



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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2018



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

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **YOUTH & FAMILY SERVICES, INC.** (the Organization) and **YOUTH & FAMILY SERVICES FOUNDATION** (the Foundation), which comprise the consolidated statement of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, and functional expenses, for the year ended June 30, 2018, and the consolidated statements of cash flows for the years ended June 30, 2018 and 2017, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements, referred to above present fairly, in all material respects, the financial position of the Organization and the Foundation as of June 30, 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 the Organization's 2017 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 9, 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.

Report on Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2017)**

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	2018 Total	<u>2017</u>
Current Assets					
Cash and Cash Equivalents	\$ 291,079	\$ 2,081,222	\$ -	\$ 2,372,301	\$ 1,135,228
Inventory	11,915	-	-	11,915	10,670
Prepaid Expenses	13,671	-	-	13,671	26,078
Government Grant Funds Receivable	854,735	-	-	854,735	624,188
Accounts Receivable -- Fees and Other (Net of Allowance of \$21,188)	120,319	-	-	120,319	75,051
Promises to Give -- United Way	-	88,600	-	88,600	90,250
Promises to Give -- Portion Due Within One Year (Note 2)	-	359,079	-	359,079	1,301,765
Total Current Assets	1,291,719	2,528,901	-	3,820,620	3,263,230
Property and Equipment (Notes 5 and 6)	12,375,118	-	-	12,375,118	11,150,271
Less Accumulated Depreciation	4,685,686	-	-	4,685,686	4,543,616
Total Property and Equipment, Net	7,689,432	-	-	7,689,432	6,606,655
Other Assets					
Promises to Give -- Portion Due After One Year (Note 2)	-	607,646	-	607,646	851,895
Investments (Note 8)	1,576,006	535,912	1,169,623	3,281,541	3,501,462
Total Other Assets	1,576,006	1,143,558	1,169,623	3,889,187	4,353,357
TOTAL ASSETS	\$ 10,557,157	\$ 3,672,459	\$ 1,169,623	\$ 15,399,239	\$ 14,223,242
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts Payable	\$ 311,984	\$ -	\$ -	311,984	197,095
Accrued Personnel Expenses	878,820	-	-	878,820	869,006
Deferred Revenue	6,516	-	-	6,516	7,831
Total Current Liabilities	1,197,320	-	-	1,197,320	1,073,932
Commitment (Note 3 & Note 7)					
Net Assets (Note 5)					
Unrestricted:					
Property and Equipment	7,689,432	-	-	7,689,432	6,606,655
General	771,343	-	-	771,343	648,115
	8,460,775	-	-	8,460,775	7,254,770
Board Designated	899,062	-	-	899,062	1,006,296
Total Unrestricted	9,359,837	-	-	9,359,837	8,261,066
Temporarily Restricted	-	3,672,459	-	3,672,459	3,715,336
Permanently Restricted	-	-	1,169,623	1,169,623	1,172,908
Total Net Assets	9,359,837	3,672,459	1,169,623	14,201,919	13,149,310
TOTAL LIABILITIES AND NET ASSETS	\$ 10,557,157	\$ 3,672,459	\$ 1,169,623	\$ 15,399,239	\$ 14,223,242

The accompanying notes are an integral part of this statement.

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

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE
TOTALS FOR THE YEAR ENDED JUNE 30, 2017)**

Memorandum
Only (Note 1)
2017
Total

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>Total</u>
Support and Revenues					
Contributions	\$ 506,229	\$ 988,558	\$ 1,345	\$ 1,496,132	\$ 2,412,326
Memorials	57,002	-	-	57,002	694,292
Kid's Fair	105,792	-	-	105,792	112,489
Dinner Theatre	50,874	-	-	50,874	49,134
United Way	-	177,200	-	177,200	180,500
<i>Foundation and Corporate Grants:</i>					
Larson	38,000	-	-	38,000	-
Vucurevich Foundation	100,000	-	-	100,000	100,000
Wellmark Foundation	-	25,000	-	25,000	-
Gwendolyn Stearns Foundation	10,000	-	-	10,000	10,000
AT&T OpSmart Foundation	-	-	-	-	5,000
Made for Shade Foundation	-	-	-	-	5,000
South Dakota Community Foundation	-	-	-	-	10,000
Rasmussen Trust	-	34,000	-	34,000	32,500
Sheldon Reese	4,000	-	-	4,000	8,000
June Clark Trust	8,852	-	-	8,852	8,168
Washburn Trust	11,489	-	-	11,489	18,204
Distribution from Black Hills Community Foundation	8,693	-	-	8,693	6,803
Other	8,150	-	-	8,150	9,523
<i>Investment Income:</i>					
Royalties	2,644	-	-	2,644	2,326
Net Realized/Unrealized Gain (Loss) on Investments	98,220	45,942	(429)	143,733	217,716
Interest and Dividends	50,508	18,171	1,225	69,904	61,024
Government Grants	10,155,499	-	-	10,155,499	9,336,696
Membership Dues	26,140	-	-	26,140	29,655
Program Service Fees	1,276,607	26,614	-	1,303,221	1,500,255
Donated Rental Facilities (Note 4)	222,255	-	-	222,255	223,192
Miscellaneous	2,311	-	-	2,311	3,338
Gain on Sale of Property and Equipment	21,677	-	-	21,677	4,769
Net Assets Released from Restrictions (Note 5)	1,363,788	(1,358,362)	(5,426)	-	-
Total Support and Revenues	14,128,730	(42,877)	(3,285)	14,082,568	15,040,910
Expenses					
<i>Program Services:</i>					
Counseling Center	181,779	-	-	181,779	191,134
Prevention Resource Center	217,923	-	-	217,923	192,681
Other	10,969,869	-	-	10,969,869	10,824,263
Total Program Services	11,369,571	-	-	11,369,571	11,208,078
<i>Supporting Services:</i>					
Administrative	1,266,337	-	-	1,266,337	1,194,294
Fundraising	394,051	-	-	394,051	353,978
Total Supporting Services	1,660,388	-	-	1,660,388	1,548,272
Total Expenses	13,029,959	-	-	13,029,959	12,756,350
Increase (Decrease) in Net Assets	1,098,771	(42,877)	(3,285)	1,052,609	2,284,560
Net Assets -- Beginning of Year	8,261,066	3,715,336	1,172,908	13,149,310	10,864,750
Net Assets -- End of Year	\$ 9,359,837	\$ 3,672,459	\$ 1,169,623	\$ 14,201,919	\$ 13,149,310

