

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

COMBINED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2020 AND 2019



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

ktllp.com

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **YOUTH & FAMILY SERVICES, INC.** (YFS), **YOUTH & FAMILY SERVICES FOUNDATION** (the Foundation), and **YOUTH & FAMILY SERVICES QALICB, INC.** (the QALICB), collectively, the Organization, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 YFS, the Foundation, and the QALICB as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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 pages 37 to 38 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 30 through 35 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 30, 2020 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

November 30, 2020

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019**

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current Assets		
Cash and Cash Equivalents	\$ 1,996,445	\$ 514,039
Restricted Cash	756,867	5,366,287
Inventory	27,197	12,769
Prepaid Expenses	8,810	10,474
Government Grant Funds Receivable	1,225,518	1,021,411
Accounts Receivable - Fees and Other, Net of Allowance of \$21,756 and \$17,919 at June 30, 2020 and 2019, Respectively	60,871	107,452
Promises to Give -- United Way	75,947	83,067
Promises to Give -- Current (Note 2)	288,255	222,189
Total Current Assets	4,439,910	7,337,688
Property and Equipment (Notes 5, 6 and 8)	22,147,539	18,643,051
Less Accumulated Depreciation	5,075,173	5,016,107
Total Property and Equipment, Net	17,072,366	13,626,944
Other Assets		
Promises to Give, Net of Current Portion (Note 2)	440,879	660,588
Investments (Note 7)	3,693,878	3,481,196
Note Receivable (Note 8)	8,646,417	8,646,417
Total Other Assets	12,781,174	12,788,201
 TOTAL ASSETS	 \$ 34,293,450	 \$ 33,752,833

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS**Current Liabilities**

Current Maturities of Long-Term Debt (Note 8)	\$ 1,934,441	\$ 152,086
Accounts Payable	532,905	1,666,302
Accrued Personnel Expenses	1,030,276	830,564
Interest Payable (Note 8)	-	15,568
Refundable Advance/Unearned Revenue (Note 10)	117,449	22,196
Total Current Liabilities	3,615,071	2,686,716

Long-Term Debt, Net of Current Maturities (Note 8)	13,185,629	14,428,758
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Commitments (Notes 3 and 4)**Net Assets (Note 5)***Without Donor Restriction*

Property and Equipment	17,072,366	13,626,944
General	(3,483,772)	(1,270,935)
Board Designated	1,278,742	1,328,742
Total Without Donor Restriction	14,867,336	13,684,751
With Donor Restrictions - Time or Purpose	1,404,488	1,736,585
With Donor Restrictions - Perpetual	1,220,926	1,216,023
Total With Donor Restrictions	2,625,414	2,952,608
Total Net Assets	17,492,750	16,637,359

TOTAL LIABILITIES AND NET ASSETS	\$ 34,293,450	\$ 33,752,833
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**YOUTH & FAMILY SERVICES, INC.
YOUTH & FAMILY SERVICES FOUNDATION
YOUTH & FAMILY SERVICES QALICB, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020**

	Without Donor	With Donor Restrictions		Total
	Restriction	Time/Purpose	Perpetual	
Support and Revenues				
Contributions	\$ 166,194	\$ 726,592	\$ 6,000	\$ 898,786
Memorials	120,000	-	1,700	121,700
Kid's Fair	11,500	-	-	11,500
Dinner Theatre	49,527	-	-	49,527
<i>Investment Return (Note 7):</i>				
Royalties	2,332	-	-	2,332
Brokerage Fees	(7,359)	(16,843)	-	(24,202)
Capital Gains	15	11,266	-	11,281
Net Realized/Unrealized Gain on Investments	10,813	13,591	(5,052)	19,352
Interest and Dividends	127,446	46,414	2,255	176,115
Distribution from Black Hills Community Foundation	13,602	-	-	13,602
Grants	12,260,909	-	-	12,260,909
Membership Dues	26,694	-	-	26,694
Program Service Fees	1,108,095	-	-	1,108,095
Donated Rental Facilities (Note 4)	209,191	-	-	209,191
Rental Income	17,397	-	-	17,397
Miscellaneous	11,649	-	-	11,649
Loss on Disposal of Equipment	(114,741)	-	-	(114,741)
Contract Service Fees	51,800	-	-	51,800
Net Assets Released from Restrictions (Note 5)	1,113,117	(1,113,117)	-	-
Total Support and Revenues	15,178,181	(332,097)	4,903	14,850,987
Expenses (Notes 3 and 4)				
Program Services	12,090,841	-	-	12,090,841
<i>Supporting Services</i>				
Administrative	1,610,575	-	-	1,610,575
Fundraising	294,180	-	-	294,180
Total Expenses	13,995,596	-	-	13,995,596
Increase (Decrease) in Net Assets	1,182,585	(332,097)	4,903	855,391
Net Assets - Beginning	13,684,751	1,736,585	1,216,023	16,637,359
Net Assets - Ending	\$ 14,867,336	\$ 1,404,488	\$ 1,220,926	\$ 17,492,750

The accompanying notes are an integral part of this statement.

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

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019**

	Without Donor Restriction	With Donor Restrictions		Total
		Time/Purpose	Perpetual	
Support and Revenues				
Contributions	\$ 352,258	\$ 828,048	\$ 7,586	\$ 1,187,892
Memorials	-	-	10,000	10,000
Kid's Fair	116,044	-	-	116,044
Dinner Theatre	54,346	-	-	54,346
<i>Investment Return (Note 7):</i>				
Royalties	3,195	-	-	3,195
Brokerage Fees	(17,480)	(4,644)	-	(22,124)
Capital Gains	11,328	4,064	-	15,392
Net Realized/Unrealized Gain on Investments	81,841	1,150	28,814	111,805
Interest and Dividends	135,691	17,592	-	153,283
Distribution from Black Hills Community Foundation	9,901	-	-	9,901
Grants	11,756,123	263,431	-	12,019,554
Membership Dues	10,802	-	-	10,802
Program Service Fees	1,367,787	19,781	-	1,387,568
Donated Rental Facilities (Note 4)	216,542	-	-	216,542
Rental Income	7,385	-	-	7,385
Miscellaneous	16,438	-	-	16,438
Gain on Sale of Land Held for Investment	163,229	-	-	163,229
Net Assets Released from Restrictions (Note 5)	3,065,683	(3,065,296)	-	387
Total Support and Revenues	17,351,113	(1,935,874)	46,400	15,461,639
Expenses (Notes 3 and 4)				
Program Services	11,166,514	-	-	11,166,514
<i>Supporting Services</i>				
Administrative	1,539,425	-	-	1,539,425
Fundraising	320,260	-	-	320,260
Total Expenses	13,026,199	-	-	13,026,199
Increase (Decrease) in Net Assets	4,324,914	(1,935,874)	46,400	2,435,440
Net Assets - Beginning	9,359,837	3,672,459	1,169,623	14,201,919
Net Assets - Ending	\$ 13,684,751	\$ 1,736,585	\$ 1,216,023	\$ 16,637,359

The accompanying notes are an integral part of this statement.

