

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

June 30, 2017

With Comparative Totals for 2016

Root, Spitznas & Smiley, Inc.

Certified Public Accountants

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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, 2017, 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, Spitznas and Smiley, Inc.

November 29, 2017

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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, 2017, 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, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Harborcreek Youth Services, Inc.'s June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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, statement of functional expenses – community programs, 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 29, 2017 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.

Root, Spitznagel and Smiley, Inc.

ERIE, PENNSYLVANIA
November 29, 2017

FINANCIAL STATEMENTS

HARBORCREEK YOUTH SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 841,984	\$ 1,158,880
Accounts receivable	2,529,962	2,439,799
Prepaid expenses	226,464	344,658
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	3,598,410	3,943,337
BUILDINGS, PROPERTY, AND EQUIPMENT, NET	1,570,670	1,163,037
INVESTMENTS	2,808,245	2,453,746
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 7,977,325</u>	<u>\$ 7,560,120</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 165,093	\$ 144,638
Accrued liabilities	786,904	945,334
Current portion of long-term debt	1,000,000	1,300,000
Deferred revenue	-	3,001
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	1,951,997	2,392,973
LONG-TERM DEBT	-	-
NET ASSETS		
Unrestricted		
Board designated for replacement of property and equipment	2,503,785	2,364,113
Board designated Fahey Memorial Fund	1,910,703	1,842,039
Undesignated	1,596,815	770,144
	<hr/>	<hr/>
Temporarily restricted	6,011,303	4,976,296
	14,025	190,851
	<hr/>	<hr/>
TOTAL NET ASSETS	6,025,328	5,167,147
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,977,325</u>	<u>\$ 7,560,120</u>

The accompanying notes are an integral part of these statements.

HARBORCREEK YOUTH SERVICES, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017 with Comparative Totals for 2016

	Unrestricted	Temporarily Restricted	Total	
			2017	2016
SUPPORT AND REVENUE				
SUPPORT				
Contributions	\$ 131,786	\$ -	\$ 131,786	\$ 273,008
Grants	54,788	-	54,788	71,541
TOTAL SUPPORT	186,574	-	186,574	344,549
REVENUE				
County service fees	1,445,547	-	1,445,547	1,302,138
Other service fees	7,007,891	-	7,007,891	6,857,809
Government funding	1,437,638	-	1,437,638	1,300,251
Work experience program	18,069	-	18,069	17,386
Investment return	284,783	-	284,783	(27,352)
Gain (loss) on sale of property & equipment	3,811	-	3,811	(122,893)
Miscellaneous	3,632	-	3,632	29,184
TOTAL REVENUE	10,201,371	-	10,201,371	9,356,523
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	176,826	(176,826)	-	-
TOTAL SUPPORT AND REVENUE	10,564,771	(176,826)	10,387,945	9,701,072
EXPENSES				
PROGRAM SERVICES				
Residential Continuum Treatment	5,430,035	-	5,430,035	5,793,197
Transitional living	906,081	-	906,081	946,209
Education	1,283,692	-	1,283,692	1,303,317
Community programs	694,028	-	694,028	738,701
TOTAL PROGRAM SERVICES	8,313,836	-	8,313,836	8,781,424
SUPPORTING SERVICES				
Management and general	1,166,915	-	1,166,915	1,195,377
Fund raising	49,013	-	49,013	48,698
TOTAL SUPPORTING SERVICES	1,215,928	-	1,215,928	1,244,075
TOTAL EXPENSES	9,529,764	-	9,529,764	10,025,499
CHANGE IN NET ASSETS	\$ 1,035,007	\$ (176,826)	\$ 858,181	\$ (324,427)

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, 2017 with Comparative Totals for 2016