The accompanying notes are an integral part of this statement.

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR
THE YEAR ENDED JUNE 30, 2017)**

				2018	Memorandum Only (Note 1)
	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>2017</u> <u>Total</u>
Salaries	\$ 6,314,064	\$ 892,765	\$ 220,469	\$ 7,427,298	\$ 7,513,926
Fringe Benefits (Note 3)	796,675	113,498	27,373	937,546	931,963
Supplies	757,806	535	17,809	776,150	573,344
Family Child Care Payments	737,444	-	-	737,444	799,358
Payroll Taxes	461,518	65,256	16,115	542,889	551,956
Professional and Contracted Services	309,010	83,089	133,587	525,686	331,173
Depreciation	348,852	7,738	153	356,743	353,419
Rent (Note 4)	308,369	-	-	308,369	308,559
Food	255,951	-	-	255,951	275,596
Utilities	244,079	4,699	442	249,220	261,338
Travel and Conferences	186,837	24,719	587	212,143	170,608
Insurance	124,233	13,822	1,406	139,461	123,478
Transportation	119,203	2,636	334	122,173	126,336
Repairs and Maintenance	81,735	1,093	85	82,913	58,353
Grant Specific Activities	81,897	-	-	81,897	47,445
Kid's Fair Expenses	53,886	12,594	8,199	74,679	70,281
Telephone	64,612	1,322	210	66,144	60,290
Promotion	38,412	17,040	515	55,967	25,699
Dues and Subscriptions	23,190	1,335	327	24,852	22,784
Office Supplies and Postage	4,402	19,153	417	23,972	24,998
Excursions	20,231	-	-	20,231	25,021
Parent Activity	13,655	-	-	13,655	13,650
Miscellaneous	9,255	103	367	9,725	11,114
Property Tax	196	4,940	-	5,136	5,952
Bad Debt Provision (Recoveries)	14,059	-	(34,344)	(20,285)	69,709
	<u>\$11,369,571</u>	<u>\$ 1,266,337</u>	<u>\$ 394,051</u>	<u>\$ 13,029,959</u>	<u>\$ 12,756,350</u>

The accompanying notes are an integral part of this statement.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Increase in Net Assets	\$ 1,052,609	\$ 2,284,560
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash Flows Provided by Operating Activities:</i>		
Depreciation	356,743	353,419
Bad Debt Expense (Recoveries)	(20,285)	69,709
Net Realized/Unrealized (Gain) Loss on Investments	(143,733)	(217,716)
Gain on Sale of Property and Equipment	(21,677)	(4,769)
Distribution From Washburn Trust	10,173	(317,416)
Contributions and Distributions Restricted for Long-Term Purposes	(1,345)	-
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>		
Inventory	(1,245)	4,884
Prepaid Expenses	12,407	(17,992)
Government Grant Receivable	(230,547)	35,033
Accounts Receivable	(59,577)	44,867
Promises to Give	1,221,529	(1,473,005)
Promises to Give -- United Way	1,650	1,250
Accounts Payable	105,850	(36,167)
Accrued Personnel Expenses	9,814	32,322
Deferred Revenue	(1,315)	(25,169)
Net Cash Flows Provided by Operating Activities	2,291,051	733,810
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(1,430,481)	(822,557)
Proceeds from Sale of Property and Equipment	21,677	4,769
Purchases of Investments	(2,756,146)	(779,575)
Proceeds from Sale of Investments	3,109,627	680,213
Net Cash Flows Used in Investing Activities	(1,055,323)	(917,150)
Cash Flows from Financing Activities		
Contributions Restricted for Long-Term Purposes	1,345	-
Net Cash Flows Provided by Financing Activities	1,345	-
Net Change in Cash and Cash Equivalents	1,237,073	(183,340)
Cash and Cash Equivalents -- Beginning of Year	1,135,228	1,318,568
Cash and Cash Equivalents -- End of Year	\$ 2,372,301	\$ 1,135,228
Supplemental Disclosure of Noncash Investing Activities:		
Purchases of Equipment Included In Accounts Payable	\$ 9,039	-

