

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

June 30, 2018

With Comparative Totals for 2017

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, 2018, 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.

December 5, 2018

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Harborcreek Youth Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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, 2018, 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, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 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 December 5, 2018 on our consideration of Harborcreek Youth Services Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Harborcreek Youth Services Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harborcreek Youth Services, Inc.'s internal control over financial reporting and compliance.

Root, Spitznagel and Smuly, Inc.

ERIE, PENNSYLVANIA
December 5, 2018

FINANCIAL STATEMENTS

HARBORCREEK YOUTH SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 1,443,764	\$ 841,984
Accounts receivable	1,644,470	2,529,962
Prepaid expenses	<u>261,153</u>	<u>226,464</u>
TOTAL CURRENT ASSETS	3,349,387	3,598,410
BUILDINGS, PROPERTY, AND EQUIPMENT, NET	1,519,583	1,570,670
INVESTMENTS	<u>3,007,721</u>	<u>2,808,245</u>
TOTAL ASSETS	<u>\$ 7,876,691</u>	<u>\$ 7,977,325</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 225,043	\$ 165,093
Accrued liabilities	881,957	786,904
Current portion of long-term debt	500,000	1,000,000
Deferred revenue	<u>8,459</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	1,615,459	1,951,997
LONG-TERM DEBT	-	-
NET ASSETS		
Unrestricted		
Board designated for		
replacement of property and equipment	2,826,882	2,503,785
Board designated Fahey Memorial Fund	2,035,273	1,910,703
Undesignated	<u>1,372,735</u>	<u>1,596,815</u>
	6,234,890	6,011,303
Temporarily restricted	<u>26,342</u>	<u>14,025</u>
TOTAL NET ASSETS	<u>6,261,232</u>	<u>6,025,328</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,876,691</u>	<u>\$ 7,977,325</u>

The accompanying notes are an integral part of these statements.

HARBORCREEK YOUTH SERVICES, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018 with Comparative Totals for 2017

	Unrestricted	Temporarily Restricted	Total	
			2018	2017
SUPPORT AND REVENUE				
SUPPORT				
Contributions	\$ 92,955	\$ 11,619	\$ 104,574	\$ 131,786
Grants	92,315	-	92,315	54,788
TOTAL SUPPORT	185,270	11,619	196,889	186,574
REVENUE				
County service fees	1,359,837	-	1,359,837	1,445,547
Other service fees	7,338,458	-	7,338,458	7,007,891
Government funding	1,250,976	-	1,250,976	1,437,638
Work experience program	26,088	-	26,088	18,069
Investment return	202,412	-	202,412	284,783
Gain on sale of property & equipment	-	-	-	3,811
Miscellaneous	15,037	-	15,037	3,632
TOTAL REVENUE	10,192,808	-	10,192,808	10,201,371
NET ASSETS RELEASED FROM DONOR RESTRICTIONS				
	-	-	-	-
TOTAL SUPPORT AND REVENUE	10,378,078	11,619	10,389,697	10,387,945
EXPENSES				
PROGRAM SERVICES				
Residential Continuum Treatment	5,782,307	-	5,782,307	5,430,035
Child residential services	982,032	-	982,032	906,081
Education	1,411,711	-	1,411,711	1,283,692
Community programs	677,557	-	677,557	694,028
TOTAL PROGRAM SERVICES	8,853,607	-	8,853,607	8,313,836
SUPPORTING SERVICES				
Management and general	1,241,352	-	1,241,352	1,166,915
Fund raising	58,834	-	58,834	49,013
TOTAL SUPPORTING SERVICES	1,300,186	-	1,300,186	1,215,928
TOTAL EXPENSES	10,153,793	-	10,153,793	9,529,764
CHANGE IN NET ASSETS	\$ 224,285	\$ 11,619	\$ 235,904	\$ 858,181

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, 2018 with Comparative Totals for 2017