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

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

	Program	Administrative	Fundraising	Total
Salaries	\$ 6,665,014	\$ 1,097,250	\$ 229,360	\$ 7,991,624
Fringe Benefits (Note 3)	747,782	123,106	25,733	896,621
Supplies	863,027	9,233	14,138	886,398
Family Child Care Payments	615,124	-	-	615,124
Payroll Taxes	487,404	80,240	16,773	584,417
Professional and Contracted Services	483,702	64,416	406	548,524
Depreciation	522,861	11,111	214	534,186
Food	462,949	-	-	462,949
Rent (Note 4)	271,895	-	-	271,895
Utilities	208,082	1,679	548	210,309
Insurance	173,672	10,855	-	184,527
Travel and Conferences	150,483	15,082	48	165,613
Repairs and Maintenance	164,302	585	188	165,075
Interest	-	144,055	-	144,055
Promotion	53,458	22,177	-	75,635
Transportation	67,777	2,332	310	70,419
Telephone	63,991	944	268	65,203
Office Supplies and Postage	6,289	26,916	-	33,205
Grant Specific Activities	30,315	-	-	30,315
Dues and Subscriptions	22,940	594	4	23,538
Bad Debt Provision	9,344	-	6,190	15,534
Miscellaneous	9,544	-	-	9,544
Parent Activity	5,836	-	-	5,836
Excursions	5,050	-	-	5,050
Total Expenses	\$ 12,090,841	\$ 1,610,575	\$ 294,180	\$ 13,995,596

The accompanying notes are an integral part of this statement.

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

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

	Program	Administrative	Fundraising	Total
Salaries	\$ 6,294,401	\$ 918,134	\$ 236,169	\$ 7,448,704
Fringe Benefits (Note 3)	753,006	109,837	28,253	891,096
Supplies	667,882	1,507	21,562	690,951
Family Child Care Payments	687,806	-	-	687,806
Payroll Taxes	462,899	67,521	17,368	547,788
Professional and Contracted Services	326,551	103,540	3,647	433,738
Depreciation	357,733	7,610	137	365,480
Food	262,011	-	-	262,011
Rent (Note 4)	324,897	-	-	324,897
Utilities	188,104	3,960	569	192,633
Insurance	139,512	12,240	-	151,752
Travel and Conferences	232,678	10,642	207	243,527
Repairs and Maintenance	122,037	1,166	201	123,404
Interest	-	252,553	-	252,553
Promotion	89,468	19,921	15	109,404
Transportation	73,994	2,986	170	77,150
Telephone	63,982	828	219	65,029
Office Supplies and Postage	5,205	22,817	10	28,032
Grant Specific Activities	42,452	-	-	42,452
Dues and Subscriptions	24,122	1,926	305	26,353
Bad Debt Provision	9,345	-	11,306	20,651
Miscellaneous	10,534	160	-	10,694
Parent Activity	5,824	-	-	5,824
Excursions	22,071	-	-	22,071
Property Tax	-	2,077	122	2,199
Total Expenses	\$ 11,166,514	\$ 1,539,425	\$ 320,260	\$ 13,026,199

The accompanying notes are an integral part of this statement.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
Cash Flows from Operating Activities		
Increase in Net Assets	\$ 855,391	\$ 2,435,440
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:</i>		
Depreciation	534,186	365,480
Bad Debt Provision	15,534	20,651
Net Realized/Unrealized Gain on Investments	(19,352)	(112,192)
Amortization of Deferred Debt Issuance Costs, Net	25,644	21,099
Gain on Sale of Land Held for Investment	-	(163,229)
Loss on Disposal of Equipment	114,741	-
Noncash Memorial - Investment in Washburn Trust	21,508	10,408
Contributions and Distributions Restricted for Long-Term Purposes	(7,700)	(17,586)
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>		
Inventory	(14,428)	(854)
Prepaid Expenses	1,664	3,197
Government Grant Receivable	(204,107)	(166,676)
Accounts Receivable	37,237	3,522
Promises to Give	147,453	72,642
Promises to Give - United Way	7,120	5,533
Accounts Payable	(1,346,375)	(58,689)
Accrued Personnel Expenses	199,712	(48,256)
Accrued Interest Payable	(15,568)	15,568
Refundable Advance/Unearned Revenue	95,253	15,680
Net Cash Provided by Operating Activities	447,913	2,401,738
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(3,881,371)	(4,889,984)
Proceeds from Land Held for Investment	-	383,229
Purchases of Investments	(982,429)	(898,487)
Proceeds from Sale of Investments	767,591	580,615
Net Cash Used in Investing Activities	(4,096,209)	(4,824,627)
Cash Flows from Financing Activities		
Advance on Note Receivable	-	(8,646,417)
Proceeds on Long-Term Debt	1,799,182	17,524,964
Repayments on Long-Term Debt	(1,285,600)	(2,348,661)
Payments on Debt Issuance Costs	-	(616,558)
Contributions Restricted for Long-Term Purposes	7,700	17,586
Net Cash Provided by Financing Activities	521,282	5,930,914
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(3,127,014)	3,508,025
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	5,880,326	2,372,301
Cash, Cash Equivalents and Restricted Cash - End of Year	\$ 2,753,312	\$ 5,880,326

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Reconciliation of Cash and Restricted Cash:		
Cash	\$ 1,996,445	\$ 514,039
Restricted Cash - QALICB	756,867	5,366,287
Total Cash and Restricted Cash	\$ 2,753,312	\$ 5,880,326

Supplemental Disclosures of Noncash Investing and Financing Activities

Purchases of Property and Equipment Included in Accounts Payable	\$ 212,978	\$ 1,413,007
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Supplemental Disclosures of Cash Flow Information