	Unrestricted	Temporarily Restricted	Total	
			2017	2016
NET ASSETS, BEGINNING OF YEAR	\$ 4,976,296	\$ 190,851	\$ 5,167,147	\$ 5,491,574
Change in Net Assets	1,035,007	(176,826)	858,181	(324,427)
NET ASSETS, END OF YEAR	<u>\$ 6,011,303</u>	<u>\$ 14,025</u>	<u>\$ 6,025,328</u>	<u>\$ 5,167,147</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 858,181	\$ (324,427)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	167,934	159,101
Realized gain on sale of investments	(80,722)	(67,898)
Unrealized (gain) loss on investments	(182,172)	115,155
(Gain) loss on sale of property & equipment	(3,811)	122,893
Contribution of stock	-	(8,315)
(Increase) decrease in accounts receivable	(90,163)	111,340
Decrease (increase) in prepaid expenses	118,194	(119,994)
Increase in accounts payable	20,455	23,799
(Decrease) increase in accrued liabilities	(158,430)	127,881
Decrease in deferred revenue	(3,001)	(37,999)
NET CASH PROVIDED BY OPERATING ACTIVITIES	646,465	101,536
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and maturities of long term investments	374,913	623,099
Purchases of long term investments	(466,518)	(468,744)
Purchases of property & equipment	(575,567)	(149,546)
Proceeds from sale of property & equipment	3,811	358,449
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(663,361)	363,258
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from new borrowing	-	535,500
Payments on debt	(300,000)	(338,720)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(300,000)	196,780
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(316,896)	661,574
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,158,880	497,306
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 841,984	\$ 1,158,880
Cash paid during the year for interest	<u>\$ 27,794</u>	<u>\$ 29,297</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, 2017 with Comparative Totals for 2016

	Program Services				
	PRTF	Transitional Living	Education	Community Programs	Total
SALARIES AND RELATED EXPENSES					
Wages and salaries	\$ 3,083,339	\$ 518,644	\$ 739,929	\$ 298,663	\$ 4,620,575
Employee benefits and taxes	1,213,980	204,189	294,746	118,158	1,831,073
TOTAL SALARIES AND RELATED EXPENSES	4,277,319	722,833	1,034,675	416,821	6,451,648
GENERAL EXPENSES					
Contracted services	54,244	9,173	2,375	6,184	71,976
Supplies	13,452	1,988	3,423	1,565	20,428
Telephone and communication	27,897	4,787	4,756	5,040	42,480
Advertising and marketing	449	95	-	2,924	3,468
Transportation and travel	6,145	925	585	9,377	17,032
Staff recruitment and retention	13,223	1,702	1,427	2,144	18,498
Development and training	30,367	3,838	2,239	8,273	44,717
Rentals and maintenance	3,179	573	3,474	40	7,266
Insurance	29,858	4,592	3,430	352	38,232
Interest expense	-	-	27,794	-	27,794
Association dues and licenses	888	53	169	34,991	36,099
Depreciation of equipment and vehicles	61,373	9,783	4,893	3,260	79,289
Miscellaneous	-	-	-	-	-
TOTAL GENERAL EXPENSES	241,073	37,489	54,585	74,150	407,257
OCCUPANCY					
Insurance on building and contents	10,899	1,698	3,758	526	16,881
Repairs and maintenance	90,971	10,207	18,283	1,992	91,433
Housekeeping and janitorial	37,933	7,179	3,824	486	49,422
Utilities	59,434	9,389	20,022	2,804	91,649
Depreciation of buildings	46,713	6,422	27,312	1,527	81,974
Property taxes	-	-	-	-	-
TOTAL OCCUPANCY	215,950	34,895	73,179	7,335	331,359
DIRECT CHILD / FAMILY EXPENSE					
Food and food service	393,384	82,478	3,082	12	478,954
Clothing	3,168	133	-	29	3,330
Medical and dental fees and supplies	13,334	1,885	-	32	15,251
Therapeutic supplies and services	46,479	10,875	50,878	12,002	120,234
Psychiatric and psychological services	188,172	3,661	2,841	19,296	213,970
Personal care	2,140	720	-	-	2,860
Recreational supplies and activities	6,484	1,638	-	-	8,132
Educational activities	-	-	18,905	-	18,905
Specific child assistance	12,208	4,091	36,954	287	53,550
Foster parent payments	-	-	-	163,995	163,995
Transportation	28,375	4,996	8,613	59	42,043
Religious services and supplies	1,939	409	-	-	2,348
TOTAL DIRECT EXPENSES OF CHILDREN AND FAMILIES	695,693	110,884	121,273	195,722	1,123,572
TOTAL EXPENSES	\$ 5,430,035	\$ 908,081	\$ 1,283,692	\$ 694,028	\$ 8,313,836

The accompanying notes are an integral part of these statements.