	Unrestricted	Temporarily Restricted	Total	
			2018	2017
NET ASSETS, BEGINNING OF YEAR	\$ 6,011,303	\$ 14,025	\$ 6,025,328	\$ 5,167,147
Change in Net Assets	224,285	11,619	235,904	858,181
Transfers	(698)	698	-	-
NET ASSETS, END OF YEAR	<u>\$ 6,234,890</u>	<u>\$ 26,342</u>	<u>\$ 6,261,232</u>	<u>\$ 6,025,328</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 235,904	\$ 858,181
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	192,463	167,934
Realized gain on sale of investments	(205,600)	(80,722)
Unrealized loss (gain) on investments	36,223	(182,172)
Gain on sale of property & equipment	-	(3,811)
Decrease (increase) in accounts receivable	885,492	(90,163)
(Increase) decrease in prepaid expenses	(34,689)	118,194
Increase in accounts payable	59,950	20,455
Increase (decrease) in accrued liabilities	95,053	(158,430)
Increase (decrease) in deferred revenue	8,459	(3,001)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,273,255	646,465
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and maturities of long term investments	1,164,310	374,913
Purchases of long term investments	(1,194,409)	(466,518)
Purchases of property & equipment	(141,376)	(575,567)
Proceeds from sale of property & equipment	-	3,811
NET CASH USED IN INVESTING ACTIVITIES	(171,475)	(663,361)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from new borrowing	-	-
Payments on debt	(500,000)	(300,000)
NET CASH USED IN FINANCING ACTIVITIES	(500,000)	(300,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	601,780	(316,896)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	841,984	1,158,880
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,443,764	\$ 841,984
Cash paid during the year for interest	<u>\$ 26,520</u>	<u>\$ 27,794</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, 2018 with Comparative Totals for 2017

	Program Services				
	PRTF	Child Residential Services	Education	Community Programs	Total
SALARIES AND RELATED EXPENSES					
Wages and salaries	\$ 3,206,311	\$ 547,874	\$ 758,967	\$ 324,798	\$ 4,837,950
Employee benefits and taxes	1,346,724	228,338	320,698	134,100	2,029,860
TOTAL SALARIES AND RELATED EXPENSES	4,553,035	776,212	1,079,665	458,898	6,867,810
GENERAL EXPENSES					
Contracted services	55,481	10,501	47,940	10,983	124,905
Supplies	29,674	4,464	4,894	1,806	40,838
Telephone and communication	32,941	5,407	5,781	5,721	49,850
Advertising and marketing	6,401	1,385	-	4,298	12,084
Transportation and travel	9,010	1,252	271	10,871	21,404
Staff recruitment, retention and development	23,135	3,767	1,766	7,878	36,544
Rentals and maintenance	2,029	368	5,542	25	7,964
Insurance	30,351	5,795	3,323	523	39,992
Interest expense	-	-	26,520	-	26,520
Association dues and licenses	2,426	350	11,968	35,949	50,693
Depreciation of equipment and vehicles	60,217	10,327	6,267	3,317	80,128
Miscellaneous	-	-	-	118	118
TOTAL GENERAL EXPENSES	251,665	43,616	114,272	61,487	491,040
OCCUPANCY					
Insurance on building and contents	11,995	2,044	3,258	456	17,753
Repairs and maintenance	52,926	8,782	21,345	1,660	84,713
Housekeeping and janitorial	52,891	10,894	4,598	142	68,325
Utilities	62,843	10,820	16,687	2,337	92,687
Depreciation of buildings	64,821	7,871	27,197	1,423	101,312
TOTAL OCCUPANCY	245,476	40,211	73,085	6,018	364,790
DIRECT CHILD / FAMILY EXPENSE					
Food and food service	401,326	90,675	2,218	12	494,231
Clothing	5,715	703	-	-	6,418
Medical and dental fees and supplies	18,236	3,461	-	18	21,715
Therapeutic supplies and services	37,090	6,946	87,804	1,789	133,629
Psychiatric and psychological services	209,209	5,235	-	17,713	232,157
Personal care	5,190	1,020	-	-	6,210
Recreational supplies and activities	7,198	2,252	-	-	9,450
Educational activities	-	-	18,615	-	18,615
Specific child assistance	14,229	4,653	31,303	964	51,149
Foster parent payments	-	-	-	110,235	110,235
Transportation	31,992	6,627	4,749	423	43,791
Religious services and supplies	1,946	421	-	-	2,367
TOTAL DIRECT EXPENSES OF CHILDREN AND FAMILIES	732,131	121,993	144,689	131,154	1,129,967
TOTAL EXPENSES	\$ 5,782,307	\$ 982,032	\$ 1,411,711	\$ 877,557	\$ 8,653,607

The accompanying notes are an integral part of these statements.