Cash Payment for Interest, Net of Interest Capitalized		
2020 - \$99,050; 2019 - \$104,911	144,055	231,454

The accompanying notes are an integral part of these statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

(1) Nature of Activities and Significant Accounting Policies

Nature of Activities

Youth & Family Services, Inc. (YFS) 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, and trauma assessment and treatment through the Youth Trauma Center; 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 more than 711,000 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 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, alcohol abuse and violence prevention; 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; and 9) Family Support and Advocacy programs providing case management and other services through the Intensive Family Services Program, relationship education for high school students and adults through the Stronger Family Program, and health advocacy services for boys, ages 4-17, through the Boys Health Program. YFS is dependent on governmental grants to meet many of its program needs. For the year ended June 30, 2020, the Head Start grants comprised \$7,676,263 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 YFS. The Foundation's sole purpose is to provide funding for the programs and services of YFS and ensure YFS services provided to children and families continue uninterrupted.

Youth & Family Services QALICB, Inc. (the QALICB) was established to construct the building expansion on the East Adams Street property. 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. The property will be leased and exclusively for use by YFS.

Principles of Consolidation

The consolidated financial statements include the accounts of Youth & Family Services, Inc., Youth & Family Services Foundation, and Youth & Family Services QALICB, Inc., collectively the Organization. The Foundation and QALICB are consolidated into the financial statements of the Organization as the Organization has control and an economic interest in each entity. 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(1) Nature of Activities and Significant Accounting Policies (Continued)

Basis of Accounting and Financial Statement Presentation

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization accounts for net assets in the following categories:

Net Assets with Donor Restrictions – Net assets of the Organization that are subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Amounts that originate and expire in the same fiscal year are reported as net assets without donor restrictions.

Net Assets without Donor Restrictions – Net assets of the Organization that are not subject to donor-imposed restrictions and are available for general operations. In addition, the Board of Directors may designate net assets without donor restriction for specific purposes.

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 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.

The Restricted Cash listed on the Consolidated Statement of Financial Position is the cash held in the QALICB. The accounts are subject to the control and direction of the Lenders. The accounts are held as security interest under the loan agreement (Note 9).

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 are stated at cost. The Organization utilizes a \$5,000 capitalization policy. Donated property and equipment are 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 (Note 6). Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(1) Nature of Activities and Significant Accounting Policies (Continued)

Investments

The Organization accounts for investments at fair market value with changes in fair market value accounted for in the Consolidated Statement of Activities. Net investment return (loss) consists of realized and unrealized gains and losses, interest and dividend income, and external investment expenses. Realized gains and losses from sales of securities are determined on a specific identity basis. Unrealized gains and losses are recognized in the Consolidated Statement of Activities to the extent of the change in aggregate market value of securities at the end of each accounting period. Net investment return is recorded in the appropriate net asset accounts as required by donors.

Deferred Debt Issuance Costs

Costs incurred related to debt issuance have been capitalized and are being amortized over the terms of the related debt using the interest method. Such activity is presented as an offset to the liability in the Consolidated Statements of Financial Position.

Note Receivable

The note receivable is stated at the unpaid principal balance. Interest on the note receivable is recognized over the term of the note and is calculated using the simple interest method on principal balances outstanding. Payments not received in accordance with the terms of the individual note agreement are considered past due. Notes receivable will be charged off as uncollectible when management feels they have exhausted all collection efforts. The allowance for note receivable losses is evaluated by management based upon collection history and current economic conditions. No allowance was deemed necessary at each of the years ended June 30, 2020 and 2019. The note receivable is evaluated annually for impairment. At June 30, 2020 and 2019, the note is not past due and management has determined no impairment exists.

Revenue Recognition

Grants and Grant Receivables

Grants are received by both federal and private sources. Each grant is analyzed to determine whether it is deemed an exchange transaction (where both the grantee and grantor receive commensurate benefits) or a contribution. No grants were recognized as exchange transactions as of June 30, 2020 or 2019. Most grants are deemed to be conditional contributions and are recognized as revenue when allowable costs are incurred. Such revenues follow a simultaneous release policy and are recorded as net assets without restriction. Grants receivable at June 30, 2020 and 2019 represent unconditional promises to give. Amounts were collected after year-end, resulting in no allowance for uncollectible amounts.

Program Service Fees and Accounts Receivable

Program service fees for childcare and counseling services are recognized as the services are provided. 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. At June 30, 2020 and 2019, receivables totaling **\$28,420** and \$36,304, respectively, are over thirty 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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(1) Nature of Activities and Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Contributions, Memorials and Promises to Give

Contributions of cash, memorials, and other assets are recognized as revenue in the period received at their fair values. Unconditional promises to give are recognized as revenues in the period pledged. Amounts due after one year are recorded at their present value, using an applicable discount rate. Contributions are distinguished between those that increase net assets with and without donor restriction. An allowance for uncollectible promises to give is estimated based on management's knowledge of current environmental conditions and historical losses.

Conditional promises to give – that is, those with a measurable performance or other barrier and right of return – are not recognized until the conditions on which they depend have been met. Amounts received are recognized as revenue when the Organization has incurred the expenses in compliance with specific contract or grant provisions. These revenues follow a simultaneous release policy and are recorded as net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized.

Contributed Services

Contributions of services that create or enhance non-financial assets or those that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation are recorded at their fair value in the period received. No significant amounts meeting this criteria were received in the years ended June 30, 2020 and 2019. The Organization receives a significant amount of donated services from unpaid volunteers. A dollar valuation of these services is not reflected in the financial statements since it does not meet the criteria for recognition.

Expense Allocation

The costs of providing program and other support activities have been summarized on a functional basis in the Consolidated Statements of Activities and Changes in Net Assets. The Statements of Functional Expenses present the natural classification detail of expenses by function. Most expenses can be directly allocated to program or supporting functions. Certain categories of expenses that are attributable to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. Specifically, salaries and other employee driven expenses are allocated based on actual time spent on each function. Building related expenses are allocated based on square footage.

Federal Income Tax

YFS, the Foundation (including Bright Futures, LLC), and the QALICB qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are not subject to federal income tax. In addition, YFS, the Foundation, and the QALICB 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. No federal income tax is paid unless net income is derived from activities that are unrelated to exempt activities. No such activities have been conducted.