Supporting Services				
Management & General	Fund Raising	Total	Total Expenses	
			2017	2018
\$ 726,620	\$ -	\$ 726,620	\$ 5,347,195	\$ 5,398,759
285,027	-	285,027	2,118,100	2,558,598
<u>1,011,647</u>	<u>-</u>	<u>1,011,647</u>	<u>7,463,295</u>	<u>7,955,357</u>
39,144	13,078	52,222	124,198	140,744
16,687	1,017	17,704	38,132	55,502
9,803	-	9,803	52,283	74,907
5,318	26,350	31,668	35,136	58,992
5,164	-	5,164	22,198	16,442
4,240	8,288	12,508	31,004	24,425
6,170	-	6,170	50,887	65,259
15,952	-	15,952	23,218	21,079
11,198	-	11,198	49,430	58,215
-	-	-	27,794	29,297
23,975	300	24,275	60,374	57,759
4,082	-	4,082	83,351	72,398
1,600	-	1,600	1,600	1,328
<u>143,313</u>	<u>49,013</u>	<u>192,328</u>	<u>599,583</u>	<u>676,345</u>
899	-	899	17,780	15,817
3,402	-	3,402	94,835	68,732
255	-	255	49,877	38,838
4,790	-	4,790	96,439	100,133
2,609	-	2,609	84,583	88,703
-	-	-	-	601
<u>11,955</u>	<u>-</u>	<u>11,955</u>	<u>343,314</u>	<u>310,924</u>
-	-	-	478,954	415,275
-	-	-	3,330	5,666
-	-	-	15,251	12,832
-	-	-	120,234	132,492
-	-	-	213,970	231,354
-	-	-	2,860	2,738
-	-	-	8,132	10,770
-	-	-	18,905	49,688
-	-	-	53,550	20,451
-	-	-	163,995	144,105
-	-	-	42,043	54,904
-	-	-	2,348	2,618
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,123,572</u>	<u>1,082,873</u>
<u>\$ 1,166,915</u>	<u>\$ 49,013</u>	<u>\$ 1,215,928</u>	<u>\$ 9,529,764</u>	<u>\$ 10,025,499</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 residential treatment program for Transitional Living, 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. 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, 2016, 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, 2017 and 2016, there were no unrecognized tax benefits or interest and penalty expense incurred. Tax years that remain subject to examination are years 2014 and forward.

14. Date of Management's Review

Management has evaluated subsequent events through November 29, 2017, 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, 2017.

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017 are classified in the following schedule in one of the three categories previously described:

	<u>Level 1</u>
Investments	<u>\$ 2,808,245</u>

NOTE B - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Service Contracts	\$ 1,206,216	\$ 1,034,332
Grants and entitlements	1,320,722	1,401,933
Other	<u>3,024</u>	<u>3,534</u>
	<u>\$ 2,529,962</u>	<u>\$ 2,439,799</u>

NOTE C - BUILDINGS, PROPERTY AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>	<u>Estimated Useful Life</u>
Land	\$ 69,900	\$ 69,900	-
Land improvements	275,972	275,972	5-10 years
Buildings and improvements	2,796,979	2,476,695	5-40 years
Equipment and furnishings	717,133	724,811	3-15 years
Vehicles	<u>287,490</u>	<u>311,137</u>	5 years
	4,147,474	3,858,515	
Less accumulated depreciation	<u>2,576,804</u>	<u>2,695,478</u>	
	<u>\$ 1,570,670</u>	<u>\$ 1,163,037</u>	

Depreciation expense for the years ended June 30, 2017 and 2016 was \$167,934 and \$159,101, respectively.