Supporting Services

Management & General	Fund Raising	Total	Total Expenses	
			2018	2017
\$ 728,782	\$ -	\$ 728,782	\$ 5,566,732	\$ 5,347,195
304,776	-	304,776	2,334,836	2,116,100
<u>1,033,558</u>	<u>-</u>	<u>1,033,558</u>	<u>7,901,368</u>	<u>7,463,295</u>
95,038	790	95,828	220,733	124,198
13,689	928	14,617	55,455	38,132
10,669	-	10,669	80,519	52,263
1,676	29,161	30,837	42,921	35,136
4,825	-	4,825	26,229	22,196
8,519	28,690	35,209	71,753	81,891
17,047	-	17,047	25,011	23,218
10,831	-	10,831	50,823	49,430
-	-	-	28,520	27,794
25,433	-	25,433	76,126	60,374
7,205	-	7,205	87,333	83,351
1,115	-	1,115	1,233	1,600
<u>196,047</u>	<u>57,569</u>	<u>253,616</u>	<u>744,658</u>	<u>599,583</u>
779	-	779	18,532	17,780
2,835	-	2,835	87,548	94,835
323	-	323	68,648	49,677
3,992	-	3,992	96,679	96,439
3,818	-	3,818	105,130	84,583
<u>11,747</u>	<u>-</u>	<u>11,747</u>	<u>376,537</u>	<u>343,314</u>
-	-	-	494,231	478,954
-	-	-	6,418	3,330
-	-	-	21,715	15,251
-	-	-	133,629	120,234
-	-	-	232,157	213,970
-	-	-	6,210	2,860
-	-	-	9,450	8,132
-	-	-	18,615	18,905
-	1,265	1,265	52,414	53,550
-	-	-	110,235	163,995
-	-	-	43,791	42,043
-	-	-	2,367	2,346
<u>-</u>	<u>1,265</u>	<u>1,265</u>	<u>1,131,232</u>	<u>1,123,572</u>
<u>\$ 1,241,352</u>	<u>\$ 58,834</u>	<u>\$ 1,300,186</u>	<u>\$ 10,153,793</u>	<u>\$ 9,529,764</u>

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

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

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

2. Estimates in Financial Statements

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

3. Basis of Accounting

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

4. 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, 2017, 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, 2018 and 2017, there were no unrecognized tax benefits or interest and penalty expense incurred. Tax years that remain subject to examination are years 2015 and forward.

14. Date of Management's Review

Management has evaluated subsequent events through December 5, 2018, 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, 2018.

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

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, 2018 are classified in the following schedule in one of the three categories previously described:

	<u>Level 1</u>
Investments	<u>\$ 3,007,721</u>

NOTE B - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Service Contracts	\$ 1,280,632	\$ 1,206,216
Grants and entitlements	344,758	1,289,296
Other	<u>19,080</u>	<u>34,450</u>
	<u>\$ 1,644,470</u>	<u>\$ 2,529,962</u>

NOTE C - BUILDINGS, PROPERTY AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>	<u>Estimated Useful Life</u>
Land	\$ 69,900	\$ 69,900	-
Land improvements	275,972	275,972	5-10 years
Buildings and improvements	2,818,634	2,796,979	5-40 years
Equipment and furnishings	712,762	717,133	3-15 years
Vehicles	<u>335,918</u>	<u>287,490</u>	5 years
	4,213,186	4,147,474	
Less accumulated depreciation	<u>2,693,603</u>	<u>2,576,804</u>	
	<u>\$ 1,519,583</u>	<u>\$ 1,570,670</u>	

Depreciation expense for the years ended June 30, 2018 and 2017 was \$192,463 and \$167,934, respectively.