At June 30, 2020 and 2019, YFS, the Foundation, and the QALICB believe no significant uncertain tax positions or liabilities exist.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(1) Nature of Activities and Significant Accounting Policies (Continued)

Subsequent Events

Management has assessed YFS, the Foundation, and the QALICB for significant subsequent events through November 30, 2020, the date which the financial statements were available to be issued.

Adopted Accounting Standards

The Organization adopted the provisions of ASU 2016-18, *Restricted Cash*, which addresses diversity in practice regarding the treatment of restricted cash in the cash flow statement by requiring that all restricted cash amounts be included in total cash and cash equivalents for the year ended June 30, 2020. No adjustments to beginning cash were necessary in the Consolidated Statement of Cash Flows. In addition, the composition and nature of cash and restricted cash is discussed in Cash and Cash Equivalents above.

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 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. The Organization early adopted the new guidance during the year ended June 30, 2020 using the modified retrospective method, which applied to contracts not completed as of July 1, 2019 (the date of initial application). Adoption of this standard resulted in no changes to revenue recognition for the Organization as revenue recognition methods were materially consistent with the new guidance. Accounting policy changes are described above.

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 also assists 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 Organization adopted this standard during the year ended June 30, 2020 on a modified prospective basis for all agreements not completed as of June 30, 2019. No material impact to the financial statements occurred as a result of adoption, and no adjustment to beginning net assets was made.

Emerging Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which supersedes FASB ASC Topic 840, *Leases* 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. With regards to lessors, the new standard requires lessors to classify leases as sales-type, direct financing, or operating leases based on whether the lessee, in effect, obtains control of the underlying asset as a result of the lease. A lessor is precluded from recognizing income at lease commencement if control is not transferred. In addition, no differentiation exists between leases of real estate and leases of other assets. The standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on the financial statements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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(1) Nature of Activities and Significant Accounting Policies (Concluded)

Emerging Accounting Standards (Continued)

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 Organization will be evaluating the impact this standard will have on the financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires that contributions of nonfinancial assets be reported in a separate line item within the Statement of Activities. Additional disclosures are also required, to include whether the contributions are monetized or utilized by the entity, the existence of any donor restrictions related to the assets, and how fair value was determined. The standard is effective for years beginning after June 15, 2021. The Organization will be evaluating the impact this standard will have on the financial statements.

Beneficial Interest in Trust

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

(2) Capital Campaign and Promises to Give

The Organization received promises to give through their capital campaign, as well as through corporate and personal spontaneous gifts. Unconditional promises to give are as follows at June 30:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 288,255	\$ 222,189
Receivable in one to five years	484,076	672,456
Receivable over five years	1,645	53,740
Total unconditional promises to give	<u>773,976</u>	948,385
Less allowance for uncollectible promises to give	(29,330)	(29,330)
Less discounts to net present value (*)	(15,512)	(36,278)
Net unconditional promises to give	<u>\$ 729,134</u>	<u>\$ 882,777</u>

(*) Based on 1.41 percent for the year ended June 30, 2011, 1.03 percent for the year ended June 30, 2012, 1.10 percent for the year ended June 30, 2013, 1.55 percent for the year ended June 30, 2014, 1.57 percent for the year ended June 30, 2015, 1.31 percent for the year ended June 30, 2016, 2.08 percent for the year ended June 30, 2017, 2.68 percent for the year ended June 30, 2018, 1.76 percent for the year ended June 30, 2019, and 0.30 percent for the year ended June 30, 2020.

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(3) Employee Benefits

YFS 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 50.00 percent of the first three percent of the base compensation that a participant contributes to the plan are required under the terms of the plan document. The expense was **\$239,701** and \$237,428 for the years ended June 30, 2020 and 2019, respectively.

(4) Leases

YFS leases several buildings on a month-to-month basis at a cost below prevailing market rates. Total in-kind rent expense of **\$209,191** and \$216,542 was recorded as Donated Facilities Revenue and Rent Expense in the Statement of Activities and Changes in Net Assets for the years ended June 30, 2020 and 2019, respectively. Future obligations of minimum rental payments of operating leases are as follows:

2021	\$	14,289
2022		11,092
	\$	25,381

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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(5) Net Assets

Net assets with donor restrictions include the following at June 30:

	With Donor Restriction - Time/Purpose	With Donor Restriction - Perpetuity	Released Year Ended June 30, 2020
June 30, 2020			
East Adams Facilities and Operations Endowment	\$ -	\$ 50,000	\$ -
United Way - Program	66,644	-	83,067
Campaign Time Restriction (a)	27,278	-	22,815
Investment in Washburn Trust (a)	275,326	-	21,509
John Vucurevich Endowment (a)	-	408,824	-
Campaign 10-Year Donor Restriction (a)	2,421	-	-
Campaign Child Development Center (a)	-	-	590
No Program Restriction Endowment (a)	-	17,922	-
BHACF Endowment (a)	-	10,000	-
Campaign Endowment Fatherhood (a)	-	65,535	-
Fatherhood Project Reserves/Endowment (a)	66,249	25,000	16,877
Fatherhood Campaign Reserves/Endowment Girls Inc. (a)	-	1,025	-
Lemley Funds Endowment Girls Inc. Program (a)	-	488,821	23,249
Rasmussen Trust Distribution - Program Restricted	34,999	-	18,271
Lemley Trust Distribution - Program Restricted	34,613	-	19,031
Campaign - No Program Restriction Endowment (a)	-	152,099	-
Campaign - Rural Program (a)	-	-	1,000
Barb Butler Estate - Girl's Inc. Program	64,789	-	-
Gallagher Estate - Girl's Inc. Program	120,000	-	-
Land/Building Improvements	686,134	-	819,050
Larson Foundation - Girls Health Connections Program	-	-	36,002
BHACF - CC services	2,820	-	-
Altrusa Club - Care Closet	-	-	3,684
South Dakota Community Foundation - M.S. Program	7,868	-	10,000
BHACF - Garden Funds	-	-	4,582
Greenhouse	334	-	-
BHACF - Summer Meals	-	-	2,007
Child and Adult Care Food Program	15,013	-	-
Youth Trauma	-	-	31,383
Schumacher Memorial - No Program Restriction	-	1,700	-
	\$ 1,404,488	\$ 1,220,926	\$ 1,113,117