The accompanying notes are an integral part of this statement.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018**

(1) Summary of Significant Accounting Policies

Operations

Youth & Family Services, Inc. (the Organization) operates various programs serving Black Hills area youth including: 1) Girls Incorporated® of Rapid City, providing educational, recreational, and health outreach programs for girls, ages 6-17; 2) YFS Counseling Center, providing assessment, prevention and mental health counseling services for area youth and their families, trauma assessment and treatment through the Youth Trauma Center, case management and other services through the Intensive Family Support Program, relationship education for high school students and adults through the Stronger Family Program, and a health advocacy program for boys, ages 4-17; 3) YFS Child Development Center, providing licensed, quality, affordable childcare for children, ages 4 weeks - 14 years; 4) YFS Nutrition Services, providing or overseeing provision of nearly 830,000 nutritious meals and snacks annually to children within agency programs, the Summer Food Program, and enrolled in Family Child Care homes in 21 counties through the Family Child Care Nutrition program; 5) YFS Rapid City Prenatal to Five Head Start, a comprehensive, federally-funded early childhood education and preschool program that enhances the physical, social, emotional, and intellectual development of low-income children, ages 0-5, and their families through classroom activities and home visits; 6) YFS Home-Based Prenatal to Five Head Start, a parent-focused early childhood education program and preschool program offering home visits and at-home activities for low-income families with children, ages 0-5, in seven counties in western South Dakota; 7) YFS Western Prevention Resource Center, providing resources, research, training, and technical assistance to schools, prevention coalitions and other organizations in 24 counties for meth and other drugs and alcohol abuse and violence prevention; and 8) the YFS Fatherhood First program, providing father-child activities, fatherhood education, and individual case management services that promote positive relationships between fathers and their children. The Organization is dependent on governmental grants to meet many of its program needs. For the year ended June 30, 2018, the Head Start grants comprised \$6,695,055 of government grant revenues. The Family Child Care Nutrition program is funded entirely by the Child & Adult Care Food Program through the South Dakota Department of Education & Cultural Affairs. Sources of revenue for other YFS programs include individual contributions, United Way funding, fees and interest income from two trust funds and an endowment, fundraiser proceeds, corporate and foundation grants, as well as city, state, and federal grants.

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

Principles of Consolidation

The consolidated financial statements include the accounts of Youth & Family Services, Inc. and Youth & Family Services Foundation. The Foundation is consolidated into the financial statements of the Organization as the Organization has control and an economic interest in the Foundation. All material inter-organization transactions have been eliminated. In fiscal year 2017, the Foundation established a single member limited liability company named Bright Futures, LLC. This entity operates under the same employer identification number as the Foundation, and the activity of Bright Futures has been included in the total for the Foundation. In fiscal year 2018, Youth & Family Services QALICB, Inc. (the QALICB) was established but no activity occurred. The QALICB was established to construct the building expansion on the East Adams site. By establishing the QALICB, the entity and expense paid on the construction project qualify to receive the benefit of the Federal New Markets Tax Credits.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. Actual results could differ from those estimates.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

(1) Summary of Significant Accounting Policies (Continued)

Method of Accounting

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

Cash and Cash Equivalents

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

Inventory

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

Property and Equipment

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

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

Investments

The Organization accounts for investments at fair market value with changes in fair market value accounted for in the Statement of Activities and Changes in Net Assets. Investments are presented in the financial statements at the quoted market value of the securities. Realized and unrealized gains and losses, determined on the basis of the amortized cost of specific investments, are recognized in the Statement of Activities and Changes in Net Assets. Investment management fees totaling \$33,958 at June 30, 2018 are included as Professional and Contracted Services in the Consolidated Statement of Functional Expenses. Management's policy is to credit (charge) all gains and losses against the three classes of net assets according to where the investment is being held. According to donor stipulation, investment income earned on permanently and temporarily restricted investments is recorded as unrestricted or temporarily restricted until such time as the restriction is met.

Presentation of Net Assets

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

(1) Summary of Significant Accounting Policies (Continued)

Grants and Contracts

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

Contributions, Memorials and Promises to Give

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

Expense Allocation

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

Federal Income Tax

The Organization and the Foundation (including Bright Futures, LLC) qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are not subject to federal income tax. Subsequent to June 30, 2018 the QALICB has filed for exempt organization status under Section 501(c)(3) of the Internal Revenue Code but has yet received approval. In addition, the Organization and the Foundation have each been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code.

At June 30, 2018, the Organization and the Foundation believe no significant uncertain tax positions or liabilities exist.

Accounts Receivable

Accounts receivable are recorded monthly at the time the revenue is billed. Client receivables not paid within two weeks of the invoice date are considered past due. As of June 30, 2018, receivables totaling \$26,059 are over ninety days delinquent. Management has estimated an allowance for doubtful accounts based on their knowledge of current environmental conditions and historical losses. Receivables will be charged off as uncollectible when management feels they have exhausted all reasonable collection efforts or after two years.