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

NOTE D - INVESTMENTS

Investments are stated at fair market value (see Note A15) based on quoted market prices. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met in the same reporting period in which the income and gains are recognized. Investments consist of the following at June 30:

2018			
	<u>Quoted Market Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Equity funds	\$ 1,835,750	\$ 1,556,351	\$ 279,399
Taxable fixed income funds	1,157,248	1,197,416	(40,168)
Certificates of deposit	<u>14,723</u>	<u>14,723</u>	<u>-</u>
	<u>\$ 3,007,721</u>	<u>\$ 2,768,490</u>	<u>\$ 239,231</u>
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>

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>2018</u>	<u>2017</u>
Investment income	\$ 33,035	\$ 21,889
Gain on the sale of investments	205,600	80,722
Unrealized (loss)/gain	<u>(36,223)</u>	<u>182,172</u>
	<u>\$ 202,412</u>	<u>\$ 284,783</u>

For the years ended June 30, 2018 and 2017, expenses relating to investment income, including custodial fees and investment advisory fees, amounted to \$25,942 and \$25,973, respectively, and have been netted against investment return in the statement of activities.

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

NOTE E - ACCRUED LIABILITIES

Accrued liabilities consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Payroll withholdings and accruals	\$ 224,847	\$ 190,365
Vacation pay	356,742	342,370
Hospitalization	50,308	11,403
Pension expense	<u>250,060</u>	<u>242,766</u>
	<u>\$ 881,957</u>	<u>\$ 786,904</u>

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>2018</u>	<u>2017</u>
Unemployment compensation security collateral	\$ 14,723	\$ 14,025
Therapeutic arts initiative	<u>11,619</u>	<u>-</u>
	<u>\$ 26,342</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 \$14,723 has been restricted in fulfillment of this requirement.

The Agency has also received donations that are restricted by the donors for the operations of therapeutic arts program.

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, 2018 and 2017, the Agency's matching contributions totaled \$75,565 and \$70,444, respectively.

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

NOTE H - PENSION PLAN - Continued

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, 2018 and 2017, the Agency contributed \$174,495 and \$172,322, respectively, to the plan.

NOTE I - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2018</u>	<u>2017</u>
Revolving line of credit bearing interest at 4.09%, due on demand, with monthly payments of interest only, collateralized by investments in the Fahey Memorial Fund	<u>\$ 500,000</u>	<u>\$ 1,000,000</u>
	500,000	1,000,000
Less: current portion	<u>(500,000)</u>	<u>(1,000,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The maturities of long-term debt in each of the five years subsequent to June 30, 2018 are as follows:

<u>Year</u>	<u>Amount</u>
June 30, 2019	\$ 500,000
June 30, 2020	-
June 30, 2021	-
June 30, 2022	-
June 30, 2023	-
Thereafter	<u>-</u>
	<u>\$ 500,000</u>

SUPPLEMENTAL INFORMATION

HARBORCREEK YOUTH SERVICES, INC.
STATEMENT OF ACTIVITIES BY FUND
For the Year Ended June 30, 2018 with Comparative Totals for 2017

	Operating Fund	Property, Plant & Equipment Fund	Father Fahey Memorial Fund	Total	
				2018	2017
SUPPORT AND REVENUE					
SUPPORT					
Contributions	\$ 104,334	\$ -	\$ 240	\$ 104,574	\$ 131,786
Grants	92,315	-	-	92,315	54,788
TOTAL SUPPORT	196,649	-	240	196,889	186,574
REVENUE					
County service fees	1,359,837	-	-	1,359,837	1,445,547
Other service fees	7,338,458	-	-	7,338,458	7,007,891
Government funding	1,250,976	-	-	1,250,976	1,437,638
Work experience program	26,088	-	-	26,088	18,069
Investment return	-	51,392	151,020	202,412	284,783
Gain on sale of property & equipment	-	-	-	-	3,811
Miscellaneous	15,037	-	-	15,037	3,632
TOTAL REVENUE	9,990,396	51,392	151,020	10,192,808	10,201,371
NET ASSETS RELEASED FROM DONOR RESTRICTIONS					
	-	-	-	-	-
TOTAL SUPPORT AND REVENUE	10,187,045	51,392	151,260	10,389,697	10,387,945
EXPENSES					
PROGRAM SERVICES					
Residential Continuum Treatment	5,657,269	125,038	-	5,782,307	5,430,035
Child residential services	963,834	18,198	-	982,032	906,081
Education	1,378,247	33,464	-	1,411,711	1,283,692
Community programs	872,817	4,740	-	677,557	694,028
TOTAL PROGRAM SERVICES	8,672,167	181,440	-	8,853,607	8,313,836
SUPPORTING SERVICES					
Management and general	1,230,329	11,023	-	1,241,352	1,166,915
Fund raising	32,144	-	26,690	58,834	49,013
TOTAL SUPPORTING SERVICES	1,262,473	11,023	26,690	1,300,186	1,215,928
TOTAL EXPENSES	9,934,640	192,463	26,690	10,153,793	9,529,764
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES					
	252,405	(141,071)	124,570	235,904	858,181
INTERFUND TRANSFERS					
	(464,168)	464,168	-	-	-
CHANGE IN NET ASSETS	\$ (211,763)	\$ 323,097	\$ 124,570	\$ 235,904	\$ 858,181