(a) Foundation net asset balances

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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(5) Net Assets (Continued)

Net assets with donor restrictions include the following at June 30:

	With Donor Restriction - Time/Purpose	With Donor Restriction - Perpetuity	Released Year Ended June 30, 2019
June 30, 2019			
East Adams Facilities and Operations Endowment	\$ -	\$ 50,000	\$ -
United Way - Program	83,067	-	172,844
Campaign Time Restriction (a)	22,815	-	45,942
Investment in Washburn Trust (a)	296,835	-	10,408
John Vucurevich Endowment (a)	-	408,824	-
Campaign 10-Year Donor Restriction (a)	2,421	-	155
Campaign Land/Building Improvements (a)	861,724	-	4,538
Campaign Child Development Center (a)	590	-	-
Donor Restricted To Be Determined	81,200	-	-
Girls Inc. Program Restricted (a)	-	-	10,594
No Program Restriction Endowment (a)	-	17,922	-
BHACF Endowment (a)	-	10,000	-
Campaign Endowment Fatherhood (a)	-	65,535	-
Fatherhood Project Reserves/Endowment (a)	62,747	25,000	-
Fatherhood Campaign Reserves/Endowment Girls Inc. (a)	-	1,025	-
Boys Health Program Restricted (a)	-	-	25
Lemley Funds Endowment Girls Inc. Program (a)	8,616	491,618	12,906
Rasmussen Trust Distribution - Program Restricted	18,271	-	36,728
Lemley Trust Distribution - Program Restricted	29,031	-	-
Campaign - No Program Restriction Endowment (a)	-	146,099	-
Campaign - Rural Program Restricted (a)	1,000	-	-
Barb Butler Estate - Girl's Inc. Program	64,789	-	81,441
Land/Building Improvements	97,655	-	2,658,778
Wellmark Foundation - Garden Funds	-	-	17,679
Larson Foundation - Girls Health Connections Program	36,002	-	5,998
BHACF - CC services	2,820	-	50
Altrusa Club - Care Closet	3,684	-	816
South Dakota Community Foundation - M.S. Program	10,000	-	-
BHACF - Garden Funds	4,582	-	793
Greenhouse	334	-	1,666
BHACF - Summer Meals	2,007	-	3,935
Child and Adult Care Food Program	15,012	-	-
Youth Trauma	31,383	-	-
	\$ 1,736,585	\$ 1,216,023	\$ 3,065,296

(a) Foundation net asset balances

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(5) Net Assets (Continued)

Net assets without donor restrictions include the following at June 30:

	<u>2020</u>	<u>2019</u>
Property and Equipment	\$ 17,072,366	\$ 13,626,944
General	(3,483,772)	(1,270,935)
<i>Board Designated:</i>		
East Adams Facilities and Operations	641,870	641,870
East Adams Facilities Expansion - Foundation	378,313	378,313
Endowment	146,518	146,518
Endowment - Foundation	100,000	100,000
Kid's Fair	2,290	2,290
Emergency Child Care Funds	-	50,000
Child Development Center Transportation	3,933	3,933
Vehicle Repair	3,746	3,746
Family Violence Prevention	2,072	2,072
	<u>\$ 14,867,336</u>	<u>\$ 13,684,751</u>

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 net assets with donor restriction – restricted in perpetuity (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated 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 net assets with donor restriction – restricted in perpetuity is classified as net assets with donor restriction – time or purpose 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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(5) Net Assets (Concluded)

Endowed net assets consist of the following at June 30:

	Without Donor Restriction	With Donor Restriction - Time or Purpose	With Donor Restriction - In Perpetuity	Total
Endowment Net Assets - June 30, 2018	\$ 243,201	\$ 83,199	\$ 1,169,623	\$ 1,496,023
Investment Return	3,716	16,287	28,814	48,817
Contributions	-	125	17,586	17,711
Appropriations for Expenditure	(399)	(28,248)	-	(28,647)
Endowment Net Assets - June 30, 2019	246,518	71,363	1,216,023	1,533,904
Investment Return	-	35,013	(2,797)	32,216
Contributions	-	-	7,700	7,700
Appropriations for Expenditure	-	(40,127)	-	(40,127)
Endowment Net Assets - June 30, 2020	\$ 246,518	\$ 66,249	\$ 1,220,926	\$ 1,533,693

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. 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:

	2020	2019
Buildings	\$ 15,920,247	\$ 5,160,262
Buildings - Federal Reversionary Interest	1,063,941	1,063,941
Buildings - Foundation	120,526	120,526
Equipment and Vehicles- Federal Reversionary Interest	2,434,299	2,003,282
Equipment and Furnishings	408,082	466,237
Equipment and Furnishings - QALICB	257,501	201,512
Vehicles	712,740	724,599
	20,917,336	9,740,359
Less Accumulated Depreciation	5,075,173	5,016,107
	15,842,163	4,724,252
Buildings - East Adams New Complex Work in Progress	-	7,672,489
Land	744,468	744,468
Land - QALICB	412,066	412,066
Land - Foundation	73,669	73,669
	1,230,203	8,902,692
	\$ 17,072,366	\$ 13,626,944

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(7) Investments and Fair Value Measurements

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 fair value hierarchy 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 investments 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. The types of assets and liabilities included in Level Three require significant management judgment or estimation.

The Organization's investments, as well as certain cash equivalents, are measured at fair value on a recurring basis. No other assets or liabilities are measured at fair value on a recurring or nonrecurring basis.

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. 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.

The Amounts Held by Black Hills Area Community Foundation (BHACF) has been valued, as a practical expedient, at the net asset value of the Organization's share of BHACF's investment pools as of the measurement date. As such, they are not included in the fair value hierarchy described above. BHACF values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of BHACF, which include private placements and other securities for which prices are not readily available, are determined by the management of BHACF and 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 would have been used had a ready market existed for these investments. The amounts held by BHACF are not redeemable by the Organization.