Subsequent Events

Management has assessed the Organization and Foundation for significant subsequent events through November 19, 2018, the date which the financial statements were available to be issued. On August 29, 2018, the QALICB created a capital lease with the Organization. Also, on August 29, 2018, the Plaza building as well as pledges for the Facility Expansion campaign were used as collateral for bridge loan up to \$4,869,964 to finance the East Adams Street building expansion project.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

(1) Summary of Significant Accounting Policies (Continued)

Emerging Accounting Standard

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

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

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

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which will assist entities in determining whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. This determination is based on whether or not the resource provider is receiving commensurate value in return for resources transferred, and clarifies that executing the mission or providing societal benefit does not equate to commensurate value. The standard will also assist entities in determining whether a contribution is conditional on the basis of whether a barrier must be overcome and either a right of return of assets transferred or a right of release of the promisor from its obligation to transfer assets exists. The standard is effective for contributions received in annual periods beginning after December 15, 2018 and for contributions made in annual periods beginning after December 15, 2019. The Organization will be evaluating the impact this standard will have on the financial statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

(1) Summary of Significant Accounting Policies (Concluded)

Emerging Accounting Standard (Concluded)

In August 2018, the FASB issued ASU 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements*, which will improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements, and is effective for years beginning after December 15, 2019. The Company will be evaluating the impact this standard will have on the financial statements.

Comparative Financial Statement

The June 30, 2017, financial statements are captioned “Memorandum Only.” Such information is presented only to facilitate financial analysis. This data does not present the financial statements in conformity with accounting principles generally accepted in the United States of America. The individual net asset classification are not presented because of space limitations and to avoid cumbersome and confusing formats.

Beneficial Interest in Trust

The Foundation has unconditional rights to 20 percent of the distribution from the Washburn Trust. The Foundations is one of six beneficiaries of this trust. The Beneficial Interest in Washburn Trust is recorded at fair market value.

(2) Capital Campaign and Promises to Give

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

Unconditional promises to give that are outstanding are as follows as of June 30, 2018:

Receivable in less than one year	\$ 359,079
Receivable in one to five years	668,687
Receivable over five years	7,565
Total unconditional promises to give	1,035,331
Less allowance for uncollectible promises to give	33,128
Total unconditional promises to give net of allowance	1,002,203
Less discounts to net present value (*)	35,478
Net Unconditional Promises to Give	966,725
Total Promises to Give	\$ 966,725

(*) Based on 1.41% for pledges in 2010-2011, 1.03% for pledges in 2011-2012, 1.1% for pledges in 2012-2013, 1.55% for pledges in 2013-2014, 1.57% for pledges in 2014-2015, 1.31% for pledges in 2015-2016, 2.08% for pledges in 2016-2017, 2.68% for pledges in 2017-2018.

(3) Employee Benefits

The Organization has a defined contribution profit-sharing and 401(k) plan that covers all employees at least 18 years of age and having at least one year of service. Profit-sharing contributions to this plan are at the discretion of the Board of Directors. Employer matching contributions of 50 percent of the first 3 percent of the base compensation that a participant contributes to the plan are required under the terms of the plan document. The expense recognized related to the plan for the year ended June 30, 2018 is \$250,409.

(4) Leases

The Organization leases several buildings on a month to month basis at a cost below prevailing market rates. The Organization recorded the difference between the aggregate annual market value of the leases and the amount paid by the Organization of \$222,255 as Donated Facilities Revenue and Rent Expense in the Statement of Activities and Changes in Net Assets. Future obligations of minimum rental payments of operating leases are as follows 2018-2019 \$26,125, 2019-2020 \$14,133, 2020-2021 \$14,289, and 2021-2022 \$11,092.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

(5) Net Assets

Temporarily and permanently restricted net assets at June 30, 2018, include the following:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Released FY Ended <u>June 30, 2018</u>
<i>Restricted Net Assets:</i>			
East Adams Facilities and Operations Endowment	\$ -	\$ 50,000	\$ 3,807
United Way	88,600	-	178,850
Foundation Campaign Time Restriction (Foundation)	37,997	-	30,651
Investment in Washburn Trust (Foundation)	307,243	-	10,173
John Vucurevich Endowment (Foundation)	-	408,824	-
Foundation Campaign 10-Year Donor Restriction (Foundation)	2,576	-	(2)
Foundation Campaign Land/Building Improvements (Foundation)	928,483	-	998,401
Foundation Campaign Child Development Center (Foundation)	590	-	-
Girls Inc. Program Restricted (Foundation)	-	-	444
Foundation - No Program Restriction (Foundation)	-	17,922	-
Foundation Campaign Endowment Fatherhood (Foundation)	-	65,535	-
Fatherhood Project Reserves/Endowment (Foundation)	56,541	25,000	1,090
Foundation Campaign Reserves/Endowment Girls Inc. (Foundation)	-	1,025	-
Nutrition Program Restricted (Foundation)	-	-	2,500
Lemley Funds Endowment Girls Inc. Restricted (Foundation)	26,658	462,804	20,411
Rasmussen Trust Distribution	22,499	-	27,472
Lemley Trust Distribution	18,324	-	-
Foundation Campaign - No Program Restriction (Foundation)	-	138,513	-
Foundation Campaign - Rural Programming (Foundation)	1,000	-	-
Barb Butler Estate - Girls Inc Program Restricted	139,789	-	64,701
Land/Building Improvements	1,993,640	-	-
Wellmark Foundation	17,679	-	7,321
Izaak Walton Foundation	-	-	2,406
Dollar General Literacy Foundation	-	-	486
Whole Kids Foundation	-	-	306
East Adams Garden Funds (Foundation)	1,760	-	-
SD Community Foundation	-	-	8,557
Share Our Strength	-	-	1,523
Summer Meals	2,466	-	1,256
Child and Adult Care Food Program	-	-	3,435
Youth Trauma	26,614	-	-
	\$ 3,672,459	\$ 1,169,623	\$ 1,363,788