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE D - INVESTMENTS

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

	2017		
	<u>Quoted Market Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Equity funds	\$ 1,687,446	\$ 1,401,817	\$ 285,629
Taxable fixed income funds	1,106,774	1,116,949	(10,175)
Certificates of deposit	<u>14,025</u>	<u>14,025</u>	<u>-</u>
	<u>\$ 2,808,245</u>	<u>\$ 2,532,791</u>	<u>\$ 275,454</u>

	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>

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>2017</u>	<u>2016</u>
Investment income	\$ 21,889	\$ 19,905
Gain on the sale of investments	80,722	67,898
Unrealized gain/(loss)	<u>182,172</u>	<u>(115,155)</u>
	<u>\$ 284,783</u>	<u>(\$ 27,352)</u>

NOTE E - ACCRUED LIABILITIES

Accrued liabilities consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Payroll withholdings and accruals	\$ 190,365	\$ 177,872
Vacation pay	342,370	338,461
Hospitalization	11,403	194,730
Pension expense	<u>242,766</u>	<u>234,271</u>
	<u>\$ 786,904</u>	<u>\$ 945,334</u>

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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>2017</u>	<u>2016</u>
Unemployment compensation		
security collateral	\$ 14,025	\$ 14,025
Therapeutic arts initiative	<u>-</u>	<u>176,826</u>
	<u>\$ 14,025</u>	<u>\$ 190,851</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. Construction was completed in May, 2017 and all donations were released from restrictions.

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, 2017 and 2016, the Agency's matching contributions totaled \$70,444 and \$71,718, 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, 2017 and 2016, the Agency contributed \$172,322 and \$162,553, respectively, to the plan.

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE I- LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2017</u>	<u>2016</u>
Revolving line of credit bearing interest at 3.05%, due on demand, with monthly payments of interest only, collateralized by investments in the Fahey Memorial Fund	<u>\$ 1,000,000</u>	<u>\$ 1,300,000</u>
	1,000,000	1,300,000
Less: current portion	<u>(1,000,000)</u>	<u>(1,300,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The maturities of long-term debt in each of the five years subsequent to June 30, 2017 are as follows:

<u>Year</u>	<u>Amount</u>
June 30, 2018	\$ 1,000,000
June 30, 2019	-
June 30, 2020	-
June 30, 2021	-
June 30, 2022	-
Thereafter	<u>-</u>
	<u>\$ 1,000,000</u>

SUPPLEMENTAL INFORMATION

HARBORCREEK YOUTH SERVICES, INC.
STATEMENT OF ACTIVITIES BY FUND
For the Year Ended June 30, 2017 with Comparative Totals for 2016

	Operating Fund	Property, Plant & Equipment Fund	Father Fahey Memorial Fund	Total	
				2017	2016
SUPPORT AND REVENUE					
SUPPORT					
Contributions	\$ 29,748	\$ 101,778	\$ 260	\$ 131,786	\$ 273,008
Grants	49,788	5,000	-	54,788	71,541
TOTAL SUPPORT	79,536	106,778	260	186,574	344,549
REVENUE					
County service fees	1,445,547	-	-	1,445,547	1,302,138
Other service fees	7,007,891	-	-	7,007,891	6,857,809
Government funding	1,437,638	-	-	1,437,638	1,300,251
Work experience program	18,069	-	-	18,069	17,386
Investment return	-	85,189	199,594	284,783	(27,352)
Gain (loss) on sale of property & equipment	-	3,811	-	3,811	(122,893)
Miscellaneous	3,632	-	-	3,632	29,184
TOTAL REVENUE	9,912,777	89,000	199,594	10,201,371	9,356,523
NET ASSETS RELEASED FROM DONOR RESTRICTIONS					
	-	-	-	-	-
TOTAL SUPPORT AND REVENUE	9,992,313	195,778	199,854	10,387,945	9,701,072
EXPENSES					
PROGRAM SERVICES					
Residential Continuum Treatment	5,321,949	108,086	-	5,430,035	5,793,197
Transitional living	889,896	16,185	-	906,081	946,209
Education	1,251,487	32,205	-	1,283,692	1,303,317
Community programs	689,241	4,787	-	694,028	738,701
TOTAL PROGRAM SERVICES	8,152,573	161,263	-	8,313,836	8,781,424
SUPPORTING SERVICES					
Management and general	1,160,244	6,671	-	1,166,915	1,195,377
Fund raising	28,445	-	20,568	49,013	48,698
TOTAL SUPPORTING SERVICES	1,188,689	6,671	20,568	1,215,928	1,244,075
TOTAL EXPENSES	9,341,262	167,934	20,568	9,529,764	10,025,499
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	651,051	27,844	179,286	858,181	(324,427)
INTERFUND TRANSFERS	175,620	(64,998)	(110,622)	-	-
CHANGE IN NET ASSETS	\$ 826,671	\$ (37,154)	\$ 68,664	\$ 858,181	\$ (324,427)