Assets measured at fair value on a recurring basis by fair value hierarchy are as follows:

June 30, 2020	Level One	Level Two	Level Three	Net Asset Value	Total
Money Market Funds	\$ 72,973	\$ -	\$ -	\$ -	\$ 72,973
Equities	1,577,026	371,208	-	-	1,948,234
Fixed Income	314,183	1,066,798	-	-	1,380,981
Washburn Trust	-	-	275,326	-	275,326
Investment in BHACF	-	-	-	16,364	16,364
Total Fair Value Investments	\$ 1,964,182	\$ 1,438,006	\$ 275,326	\$ 16,364	\$ 3,693,878

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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(7) Investments and Fair Value Measurements (Continued)

Assets measured at fair value on a recurring basis by fair value hierarchy are as follows:

June 30, 2019	Level One	Level Two	Level Three	Net Asset Value	Total
Money Market Funds	\$ 91,078	\$ -	\$ -	\$ -	\$ 91,078
Equities	1,255,416	483,199	-	-	1,738,615
Fixed Income	307,729	1,034,391	-	-	1,342,120
Washburn Trust	-	-	296,835	-	296,835
Investment in BHACF	-	-	-	12,548	12,548
Total Fair Value Investments	\$ 1,654,223	\$ 1,517,590	\$ 296,835	\$ 12,548	\$ 3,481,196

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

Balance -- June 30, 2018	\$ 307,243
Distributions	(10,408)
Balance -- June 30, 2019	296,835
Distributions	(21,509)
Balance -- June 30, 2020	\$ 275,326

(8) New Market Tax Credit Financing and Long-Term Debt

During the year ended June 30, 2019, the Organization entered into financing arrangements with investors using new market tax credits (NMTC) financing to construct a new facility. The NMTC investors invested approximately \$4,500,000 into Youth & Family Services Investment Fund, LLC, operated by Wells Fargo (Investment Fund) in exchange for NMTC. YFS provided funding to the Investment Fund in the amount of \$8,646,417 in the form of a note receivable. The Investment Fund invested the funds in three separate community development entities (CDEs). The CDEs loaned to the QALICB substantially all the proceeds of the investments made in them by the Investment Fund in the aggregate amount of \$13,000,000 (less sponsor fees totaling \$345,000). The NMTC have a seven year compliance period.

YFS entered into a note payable with BankWest for a bridge loan totaling \$4,869,964. YFS used the loan proceeds and contributions from donors designated for Facility Expansion to lend to the Investment Fund, as described above. The note receivable due from the Investment Fund requires quarterly interest payments at 1.14 percent through December 2025. Beginning in March 2026, quarterly principal and interest payments of \$131,360 will be made through maturity of March 31, 2044. In 2019, YFS made contributions to the QALICB to help fund the new facility in the form of construction in progress and equipment.

YFS entered into a base lease with the QALICB for the site of the new location, as well as a subsequent lease-back of the same property to YFS from the QALICB.

The Organization has guaranteed the delivery of the tax credits to the investors. The Organization would be required to act under the guarantee if for any reason there was a disallowance of the new market tax credits. As part of this guarantee and the bank financing, the bank notes described above and disclosed below have a put option in the event of noncompliance with NMTC and at the end of the seven year compliance period. If the Investment Fund does not exercise the put option within 180 days of the end of the compliance period, the Organization can exercise a call option to purchase the Investment Fund's interest in the CDEs.

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(8) New Market Tax Credit Financing and Long-Term Debt (Continued)

Long-term debt consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
<i>YFS Long-Term Debt:</i>		
Note payable to bank (bridge loan), matures August 2025, interest payable quarterly at 6.25 percent. Annual principal payments of \$162,332 due June each year. Secured by property and pledges for project.	\$ 1,235,703	\$ 2,521,303
Note payable to Small Business Administration (SBA) through the Paycheck Protection Program (PPP), matures April 2022, interest payable monthly at 1.00 percent, monthly payments of \$101,271 (b).	1,799,182	-
<i>QALICB Long-Term Debt:</i>		
Note payable to Wells Fargo Sub CDE, LLC Note A (a)	1,009,351	1,009,351
Note payable to Wells Fargo Sub CDE, LLC Note B (a)	490,649	490,649
Note payable to PCG Sub CDE, LLC Note A (a)	3,595,308	3,595,308
Note payable to PCG Sub CDE, LLC Note B (a)	1,739,692	1,739,692
Note payable to NCIF Sub CDE, LLC Note A (a)	4,041,758	4,041,758
Note payable to NCIF Sub CDE, LLC Note B (a)	1,778,242	1,778,242
	<u>15,689,885</u>	<u>15,176,303</u>
Less: Current Maturities	(1,934,441)	(152,086)
Less: Deferred Bond Issue Costs, Net of Accumulated Amortization	(569,815)	(595,459)
	<u>\$ 13,185,629</u>	<u>\$ 14,428,758</u>

(a) Loans mature December 2051, quarterly interest-only payments through March 2026 at 1.00 percent. Beginning in March 2026, level quarterly principal payments are due through loan maturity. Secured by leasehold mortgage, assignment of rents, first-priority perfected security interest, and fixture financing statement.

(b) The Organization was granted a loan under the Paycheck Protection Program (PPP) administered by the U.S Small Business Administration (SBA) from a qualified lender. The Organization may be eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. Proceeds from the loan are eligible for forgiveness if they are used for certain payroll, rent, and utility expenses. In addition, other requirements regarding salary and employee levels must be maintained. Management submitted a forgiveness application subsequent to year-end for 100 percent of the loan balance and the application is pending SBA approval.

Maturities on long-term debt, including amortization of debt issuance costs, as of June 30, are as follows:

2021	\$ 1,934,441
2022	135,259
2023	135,259
2024	135,259
2025	141,168
Thereafter	12,638,684
	<u>\$ 15,120,070</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(9) Liquidity

Financial assets available for general expenditure, this is without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 1,996,445	\$ 514,039
Restricted Cash - Available for Accounts Payable	-	1,257,055
Government Grant Funds Receivable	1,225,518	1,021,411
Accounts Receivable	60,871	107,452
Investments	3,693,878	3,481,196
Promises to Give	805,081	965,844
Total Financial Assets	7,781,793	7,346,997
Less: Net Assets Without Donor Restriction - Board-Designated	1,278,742	1,328,742
Less: Net Assets With Time/Purpose Restrictions	1,404,488	1,736,585
Less: Net Assets With Perpetual Restrictions	1,220,926	1,216,023
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	\$ 3,877,637	\$ 3,065,647

As part of the liquidity management plan, management monitors cash flows and invests excess cash in money market accounts. Management and the Board of Directors actively monitor resources available. The Board may designate surplus funds for future use. In the event of unanticipated liquidity needs, key donors could be contacted for assistance, the Board could un-designate net assets, or the Organization could borrow additional funding.

