	-	21,735	-	2,910
2,112	21,735	21,735	-	21,735	-	2,910

HARBORCREEK YOUTH SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

<u>Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Date</u>	<u>Program or Award Amount</u>	<u>Total Received For the Year</u>
<u>Medicaid Cluster (Notes C & D)</u>					
<u>Medical Assistance Program passed through Pa. Department of Public Welfare</u>					
Pa. Department of Public Welfare	93.778	N/A	7/1/15-6/30/16	N/A	420,356
Total Medical Assistance passed through Pa. Department of Public Welfare				-	420,356
<u>Medical Assistance Program passed through Various Managed Care Providers (Note E)</u>					
Community Care Behavioral Health	93.778	N/A	7/1/15-6/30/16	N/A	5,082,901
Community Behavioral Health	93.778	N/A	7/1/15-6/30/16	N/A	488,369
PerformCare	93.778	N/A	7/1/15-6/30/16	N/A	393,491
Value Behavioral Health	93.778	N/A	7/1/15-6/30/16	N/A	349,649
Magellan Behavioral Health of Pennsylvania	93.778	N/A	7/1/15-6/30/16	N/A	76,650
Total Medical Assistance Program passed through Various Managed Care Providers				-	6,391,060
<u>Unidentified Programs Passed through Various Counties</u>					
Dauphin Co Juvenile Probation	Note F	N/A	7/1/15-6/30/16	N/A	24,734
Luzerne Co Juvenile Probation	Note F	N/A	7/1/14-6/30/15	N/A	16,400
Philadelphia Probation	Note F	N/A	7/1/15-6/30/16	N/A	3,096
Total unidentified programs passed through Various Counties				-	44,230
Total U.S. Department of Health and Human Services				-	7,016,953
Total Federal Awards				\$ 278,786	\$ 7,303,371

Accrued or (Deferred) Revenue at July 1, 2015	Revenue Recognized	Federal Expenditures For the Year Ended June 30, 2016			Passed Through to Subrecipients	Accrued or (Deferred) Revenue at June 30, 2016
		Pass-Thru	Direct	Total		
18,261	445,647	445,647	-	445,647	-	43,552
18,261	445,647	445,647	-	445,647	-	43,552
502,680	4,974,953	4,974,953	-	4,974,953	-	394,732
99,552	430,233	430,233	-	430,233	-	41,416
72,716	480,165	480,165	-	480,165	-	159,390
33,614	420,761	420,761	-	420,761	-	104,726
10,500	106,050	106,050	-	106,050	-	39,900
719,062	6,412,162	6,412,162	-	6,412,162	-	740,164
-	32,800	32,800	-	32,800	-	8,066
16,400	-	-	-	-	-	-
-	3,252	3,252	-	3,252	-	156
16,400	36,052	36,052	-	36,052	-	8,222
765,296	7,074,484	7,074,484	-	7,074,484	-	822,827
<u>\$ 774,953</u>	<u>\$ 7,360,737</u>	<u>\$ 7,360,737</u>	<u>\$ -</u>	<u>7,360,737</u>	<u>-</u>	<u>\$ 832,319</u>

Total Expenditures by CFDA Number

Program Title	CFDA Number	Expenditures
Child Nutrition Cluster	10.553/10.555	114,851
Title I, Part A	84.010	171,402
Temporary Assistance for Needy Families	93.558	39,690
Title IV-B	93.645	12,189
Title IV-E	93.658	107,009
Title XX	93.667	21,735
Medicaid Cluster	93.778	6,857,809
Unidentified	Unknown	36,052
		<u>7,360,737</u>

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is presented on the same basis of accounting, the accrual basis in accordance with U.S. generally accepted accounting principles, as the Agency's financial statements. The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs may be more than shown for a particular grant. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87 or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

NOTE B - INDIRECT COST RATE

The Agency has elected to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance

NOTE C - BEGINNING ACCRUED REVENUE

Beginning accrued revenue estimated based on total federal revenue for the prior year compared to total revenue for that year, as reported on the prior year Schedule of Expenditures of Federal Awards. The beginning accrued revenue is from the prior year grant, and hence the total cash for the current year includes cash received for the prior year's grant.