HARBORCREEK YOUTH SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES - COMMUNITY PROGRAMS
For the Year Ended June 30, 2017

	<u>CRR</u>	<u>MST</u>	<u>Total</u>
SALARIES AND RELATED EXPENSES			
Wages and salaries	\$ 112,403	\$ 186,260	\$ 298,663
Employee benefits and taxes	44,093	74,065	118,158
TOTAL SALARIES AND RELATED EXPENSES	156,496	260,325	416,821
GENERAL EXPENSES			
Contracted services	2,861	3,323	6,184
Supplies	853	712	1,565
Telephone and communication	2,252	2,788	5,040
Advertising and marketing	2,924	-	2,924
Transportation and travel	1,955	7,422	9,377
Staff recruitment and retention	1,355	789	2,144
Development and training	4,187	4,086	8,273
Rentals and maintenance	12	28	40
Insurance	103	249	352
Association dues and licenses	888	34,103	34,991
Depreciation of equipment and vehicles	1,512	1,748	3,260
TOTAL GENERAL EXPENSES	18,902	55,248	74,150
OCCUPANCY			
Insurance on building and contents	153	373	526
Repairs and maintenance	582	1,410	1,992
Housekeeping and janitorial	380	106	486
Utilities	818	1,986	2,804
Depreciation of buildings	446	1,081	1,527
TOTAL OCCUPANCY	2,379	4,956	7,335
DIRECT CHILD / FAMILY EXPENSE			
Food and food service	3	9	12
Clothing	29	-	29
Medical and dental fees and supplies	32	-	32
Therapeutic supplies and services	1,659	10,343	12,002
Psychiatric and psychological services	19,296	-	19,296
Specific child assistance	297	-	297
Foster parent payments	163,995	-	163,995
Transportation	18	41	59
TOTAL DIRECT EXPENSES OF CHILDREN AND FAMILIES	185,329	10,393	195,722
TOTAL EXPENSES	\$ 363,106	\$ 330,922	\$ 694,028

HARBORCREEK YOUTH SERVICES, INC.
SCHEDULE OF COUNTY SERVICE FEES
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Allegheny Co Children & Youth	\$ 4,162	\$ -
Allegheny Co Juvenile Probation	271,805	402,895
Chautauqua County	164,052	39,690
Chester Co Juvenile Probation	47,393	-
Clarion Co Juvenile Probation	-	9,141
Crawford Co Juvenile Probation	211,593	22,408
Dauphin Co Juvenile Probation	6,452	32,800
Erie Co Children & Youth	161,161	180,917
Erie Co Juvenile Probation	23,181	232,620
Erie Co MH/MR	89,118	69,249
Indiana Co Children & Youth	98,130	5,646
Lackawanna Co Juvenile Probation	74,740	-
Lawrence Co Children & Youth	60,760	-
Luzerne Co Juvenile Probation	-	40,865
McKean Co Juvenile Probation	314	-
Mercer Co Juvenile Probation	-	8,872
Northumberland Co Juvenile Probation	-	6,990
Philadelphia Probation	903	3,252
Warren Co Juvenile Probation	105,120	216,915
Washington Co Juvenile Probation	36,060	29,878
Westmoreland Co Children's Bureau	90,603	-
	<u>\$ 1,445,547</u>	<u>\$ 1,302,138</u>
Totals		

**HARBORCREEK YOUTH SERVICES, INC.
 SCHEDULE OF CLIENT CARE DAYS/UNITS
 For the Years Ended June 30, 2017 and 2016**

<u>Residential Programs - Days</u>	<u>2017</u>	<u>2016</u>
<u>Psychiatric Residential Treatment</u>		
St. Joseph House	3,525	3,429
Conway House	4,975	4,926
Wagner House	5,276	5,137
Columbus House	5,293	5,036
<u>Transitional Living</u>		
Liberty House	<u>4,020</u>	<u>3,930</u>
Total Residential Program Client Care Days	<u>23,089</u>	<u>22,458</u>