(10) Refundable Advance and Unearned Revenue

Included in refundable advances and unearned revenue within the Consolidated Statement of Financial Position are sponsorship and vendor fees associated with the next Kid's Fair totaling **\$66,949** and \$-0-, program fees of **\$5,500** and \$-0-, and grant funds advanced totaling **\$45,000** and \$-0- for the years ended June 30, 2020 and 2019, respectively.

(11) Conditional Promises to Give

A portion of the Organization's revenue is derived from cost-reimbursable federal, state, and local contracts and grants, which are conditional upon certain performance requirements and incurring qualifying expenses.

The Organization was awarded a grant totaling \$4,428,200 for healthy marriage education from September 2015 to September 2020. At June 30, 2020 and 2019, **\$645,168** and \$1,515,610, respectively, had not been recognized and is excluded from revenue.

The Organization was awarded a grant totaling \$2,333,333 as part of the Youth Trauma Grant for youth substance abuse prevention, treatment, and mental health needs from September 2016 to September 2021. At June 30, 2020 and 2019, **\$380,443** and \$979,424, respectively, had not been recognized and is excluded from revenue.

The Organization was awarded a grant totaling \$250,000 as part of the Healthy Tomorrows Grant to improve the health status of children in underserved communities from March 2017 to February 2022. At June 30, 2020 and 2019, **\$91,629** and \$140,211, respectively, had not been recognized and is excluded from revenue.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2020 AND 2019**

(11) Conditional Promises to Give (Continued)

The Organization was awarded a grant totaling \$625,000 as part of the Drug Free Communities Grant to prevent adult substance abuse from September 2017 to September 2022. At June 30, 2020 and 2019, **\$306,102** and \$438,944, respectively, had not been recognized and is excluded from revenue.

The Organization was awarded a \$1,950,000 contract to receive Vision Funds over a three-year period to construct the East Adams Street Facility Expansion. At June 30, 2020 and 2019, **\$181,000** and \$650,000, respectively, had not yet been recognized and is excluded from revenue.

The Organization was awarded a grant totaling \$1,925,416 as part of the Early Head Start Expansion Grant for child development and family support services from July 2019 to June 2024. At June 30, 2020 and 2019, **\$943,321** and \$-0-, respectively, had not been recognized and is excluded from revenue.

The Organization was awarded a grant totaling \$6,179,538 as part of the Head Start/Early Head Start Grant for child development and family support services from May 2020 to February 2025. At June 30, 2020 and 2019, **\$3,568,046** and \$-0-, respectively, had not been recognized and is excluded from revenue.

(12) Current Economic Events

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Organization is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Organization's customers, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Organization's financial position and changes in net assets and cash flows is uncertain.

SUPPLEMENTARY INFORMATION

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

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2020**

ASSETS	Youth & Family Services	YFS Foundation	YFS QALICB	Eliminations	Total
Current Assets					
Cash and Cash Equivalents	\$ 1,950,994	\$ 45,451	\$ -	\$ -	\$ 1,996,445
Restricted Cash	-	-	756,867	-	756,867
Inventory	27,197	-	-	-	27,197
Prepaid Expenses	8,210	600	-	-	8,810
Government Grant Funds Receivable	1,225,518	-	-	-	1,225,518
Accounts Receivable - Fees and Other, Net of Allowance of \$21,756 at June 30, 2020	60,871	-	-	-	60,871
Due from Related Entity	-	1,000	-	(1,000)	-
Promises to Give -- United Way	75,947	-	-	-	75,947
Promises to Give -- Current	-	288,255	-	-	288,255
Total Current Assets	3,348,737	335,306	756,867	(1,000)	4,439,910
Property and Equipment	10,125,517	194,195	11,827,827	-	22,147,539
Less Accumulated Depreciation	4,887,417	14,627	173,129	-	5,075,173
Total Property and Equipment, Net	5,238,100	179,568	11,654,698	-	17,072,366
Other Assets					
Promises to Give, Net of Current Portion	-	440,879	-	-	440,879
Investments	1,071,934	2,621,944	-	-	3,693,878
Note Receivable	8,646,417	-	-	-	8,646,417
Total Other Assets	9,718,351	3,062,823	-	-	12,781,174
TOTAL ASSETS	\$ 18,305,188	\$ 3,577,697	\$ 12,411,565	\$ (1,000)	\$ 34,293,450

LIABILITIES AND NET ASSETS	Youth & Family Services	YFS Foundation	YFS QALICB	Eliminations	Total
Current Liabilities					
Current Maturities of Long-Term Debt	\$ 1,934,441	\$ -	\$ -	\$ -	\$ 1,934,441
Accounts Payable	282,512	-	250,393	-	532,905
Accrued Personnel Expenses	1,030,276	-	-	-	1,030,276
Due to Related Entity	1,000	-	-	(1,000)	-
Refundable Advance and Unearned Revenue	117,449	-	-	-	117,449
Total Current Liabilities	3,365,678	-	250,393	(1,000)	3,615,071
Long-Term Debt, Net of Current Maturities	1,055,121	-	12,130,508	-	13,185,629
Net Assets					
<i>Without Donor Restriction</i>					
Property and Equipment	5,238,100	179,568	11,654,698	-	17,072,366
General	7,448,781	691,481	(11,624,034)	-	(3,483,772)
Board Designated	800,429	478,313	-	-	1,278,742
Total Without Donor Restriction	13,487,310	1,349,362	30,664	-	14,867,336
With Donor Restrictions - Time or Purpose	347,079	1,057,409	-	-	1,404,488
With Donor Restrictions - Perpetual	50,000	1,170,926	-	-	1,220,926
Total With Donor Restrictions	397,079	2,228,335	-	-	2,625,414
Total Net Assets	13,884,389	3,577,697	30,664	-	17,492,750
TOTAL LIABILITIES AND NET ASSETS	\$ 18,305,188	\$ 3,577,697	\$ 12,411,565	\$ (1,000)	\$ 34,293,450