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

(5) Net Assets (Continued)

Unrestricted net assets at June 30, 2018 include the following:

Property and Equipment	\$ 7,689,432
General	771,343
<i>Board Designated:</i>	
East Adams Facilities and Operations	641,870
Endowment	143,201
Endowment - Foundation	100,000
Kid's Fair	2,290
Emergency Child Care Funds	3,713
Child Development Center Transportation	3,933
Family Violence Prevention	4,055
	\$ 9,359,837

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

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

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

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets - June 30, 2017	\$ 234,245	\$ 63,362	\$ 1,172,908	\$ 1,470,515
Investment Income	10,272	45,531	796	56,599
Contributions	-	100	1,345	1,445
Appropriation for Expenditure	(1,316)	(25,794)	(5,426)	(32,536)
Endowment Net Assets - June 30, 2018	\$ 243,201	\$ 83,199	\$ 1,169,623	\$ 1,496,023

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

(5) Net Assets (Concluded)

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

(6) Property and Equipment

Property and equipment consist of the following at June 30, 2018:

Buildings	\$ 5,160,261
Buildings - Federal Reversionary Interest	1,063,941
Buildings - Foundation	120,526
Equipment and Vehicles -- Federal Reversionary Interest	1,753,450
Equipment and Furnishings	516,971
Vehicles	628,296
	<u>9,243,445</u>
Less Accumulated Depreciation	<u>4,685,686</u>
	<u>4,557,759</u>
Buildings - East Adams New Complex Work in Progress	1,901,470
Land	1,156,534
Land - Foundation	73,669
	<u>3,131,673</u>
	<u>\$ 7,689,432</u>

(7) Other Obligations

On February 7, 2018, the organization signed a contract with RCS Construction to complete the expansion of the East Adams Street property. As of June 30th, the balance to finish the work on the contract is \$8,041,649.

(8) Fair Value

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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2018**

(8) Fair Value (Continued)

The following table presents the assets carried at fair value as of June 30, 2018 on the accompanying Consolidated Statement of Financial Position by fair value hierarchy, as described above. All are measured on a recurring basis. The Organization carried no other assets or liabilities measured at fair value on a recurring or non-recurring basis. Level Two investments include both equities and fixed income. Level Two equities include mutual funds. Level Two fixed income securities are comprised of structured notes and mutual funds. Mutual funds are valued at the net asset value at the close of trading on the last day of June. Structured notes are valued at either the yields currently available on comparable securities of issuers with similar credit ratings or valued under a discounted cash flow approach that maximizes observable inputs such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable such as credit and liquidity risks. Investment real estate totaling \$220,000 is valued at cost as of June 30, 2018. The fair value of the beneficial interest is estimated using the fair value of the assets held in the trust reported by the trustee. The Washburn Trust includes interests in an LLC and partnership with underlying assets of notes receivable and a building. The estimated fair value of the trust may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that could have been used had a ready market existed for these investments. The beneficial interest in the Washburn Trust are not redeemable by the Foundation.

	Level One	Level Two	Level Three	Total
Money Market Funds	\$ 65,126	\$ -	\$ -	\$ 65,126
Equities	1,163,581	387,676	-	1,551,257
Fixed Income	269,806	868,109	-	1,137,915
Beneficial Interest in Washburn Trust	-	-	307,243	307,243
Total Fair Value Investments	\$ 1,498,513	\$ 1,255,785	\$ 307,243	\$ 3,061,541

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

Land - John Vucurevich Endowment	160,000
Land	60,000
Total Investments	\$ 3,281,541

The following table represents a reconciliation of the activities for Level 3 financial instruments, which are temporarily restricted net assets:

Balance – June 30, 2017	\$ 317,416
Distributions	(10,173)
Balance – June 30, 2018	\$ 307,243