HARBORCREEK YOUTH SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES - COMMUNITY PROGRAMS
For the Year Ended June 30, 2018

	<u>CRR</u>	<u>MST</u>	<u>Total</u>
SALARIES AND RELATED EXPENSES			
Wages and salaries	\$ 119,530	\$ 205,268	\$ 324,798
Employee benefits and taxes	48,862	85,238	134,100
TOTAL SALARIES AND RELATED EXPENSES	168,392	290,506	458,898
GENERAL EXPENSES			
Contracted services	7,712	3,271	10,983
Supplies	1,139	667	1,806
Telephone and communication	2,551	3,170	5,721
Advertising and marketing	3,864	434	4,298
Transportation and travel	4,156	6,715	10,871
Staff recruitment, retention and development	6,443	1,433	7,876
Rentals and maintenance	7	18	25
Insurance	148	375	523
Association dues and licenses	888	35,061	35,949
Depreciation of equipment and vehicles	1,527	1,790	3,317
Miscellaneous	18	100	118
TOTAL GENERAL EXPENSES	28,453	53,034	81,487
OCCUPANCY			
Insurance on building and contents	133	323	456
Repairs and maintenance	485	1,175	1,660
Housekeeping and janitorial	41	101	142
Utilities	682	1,655	2,337
Depreciation of buildings	415	1,008	1,423
TOTAL OCCUPANCY	1,756	4,262	6,018
DIRECT CHILD / FAMILY EXPENSE			
Food and food service	3	9	12
Medical and dental fees and supplies	18	-	18
Therapeutic supplies and services	1,633	156	1,789
Psychiatric and psychological services	17,713	-	17,713
Specific child assistance	295	669	964
Foster parent payments	110,235	-	110,235
Transportation	91	332	423
TOTAL DIRECT EXPENSES OF CHILDREN AND FAMILIES	129,988	1,166	131,154
TOTAL EXPENSES	\$ 328,589	\$ 348,968	\$ 677,557

HARBORCREEK YOUTH SERVICES, INC.
SCHEDULE OF COUNTY SERVICE FEES
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Allegheny Co Children & Youth	\$ 45,257	\$ 4,162
Allegheny Co Juvenile Probation	473,382	271,805
Chautauqua County	80,892	164,052
Chester Co Juvenile Probation	17,688	47,393
Crawford Co Juvenile Probation	120,899	211,593
Dauphin Co Juvenile Probation	-	6,452
Erie Co Children & Youth	130,897	161,161
Erie Co Juvenile Probation	1,080	23,181
Erie Co MH/MR	23,485	89,118
Franklin Co Juvenile Probation	70,675	-
Indiana Co Children & Youth	100,375	98,130
Lackawanna Co Juvenile Probation	38,785	74,740
Lawrence Co Children & Youth	98,130	60,760
McKean Co Juvenile Probation	-	314
Mercer Co Juvenile Probation	43,450	-
Mifflin Co Juvenile Probation	9,191	-
Philadelphia Probation	-	903
Warren Co Juvenile Probation	38,715	105,120
Washington Co Juvenile Probation	24,727	36,060
Westmoreland Co Children's Bureau	17,206	90,603
Westmoreland Co Juvenile Probation	25,003	-
Totals	<u>\$ 1,359,837</u>	<u>\$ 1,445,547</u>