<u>Community Programs - Days/Units</u>	<u>2017</u>	<u>2016</u>
<u>CRR Host Home - Days</u>	2,215	2,116
<u>Multi-Systemic Therapy - Units*</u>	5,061	5,470

* - one unit equal to 1/4 hour

HARBORCREEK YOUTH SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

<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	7/1/16-6/30/17	\$ 107,856	\$ 107,856
Total passed through the NW Tri-County Intermediate Unit				107,856	107,856
<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	7/1/16-6/30/17	76,325	69,580
Severe Need Breakfast	10.553	367	7/1/16-6/30/17	42,226	38,868
Total passed through the Pa. Department of Education				118,551	108,448
<u>Passed through the Pa. Department of Agriculture</u>					
National School Lunch Program (Non-Cash Donated Commodities)	10.555	N/A	7/1/16-6/30/17	N/A	12,739
Total U.S. Department of Agriculture				118,551	121,187
<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	11,778
Total Temporary Assistance for Needy Families passed through Various Counties				-	11,778
<u>Title IV-B Passed through Various Counties (Notes C & D)</u>					
Warren Co Juvenile Probation	93.645	N/A	7/1/16-6/30/17	N/A	15,348
Total Title IV-B passed through Various Counties				-	15,348
<u>Title IV-E Passed through Various Counties (Notes C & D)</u>					
Lawrence Co Children & Youth	93.658	N/A	7/1/16-6/30/17	N/A	20,437
Warren Co Juvenile Probation	93.658	N/A	7/1/16-6/30/17	N/A	4,896
Westmoreland Co Children & Youth	93.658	N/A	7/1/16-6/30/17	N/A	31,396
Erie Co Children & Youth	93.658	N/A	7/1/16-6/30/17	N/A	38,650
Erie Co Juvenile Probation	93.658	N/A	7/1/16-6/30/17	N/A	1,165
Total Title IV-E passed through Various Counties				-	96,544
<u>Title XX Passed through Various Counties (Notes C & D)</u>					
Warren Co Juvenile Probation	93.667	N/A	7/1/16-6/30/17	N/A	19,355
Total Title XX passed through Various Counties				-	19,355

Accrued or (Deferred) Revenue at July 1, 2016	Revenue Recognized	Federal Expenditures For the Year Ended June 30, 2017			Passed Through to Subrecipients	Accrued or (Deferred) Revenue at June 30, 2017
		Pass-Thru	Direct	Total		
\$ -	\$ 107,856	\$ 107,856	\$ -	\$ 107,856	\$ -	\$ -
-	107,856	107,856	-	107,856	-	-
5,844	76,325	76,325	-	76,325	-	12,589
3,648	42,226	42,226	-	42,226	-	7,006
9,492	118,551	118,551	-	118,551	-	19,595
-	12,739	12,739	-	12,739	-	-
9,492	131,290	131,290	-	131,290	-	19,595
11,778	-	-	-	-	-	-
11,778	-	-	-	-	-	-
1,632	16,252	16,252	-	16,252	-	2,536
1,632	16,252	16,252	-	16,252	-	2,536
-	23,565	23,565	-	23,565	-	3,128
4,896	-	-	-	-	-	-
-	34,464	34,464	-	34,464	-	3,068
8,508	37,722	37,722	-	37,722	-	7,580
1,165	-	-	-	-	-	-
14,569	95,751	95,751	-	95,751	-	13,776
2,910	19,485	19,485	-	19,485	-	3,040
2,910	19,485	19,485	-	19,485	-	3,040