SUPPLEMENTARY INFORMATION

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

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018**

<u>ASSETS</u>	<u>Youth & Family Services</u>	<u>YFS Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Current Assets				
Cash and Cash Equivalents	\$ 2,345,238	\$ 27,063	\$ -	\$ 2,372,301
Inventory	11,915	-	-	11,915
Prepaid Expenses	13,671	-	-	13,671
Government Grant Funds Receivable	854,735	-	-	854,735
Accounts Receivable -- Fees and Other (Net of Allowance of \$21,188)	120,319	-	-	120,319
Promises to Give -- United Way	88,600	-	-	88,600
Promises to Give -- Portion Due Within One Year	-	359,079	-	359,079
Total Current Assets	3,434,478	386,142	-	3,820,620
Property and Equipment	12,180,922	194,196	-	12,375,118
Less Accumulated Depreciation	4,679,825	5,861	-	4,685,686
Total Property and Equipment, Net	7,501,097	188,335	-	7,689,432
Other Assets				
Promises to Give -- Portion Due After One Year	-	607,646	-	607,646
Investments	943,478	2,338,063	-	3,281,541
Total Other Assets	943,478	2,945,709	-	3,889,187
TOTAL ASSETS	\$ 11,879,053	\$ 3,520,186	\$ -	\$ 15,399,239
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities				
Accounts Payable	\$ 306,898	\$ 5,086	\$ -	\$ 311,984
Accrued Personnel Expenses	878,820	-	-	878,820
Deferred Revenue	6,516	-	-	6,516
Total Current Liabilities	1,192,234	5,086	-	1,197,320
Net Assets				
Unrestricted:				
Property and Equipment	7,501,097	188,335	-	7,689,432
General	27,049	744,294	-	771,343
	7,528,146	932,629	-	8,460,775
Board Designated	799,062	100,000	-	899,062
Total Unrestricted	8,327,208	1,032,629	-	9,359,837
Temporarily Restricted	2,309,611	1,362,848	-	3,672,459
Permanently Restricted	50,000	1,119,623	-	1,169,623
Total Net Assets	10,686,819	3,515,100	-	14,201,919
TOTAL LIABILITIES AND NET ASSETS	\$ 11,879,053	\$ 3,520,186	\$ -	\$ 15,399,239

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

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Youth and Family Services</u>	<u>YFS Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Support and Revenues				
Contributions	\$ 409,775	\$ 1,086,357	\$ -	\$ 1,496,132
Memorials	-	57,002	-	57,002
Kid's Fair	105,792	-	-	105,792
Dinner Theatre	50,874	-	-	50,874
United Way	177,200	-	-	177,200
Dr. Lemley Trust Funds	24,117	-	(24,117)	-
<i>Foundation and Corporate Grants:</i>				
Larson	38,000	-	-	38,000
Vucurevich Foundation	100,000	-	-	100,000
Wellmark Foundation	25,000	-	-	25,000
Gwendolyn Stearns Foundation	10,000	-	-	10,000
Rasmussen Trust	34,000	-	-	34,000
Sheldon Reese	4,000	-	-	4,000
June Clark Trust	8,852	-	-	8,852
Washburn Trust	-	11,489	-	11,489
Distribution from Black Hills Community Foundation	-	8,693	-	8,693
Other	8,150	-	-	8,150
Royalties	2,644	-	-	2,644
Net Realized/Unrealized Gain on Investments	56,032	87,701	-	143,733
Interest and Dividends	23,538	46,366	-	69,904
Donation Income from Foundation	3,101,964	-	(3,101,964)	-
Government Grants	10,155,499	-	-	10,155,499
Membership Dues	26,140	-	-	26,140
Program Service Fees	1,303,221	-	-	1,303,221
Donated Rental Facilities	222,255	-	-	222,255
Miscellaneous	2,311	3,418	(3,418)	2,311
Gain on Sale of Property and Equipment	21,677	-	-	21,677
Contract Service Fees	84,604	-	(84,604)	-
Total Support and Revenues	15,995,645	1,301,026	(3,214,103)	14,082,568

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

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

	Youth and <u>Family Services</u>	YFS <u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Expenses				
Salaries	\$ 7,427,298	\$ -	\$ -	\$ 7,427,298
Fringe Benefits	937,546	-	-	937,546
Supplies	776,150	-	-	776,150
Family Child Care Payments	737,444	-	-	737,444
Payroll Taxes	542,889	-	-	542,889
Professional and Contracted Services	500,428	109,862	(84,604)	525,686
Depreciation	352,862	3,881	-	356,743
Rent	311,787	-	(3,418)	308,369
Food	255,951	-	-	255,951
Utilities	247,047	2,173	-	249,220
Travel and Conferences	212,143	-	-	212,143
Insurance	136,348	3,113	-	139,461
Transportation	122,173	-	-	122,173
Repairs and Maintenance	82,913	-	-	82,913
Grant Specific Activities	81,897	-	-	81,897
Kid's Fair Expenses	74,679	-	-	74,679
Telephone	66,144	-	-	66,144
Promotion	55,452	515	-	55,967
Dues and Subscriptions	24,852	-	-	24,852
Office Supplies & Postage	23,668	304	-	23,972
Excursions	20,231	-	-	20,231
Parent Activity	13,655	-	-	13,655
Miscellaneous	9,697	28	-	9,725
Property Tax	-	5,136	-	5,136
Donation Expense to YFS, Inc.	-	3,126,081	(3,126,081)	-
Bad Debt Provision	14,308	(34,593)	-	(20,285)
Total Expenses	13,027,562	3,216,500	(3,214,103)	13,029,959
Increase in Net Assets	2,968,083	(1,915,474)	-	1,052,609
Net Assets -- Beginning of Year	7,718,736	5,430,574	-	13,149,310
Net Assets -- End of Year	\$ 10,686,819	\$ 3,515,100	\$ -	\$ 14,201,919