NOTE D - ENDING ACCRUED REVENUE

Ending accrued revenue estimated based on total federal revenue by Funding Source for the current year compared to total revenue by Funding Source for the year.

NOTE E - MANAGED CARE

The managed care providers did not identify the federal funds included in their reimbursements to the Agency. The amounts reported on the Schedule of Expenditures of Federal Awards represent the total amount of funds provided by the managed care providers to the Agency for the year ended June 30, 2016. Accordingly, it can not be determined what portion of these amounts, if any, represent federal funds.

NOTE F - UNIDENTIFIED PROGRAMS

These counties did not respond to requests made to identify the federal funds included in their per diem reimbursements to the Agency. The amounts reported on the Schedule of Expenditures of Federal Awards represent the total amount of funds provided by the counties to the Agency for the year ended June 30, 2016. Accordingly, it can not be determined what portion of these amounts, if any, represent federal funds.

NOTE G - IDENTIFICATION OF 40% RULE (20% FOR LOW RISK AUDITEES)

Total expenditures		<u>\$ 7,360,737</u>
Total Federal Assistance		<u>\$ 7,360,737</u>
Programs selected for testing:		
Medicaid Cluster		
Medical Assistance Program	93.778	<u>\$ 6,857,809</u>
Total programs selected for testing		<u>\$ 6,857,809</u>
% of Total Federal Assistance		<u>93.2%</u>

Root, Spitznas & Smiley, Inc.

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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

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, 2016, 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 November 28, 2016.

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 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
November 28, 2016

Root, Spitznas & Smiley, Inc.

Certified Public Accountants

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Michael N. Barko, CPA
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James T. Scavona, CPA

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

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

Report on Compliance for Each Major Federal Program

We have audited Harborcreek Youth Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Harborcreek Youth Services, Inc.'s major federal program for the year ended June 30, 2016. Harborcreek Youth Services, Inc.'s major federal program 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Harborcreek Youth Services, Inc.'s major federal program 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 Harborcreek Youth Services, Inc.'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 Harborcreek Youth Services, Inc.'s compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Harborcreek Youth Services, Inc. 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 Harborcreek Youth Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a 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 Harborcreek Youth Services, Inc.'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 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 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 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.

Root, Spitznaw and Smiley, Inc.

ERIE, PENNSYLVANIA
November 28, 2016

HARBORCREEK YOUTH SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

Summary of Auditor's Results:

Financial Statements

1. Type of auditor's report issued: unmodified
2. Internal control over financial reporting:
 - Material weakness(es) identified? yes no
 - Significant deficiency(ies) identified? yes no
3. Noncompliance material to financial statements noted? yes no

Federal Awards

1. Internal control over major programs:
 - Material weakness(es) identified? yes no
 - Significant deficiency(ies) identified? yes no
2. Type of auditor's report issued on compliance for major programs: unmodified
3. Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? yes no
4. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.778	Medicaid Cluster, Medical Assistance Program
5. Dollar threshold used to distinguish between type A and type B programs: \$750,000
6. Auditee qualified as low-risk auditee? yes no

Audit Findings:

The audit resulted in no current findings. In addition, there were no audit findings in the prior year's audit.

HARBORCREEK YOUTH SERVICES, INC.
EXIT CONFERENCE
June 30, 2016

An exit conference was held on November 28, 2016. Participating were:

Elizabeth A. Iadaluca
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, 2016 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, 2016

Number of Copies

1	Federal Audit Clearinghouse Submitted electronically
1	Commonwealth of Pennsylvania Office of the Budget Bureau of Audits Submitted electronically
1	Commonwealth of Pennsylvania Department of Public Welfare 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
November 28, 2016



Elizabeth Iadaluca
Chief Financial Officer
November 28, 2016