HARBORCREEK YOUTH SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

<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 Human Services</u>					
Pa. Department of Human Services	93.778	N/A	7/1/16-6/30/17	N/A	80,187
Total Medical Assistance passed through Pa. Department of Human Services				-	80,187
<u>Medical Assistance Program passed through Various Managed Care Providers (Note E)</u>					
Community Care Behavioral Health	93.778	N/A	7/1/16-6/30/17	N/A	4,459,472
Community Behavioral Health	93.778	N/A	7/1/16-6/30/17	N/A	141,444
PerformCare	93.778	N/A	7/1/16-6/30/17	N/A	1,042,907
Value Behavioral Health	93.778	N/A	7/1/16-6/30/17	N/A	777,660
Magellan Behavioral Health of Pennsylvania	93.778	N/A	7/1/16-6/30/17	N/A	283,600
Total Medical Assistance Program passed through Various Managed Care Providers				-	6,705,083
<u>Unidentified Programs Passed through Various Counties</u>					
Chautauqua Co Children & Youth	Note F	N/A	7/1/16-6/30/17	N/A	152,229
Dauphin Co Juvenile Probation	Note F	N/A	7/1/16-6/30/17	N/A	14,518
Lackawanna Co Juvenile Probation	Note F	N/A	7/1/16-6/30/17	N/A	58,341
McKean Co Dept of Human Services	Note F	N/A	7/1/16-6/30/17	N/A	-
Philadelphia Probation	Note F	N/A	7/1/16-6/30/17	N/A	1,083
Total unidentified programs passed through Various Counties				-	226,171
Total U.S. Department of Health and Human Services				-	7,154,466
Total Federal Awards				\$ 226,407	\$ 7,383,509

Accrued or (Deferred) Revenue at July 1, 2016	Revenue Recognized	Federal Expenditures For the Year Ended June 30, 2017			Passed Through to Subrecipients	Accrued or (Deferred) Revenue at June 30, 2017
		Pass-Thru	Direct	Total		
43,552	52,794	52,794	-	52,794	-	16,159
43,552	52,794	52,794	-	52,794	-	16,159
394,732	4,454,697	4,454,697	-	4,454,697	-	389,957
41,416	104,606	104,606	-	104,606	-	4,578
159,390	1,039,337	1,039,337	-	1,039,337	-	155,820
104,726	1,000,482	1,000,482	-	1,000,482	-	327,548
39,900	267,450	267,450	-	267,450	-	23,750
740,164	6,866,572	6,866,572	-	6,866,572	-	901,653
-	164,052	164,052	-	164,052	-	11,823
8,066	6,452	6,452	-	6,452	-	-
-	74,740	74,740	-	74,740	-	16,399
-	314	314	-	314	-	314
156	903	903	-	903	-	(24)
8,222	246,461	246,461	-	246,461	-	28,512
822,827	7,297,315	7,297,315	-	7,297,315	-	965,676
\$ 832,319	\$ 7,536,461	\$ 7,536,461	\$ -	\$ 7,536,461	-	\$ 985,271

Total Expenditures by CFDA Number

Program Title	CFDA Number	Expenditures
Child Nutrition Cluster	10.553/10.555	131,290
Title I, Part A	84.010	107,856
Title IV-B	93.645	16,252
Title IV-E	93.658	95,751
Title XX	93.667	19,485
Medicaid Cluster	93.778	6,919,366
Unidentified	Unknown	246,461
		<u>7,536,461</u>

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

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, 2017. 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, 2017. 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>\$ 7,536,461</u>
Total Federal Assistance		<u>\$ 7,536,461</u>
Programs selected for testing:		
Medicaid Cluster		
Medical Assistance Program	93.778	<u>\$ 6,919,366</u>
Total programs selected for testing		<u>\$ 6,919,366</u>
% of Total Federal Assistance		<u>91.8%</u>

Root, Spitznas & Smiley, Inc.

Certified Public Accountants

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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, 2017, 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 29, 2017.

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
November 29, 2017

Root, Spitznas & Smiley, Inc.

Certified Public Accountants

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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, 2017. 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, 2017.

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, Spitznagel and Smiley, Inc.

ERIE, PENNSYLVANIA
November 29, 2017

**HARBORCREEK YOUTH SERVICES, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2017**

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 X no
 - Significant deficiency(ies) identified? __ yes X no
- 3. Noncompliance material to financial statements noted? __ yes X no

Federal Awards

- 1. Internal control over major programs:
 - Material weakness(es) identified? __yes X no
 - Significant deficiency(ies) identified? __yes X 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 X no
- 4. Identification of major programs:

CFDA Number	Name of Federal Program
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? X 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, 2017

An exit conference was held on November 29, 2017. 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, 2017 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, 2017

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 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
November 29, 2017



Elizabeth Iadaluca
Chief Financial Officer
November 29, 2017