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

**CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

	Youth and <u>Family Services</u>	YFS <u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Cash Flows from Operating Activities				
Increase in Net Assets	\$ 2,968,083	\$ (1,915,474)	\$ -	\$ 1,052,609
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash Flows Provided by Operating Activities</i>				
Depreciation	352,862	3,881	-	356,743
Bad Debt Expense	14,308	(34,593)	-	(20,285)
Net Realized/Unrealized Gain on Investments	(56,032)	(87,701)	-	(143,733)
Gain on Sale of Property and Equipment	(21,677)	-	-	(21,677)
Noncash Memorial - Investment in Washburn Trust	-	10,173	-	10,173
Contributions Restricted for Long-Term Purposes	-	(1,345)	-	(1,345)
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>				
Inventory	(1,245)	-	-	(1,245)
Prepaid Expenses	12,407	-	-	12,407
Government Grant Receivable	(230,547)	-	-	(230,547)
Accounts Receivable	(59,577)	-	-	(59,577)
Promises to Give	-	1,221,529	-	1,221,529
Promises to Give - United Way	1,650	-	-	1,650
Accounts Payable	106,263	(413)	-	105,850
Accrued Personnel Expenses	9,814	-	-	9,814
Deferred Revenue	(1,315)	-	-	(1,315)
Net Cash Flows Provided by Operating Activities	3,094,994	(803,943)	-	2,291,051
Cash Flows from Investing Activities				
Purchases of Property and Equipment	(1,335,290)	(95,191)	-	(1,430,481)
Proceeds from Sale of Property and Equipment	21,677	-	-	21,677
Purchases of Investments	(958,419)	(1,797,727)	-	(2,756,146)
Proceeds from Sale of Investments	1,247,132	1,862,495	-	3,109,627
Net Cash Flows Used in Investing Activities	(1,024,900)	(30,423)	-	(1,055,323)
Cash Flows from Financing Activities				
Contributions Restricted for Long-Term Purposes	-	1,345	-	1,345
Net Cash Flows Provided by (Used in) Financing Activities	-	1,345	-	1,345
Net Change in Cash and Cash Equivalents	2,070,094	(833,021)	-	1,237,073
Cash and Cash Equivalents -- Beginning of Year	275,144	860,084	-	1,135,228
Cash and Cash Equivalents -- End of Year	\$ 2,345,238	\$ 27,063	\$ -	\$ 2,372,301
Supplemental Disclosure of Noncash Investing Activities:				
Purchases of Equipment Included In Accounts Payable	\$ 9,039	\$ -	\$ -	\$ 9,039

FEDERAL GRANT REPORTS

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>FEDERAL GRANTOR/ PROGRAM TITLE</u>	<u>Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>Identifying Number</u>	<u>Accrued Revenue at 6/30/2017</u>	<u>Program Expenditures</u>	<u>Program Receipts</u>	<u>Accrued Revenue at 6/30/2018</u>
<u>Department of Agriculture</u>							
<i>Pass Through Funding:</i>							
Child and Adult Care Food Program (Note 1)	SD Department of Education	10.558	5140500	\$ 101,891	\$ 1,298,376	\$ 1,309,554	\$ 90,713
Summer Food Service Program for Children (Note 1)	SD Department of Education	10.559	5140500	13,040	98,334	75,531	35,843
Total -- Department of Agriculture				114,931	1,396,710	1,385,085	126,556
<u>Department of Justice</u>							
<i>Pass Through Funding:</i>							
Crime Victim Assistance	SD Department of Social Services	16.575	15-0832-675 16-0832-676	5,985	32,079	35,000	3,064
<u>Department of Education</u>							
<i>Pass Through Funding:</i>							
21st Century Grant	SD Department of Education	84.287C	16-21-138	13,566	150,000	148,463	15,103
<u>Department of Housing and Urban Development</u>							
<i>Pass Through Funding:</i>							
Community Development Block Grant Entitlement Funds	City of Rapid City	14.218	B-15-MC-46-0002 B-17-MC-46-0002	-	235,468	232,645	2,823
<u>Department of Health and Human Services</u>							
Head Start 0-5	N/A	93.600	Direct	\$ 348,042	\$ 5,772,136	\$ 5,661,692	\$ 458,486
Early Head Start Expansion	N/A	93.600	Direct	30,303	922,919	848,528	104,694
Total Head Start Cluster				378,345	6,695,055	6,510,220	563,180
YFS Healthy Marriage and Relationship Education Project	N/A	93.086	Direct	57,169	892,701	868,386	81,484
YFS Youth Trauma Center	N/A	93.243	Direct	32,515	400,308	395,769	37,054
Healthy Tomorrows Partnership for Children Program	N/A	93.110	Direct	1,788	56,554	55,029	3,313
Drug Free Communities (DFC) Support Program	N/A	93.276	Direct	-	50,710	41,537	9,173
Total -- Department of Health and Human Services				469,817	8,095,328	7,870,941	694,204
TOTAL				\$ 604,299	\$ 9,909,585	\$ 9,672,134	\$ 841,750

This schedule is presented on the accrual basis of accounting.