**HARBORCREEK YOUTH SERVICES, INC.
 SCHEDULE OF CLIENT CARE DAYS/UNITS
 For the Years Ended June 30, 2018 and 2017**

<u>Residential Programs - Days</u>	<u>2018</u>	<u>2017</u>
<u>Psychiatric Residential Treatment</u>		
St. Joseph House	3,673	3,525
Conway House	5,195	4,975
Wagner House	5,110	5,276
Columbus House	4,836	5,293
<u>Child Residential Services</u>		
Liberty House	4,070	4,020
Total Residential Program Client Care Days	22,884	23,089
<u>Community Programs - Days/Units</u>	<u>2018</u>	<u>2017</u>
<u>CRR Host Home - Days</u>	1,629	2,215
<u>Multi-Systemic Therapy - Units*</u>	6,839	5,061

* - one unit equal to 1/4 hour

HARBORCREEK YOUTH SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

<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 Grants to Local Educational Agencies	84.010	N/A	7/1/16-6/30/17	\$ 31,018	\$ 31,018
Title I Grants to Local Educational Agencies	84.010	N/A	7/1/17-6/30/18	148,086	148,086
Total passed through the NW Tri-County Intermediate Unit				179,104	179,104
<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	7/1/17-6/30/18	72,019	72,727
Severe Need Breakfast	10.553	367	7/1/17-6/30/18	40,502	40,590
Total passed through the Pa. Department of Education				112,521	113,317
<u>Passed through the Pa. Department of Agriculture</u>					
National School Lunch Program (Non-Cash Donated Commodities)	10.555	N/A	7/1/17-6/30/18	N/A	20,310
Total U.S. Department of Agriculture				112,521	133,627
<u>U.S. Department of Health & Human Services</u>					
<u>TANF Cluster</u>					
<u>Temporary Assistance for Needy Families Passed through Various Counties (Notes C & D)</u>					
Chautauqua Co	93.558	N/A	7/1/17-6/30/18	N/A	33,970
Total Temporary Assistance for Needy Families passed through Various Counties				-	33,970
<u>Title IV-B Passed through Various Counties (Notes C & D)</u>					
Warren Co Juvenile Probation	93.645	N/A	7/1/17-6/30/18	N/A	7,301
Total Title IV-B passed through Various Counties				-	7,301
<u>Title IV-E Passed through Various Counties (Notes C & D)</u>					
Lawrence Co Children & Youth	93.658	N/A	7/1/17-6/30/18	N/A	34,826
Westmoreland Co Children & Youth	93.658	N/A	7/1/17-6/30/18	N/A	13,271
Erie Co Children & Youth	93.658	N/A	7/1/17-6/30/18	N/A	7,580
Total Title IV-E passed through Various Counties				-	55,677
<u>Title XX Passed through Various Counties (Notes C & D)</u>					
Warren Co Juvenile Probation	93.667	N/A	7/1/17-6/30/18	N/A	8,738
Total Title XX passed through Various Counties				-	8,738

Accrued or (Deferred) Revenue at July 1, 2017	Revenue Recognized	Federal Expenditures For the Year Ended June 30, 2018			Passed Through to Subrecipients	Accrued or (Deferred) Revenue at June 30, 2018
		Pass-Thru	Direct	Total		
\$ -	\$ 31,018	\$ 31,018	\$ -	\$ 31,018	\$ -	\$ -
-	148,086	148,086	-	148,086	-	-
-	179,104	179,104	-	179,104	-	-
12,589	72,019	72,019	-	72,019	-	11,881
7,006	40,502	40,502	-	40,502	-	6,918
19,595	112,521	112,521	-	112,521	-	18,799
-	20,310	20,310	-	20,310	-	-
19,595	132,831	132,831	-	132,831	-	18,799
-	40,446	40,446	-	40,446	-	6,476
-	40,446	40,446	-	40,446	-	6,476
2,536	8,126	8,126	-	8,126	-	3,361
2,536	8,126	8,126	-	8,126	-	3,361
3,128	38,058	38,058	-	38,058	-	6,360
3,068	10,203	10,203	-	10,203	-	-
7,580	-	-	-	-	-	-
13,776	48,261	48,261	-	48,261	-	6,360
3,040	9,717	9,717	-	9,717	-	4,019
3,040	9,717	9,717	-	9,717	-	4,019