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

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

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

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unmodified opinion on the financial statements.
2. No material weaknesses were disclosed during the audit of the financial statements and none are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. No material weaknesses were disclosed during the audit of the major federal award program and none are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program for the Organization expresses an unmodified opinion on all major programs listed in #7.
6. No audit findings relative to the major federal award program for the Organization are reported in Part C of this schedule.
7. The program tested as a major program was the U.S. Department of Health and Human Services Head Start Cluster – CFDA #93.600.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The Organization was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

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

None

STATUS OF PRIOR YEAR FINDINGS

There were no prior year audit findings.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of **YOUTH & FAMILY SERVICES, INC.** (the Organization) and **YOUTH & FAMILY SERVICES FOUNDATION** (the Foundation) which comprise the consolidated statement of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, and functional expenses, for the year ended June 30, 2018, and the consolidated statements of cash flows for the years ended June 30, 2018 and 2017, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 19, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



KETEL THORSTENSON, LLP
Certified Public Accountants

November 19, 2018



Ketel Thorstenson, LLP

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

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

Report on Compliance for Each Major Federal Program

We have audited the **YOUTH & FAMILY SERVICES, INC.** (the Organization) and **YOUTH & FAMILY SERVICES FOUNDATION** (the Foundation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2018. The Organization's major federal program was identified in the summary of auditor's results section of the accompanying Schedule of Findings.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization'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 the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

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



KETEL THORSTENSON, LLP
Certified Public Accountants

November 19, 2018

HEAD START FINANCIAL STATEMENTS



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the consolidated financial statements of **YOUTH & FAMILY SERVICES, INC.** (the Organization) and **YOUTH & FAMILY SERVICES FOUNDATION** (the Foundation) as of and for the year ended June 30, 2018, and have issued our report thereon dated November 19, 2018, which expressed an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The Statement of Revenue and Expenditures for the Head Start Program for twelve months ended February 28, 2018 and the Statement of Revenue and Expenditures for the Early Head Start Expansion Program for the twelve months ended June 30, 2018, relating to the 2018 consolidated financial statements, is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

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

KETEL THORSTENSON, LLP
Certified Public Accountants

November 19, 2018

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION
HEAD START AND EARLY HEAD START PROGRAMS GRANT NO. 08CHI076/04**

**UNAUDITED STATEMENT OF REVENUE AND EXPENDITURES
FOR THE TWELVE MONTHS ENDING FEBRUARY 28, 2018
PROJECT PERIOD JULY 1, 2014 - JUNE 30, 2019**

March 1, 2017 to February 28, 2018

	----- Head Start -----		-- Early Head Start --		
	Grant	Grant	Grant	Grant	
	<u>CAN 4122 & 4124</u>	<u>CAN 4120</u>	<u>CAN 4125</u>	<u>CAN 4121</u>	<u>Total</u>
Revenue (Note 1)					
Grant	\$ 3,762,823	\$ 42,597	\$ 2,013,446	\$ 48,514	\$ 5,867,380
Expenditures (Notes 1 and 2)					
Personnel	2,318,790	-	1,176,931	-	3,495,721
Fringe Benefits	471,609	-	230,929	-	702,538
Travel	-	16,543	-	17,702	34,245
Equipment	75,181	-	124,313	-	199,494
Supplies	227,553	-	189,617	-	417,170
Contractual	227,030	-	163,595	-	390,625
Other	270,660	26,054	128,061	30,812	455,587
Total Expenditures	3,590,823	42,597	2,013,446	48,514	5,695,380
Unspent Federal Funds -- February 28, 2018	\$ 172,000	\$ -	\$ -	\$ -	\$ 172,000

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

Note 2: These expenditures represent only the federal share. The grantee's minimum matching contributions for these grants is \$1,423,845.

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

**YOUTH & FAMILY SERVICES, INC. AND
YOUTH & FAMILY SERVICES FOUNDATION
EARLY HEAD START EXPANSION PROGRAMS GRANT NO. 08HP0006/03**

**UNAUDITED STATEMENT OF REVENUE AND EXPENDITURES
FOR THE TWELVE MONTHS ENDING JUNE 30, 2018
PROJECT PERIOD JANUARY 1, 2015 - JUNE 30, 2019**

July 1, 2017 to June 30, 2018

-- Early Head Start Expansion --

	Grant <u>CAN 3121</u>	Grant <u>CAN 3128</u>	<u>Total</u>
Revenue (Note 1)			
Grant	\$ 21,908	\$ 901,011	\$ 922,919
Expenditures (Notes 1 and 2)			
Personnel	-	612,631	612,631
Fringe Benefits	-	126,075	126,075
Travel	4,265	-	4,265
Equipment	-	25,014	25,014
Supplies	-	74,423	74,423
Contractual	-	16,490	16,490
Other	17,643	46,378	64,021
Total Expenditures	21,908	901,011	922,919
Unspent Federal Funds -- June 30, 2018	\$ -	\$ -	\$ -

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

Note 2: These expenditures represent only the federal share. The grantee's minimum matching contributions for these grants is \$230,730.

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