HARBORCREEK YOUTH SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

<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	7/1/17-6/30/18	N/A	91,343
Total Medical Assistance passed through Pa. Department of Human Services				-	91,343
<u>Medical Assistance Program passed through Various Managed Care Providers (Note E)</u>					
Community Care Behavioral Health	93.778	N/A	7/1/17-6/30/18	N/A	4,892,550
Community Behavioral Health	93.778	N/A	7/1/17-6/30/18	N/A	4,578
PerformCare	93.778	N/A	7/1/17-6/30/18	N/A	900,081
Value Behavioral Health	93.778	N/A	7/1/17-6/30/18	N/A	914,988
Magellan Behavioral Health of Pennsylvania	93.778	N/A	7/1/17-6/30/18	N/A	153,827
Total Medical Assistance Program passed through Various Managed Care Providers				-	6,866,024
<u>Unidentified Programs Passed through Various Counties</u>					
Chautauqua Co Children & Youth	Note F	N/A	7/1/17-6/30/18	N/A	11,823
Erie Co Children & Youth	Note F	N/A	7/1/17-6/30/18	N/A	92,304
Erie Co Juvenile Probation	Note F	N/A	7/1/17-6/30/18	N/A	-
Lackawanna Co Juvenile Probation	Note F	N/A	7/1/17-6/30/18	N/A	16,399
McKean Co Dept of Human Services	Note F	N/A	7/1/17-6/30/18	N/A	314
Mercer Co Juvenile Probation	Note F	N/A	7/1/17-6/30/18	N/A	35,200
Philadelphia Probation	Note F	N/A	7/1/17-6/30/18	N/A	-
Total unidentified programs passed through Various Counties				-	156,040
Total U.S. Department of Health and Human Services				-	7,219,093
Total Federal Awards				\$ 291,625	\$ 7,531,824

Accrued or (Deferred) Revenue at July 1, 2017	Revenue Recognized	Federal Expenditures For the Year Ended June 30, 2018			Passed Through to Subrecipients	Accrued or (Deferred) Revenue at June 30, 2018
		Pass-Thru	Direct	Total		
16,159	95,981	95,981	-	95,981	-	20,797
16,159	95,981	95,981	-	95,981	-	20,797
389,957	4,993,585	4,993,585	-	4,993,585	-	490,992
4,578	-	-	-	-	-	-
155,820	885,031	885,031	-	885,031	-	140,770
327,548	751,890	751,890	-	751,890	-	164,450
23,750	211,400	211,400	-	211,400	-	81,323
901,653	6,841,906	6,841,906	-	6,841,906	-	877,535
11,823	-	-	-	-	-	-
-	130,897	130,897	-	130,897	-	38,593
-	1,080	1,080	-	1,080	-	1,080
16,399	-	-	-	-	-	-
314	-	-	-	-	-	-
-	43,450	43,450	-	43,450	-	8,250
(24)	24	24	-	24	-	-
28,512	175,451	175,451	-	175,451	-	47,923
965,676	7,219,888	7,219,888	-	7,219,888	-	966,471
\$ 985,271	\$ 7,531,823	\$ 7,531,823	\$ -	\$ 7,531,823	-	\$ 985,270

Total Expenditures by CFDA Number

Program Title	CFDA Number	Expenditures
Child Nutrition Cluster	10.553/10.555	132,831
Title I	84.010	179,104
TANF Cluster	93.558	40,446
Title IV-B	93.645	8,126
Title IV-E	93.658	48,261
Title XX	93.667	9,717
Medicaid Cluster	93.778	6,937,887
Unidentified	Unknown	175,451
		<u>7,531,823</u>

HARBORCREEK YOUTH SERVICES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

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, 2018. 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, 2018. 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>\$ 7,531,823</u>
Total Federal Assistance		<u>\$ 7,531,823</u>
Programs selected for testing:		
Medicaid Cluster		
Medical Assistance Program	93.778	<u>\$ 6,937,887</u>
Total programs selected for testing		<u>\$ 6,937,887</u>
% of Total Federal Assistance		<u>92.1%</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, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harborcreek Youth Services, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Root, Spitznagel and Smiley, Inc.

ERIE, PENNSYLVANIA
December 5, 2018

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, 2018. 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, 2018.

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 Smely, Inc.

ERIE, PENNSYLVANIA
December 5, 2018

HARBORCREEK YOUTH SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018

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, 2018

An exit conference was held on December 5, 2018. 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, 2018 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, 2018

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
December 5, 2018



Elizabeth Iadaluca
Chief Financial Officer
December 5, 2018