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

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020**

	Youth & Family Services	YFS Foundation	YFS QALICB	Eliminations	Total
Support and Revenues					
Contributions	\$ 1,170,501	\$ 518,749	\$ -	(790,464)	\$ 898,786
Memorials	-	121,700	-	-	121,700
Kid's Fair	11,500	-	-	-	11,500
Dinner Theatre	49,527	-	-	-	49,527
Dr. Lemley Trust Funds	24,613	-	-	(24,613)	-
<i>Investment Return:</i>					
Royalties	2,332	-	-	-	2,332
Brokerage Fees	(7,359)	(16,843)	-	-	(24,202)
Capital Gains	15	11,266	-	-	11,281
Net Realized/Unrealized Gain on Investments	10,813	8,539	-	-	19,352
Interest and Dividends	125,257	48,669	2,189	-	176,115
Distribution from Black Hills Community Foundation	-	13,602	-	-	13,602
Grants	12,210,903	50,006	-	-	12,260,909
Membership Dues	26,694	-	-	-	26,694
Program Service Fees	1,108,095	-	-	-	1,108,095
Donated Rental Facilities	209,191	-	-	-	209,191
Rental Income	-	17,397	79,228	(79,228)	17,397
Miscellaneous	11,649	-	-	-	11,649
Loss on Disposal of Equipment	(114,741)	-	-	-	(114,741)
Contract Service Fees	188,766	-	-	(136,966)	51,800
Total Support and Revenues	15,027,756	773,085	81,417	(1,031,271)	14,850,987

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

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

	Youth & Family Services	YFS Foundation	YFS QALICB	Eliminations	Total
Expenses					
Salaries	\$ 7,991,624	\$ -	\$ -	\$ -	\$ 7,991,624
Fringe Benefits	896,621	-	-	-	896,621
Supplies	885,780	618	-	-	886,398
Family Child Care Payments	615,124	-	-	-	615,124
Payroll Taxes	584,417	-	-	-	584,417
Professional and Contracted Services	470,673	91,440	141,445	(155,034)	548,524
Depreciation	367,045	4,384	162,757	-	534,186
Food	462,949	-	-	-	462,949
Rent	351,123	-	-	(79,228)	271,895
Utilities	209,399	810	100	-	210,309
Insurance	179,951	3,421	1,155	-	184,527
Travel and Conferences	165,613	-	-	-	165,613
Repairs and Maintenance	164,153	922	-	-	165,075
Interest	127,183	-	16,872	-	144,055
Promotion	75,591	44	-	-	75,635
Transportation	70,419	-	-	-	70,419
Telephone	65,203	-	-	-	65,203
Office Supplies and Postage	33,059	101	45	-	33,205
Grant Specific Activities	30,315	-	-	-	30,315
Dues and Subscriptions	23,538	-	-	-	23,538
Bad Debt Provision	9,344	6,190	-	-	15,534
Miscellaneous	9,424	-	120	-	9,544
Parent Activity	5,836	-	-	-	5,836
Excursions	5,050	-	-	-	5,050
Donation Expense	-	797,009	-	(797,009)	-
Total Expenses	13,799,434	904,939	322,494	(1,031,271)	13,995,596
Increase (Decrease) in Net Assets	1,228,322	(131,854)	(241,077)	-	855,391
Net Assets - Beginning of Year	12,656,067	3,709,551	271,741	-	16,637,359
Net Assets - End of Year	13,884,389	3,577,697	30,664	-	17,492,750

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

**CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020**

	Youth & Family Services	YFS Foundation	YFS QALICB	Eliminations	Total
Cash Flows from Operating Activities					
Increase in Net Assets	\$ 1,228,322	\$ (131,854)	\$ (241,077)	\$ -	\$ 855,391
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by (Used in) Operating Activities:</i>					
Depreciation	367,045	4,384	162,757	-	534,186
Bad Debt Provision	9,344	6,190	-	-	15,534
Net Realized/Unrealized Gain on Investments	(10,813)	(8,539)	-	-	(19,352)
Amortization of Deferred Debt Issuance Costs, Net	8,772	-	16,872	-	25,644
Loss on Disposal of Equipment	114,741	-	-	-	114,741
Noncash Memorial - Investment in Washburn Trust	-	21,508	-	-	21,508
Contributions and Distributions Restricted for Long-Term Purposes	-	(7,700)	-	-	(7,700)
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>					
Inventory	(14,428)	-	-	-	(14,428)
Prepaid Expenses	1,664	-	-	-	1,664
Government Grant Receivable	(204,107)	-	-	-	(204,107)
Accounts Receivable	86,372	10,000	-	(59,135)	37,237
Promises to Give	-	147,453	-	-	147,453
Promises to Give - United Way	7,120	-	-	-	7,120
Accounts Payable	(186,320)	-	(1,219,190)	59,135	(1,346,375)
Accrued Personnel Expenses	199,712	-	-	-	199,712
Accrued Interest Payable	(15,568)	-	-	-	(15,568)
Refundable Advance	95,253	-	-	-	95,253
Net Cash Provided by (Used in) Operating Activities	1,687,109	41,442	(1,280,638)	-	447,913
Cash Flows from Investing Activities					
Purchases of Property and Equipment	(552,589)	-	(3,328,782)	-	(3,881,371)
Purchases of Investments	(335,869)	(646,560)	-	-	(982,429)
Proceeds from Sale of Investments	218,274	549,317	-	-	767,591
Net Cash Used in Investing Activities	(670,184)	(97,243)	(3,328,782)	-	(4,096,209)

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

**CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

	Youth & Family Services	YFS Foundation	YFS QALICB	Eliminations	Total
Cash Flows from Financing Activities					
Proceeds on Long-Term Debt	1,799,182	-	-	-	1,799,182
Repayments on Long-Term Debt	(1,285,600)	-	-	-	(1,285,600)
Advances (Repayments) on Intercompany Loans	1,000	(1,000)	-	-	-
Contributions Restricted for Long-Term Purposes	-	7,700	-	-	7,700
Net Cash Provided by Financing Activities	514,582	6,700	-	-	521,282
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	1,531,507	(49,101)	(4,609,420)	-	(3,127,014)
Cash, Cash Equivalents and Restricted Cash					
- Beginning of Year	419,487	94,552	5,366,287	-	5,880,326
Cash, Cash Equivalents and Restricted Cash					
- End of Year	\$ 1,950,994	\$ 45,451	\$ 756,867	\$ -	\$ 2,753,312
Reconciliation of Cash and Restricted Cash:					
Cash	\$ 1,950,994	\$ 45,451	\$ -	\$ -	\$ 1,996,445
Restricted Cash - QALICB	-	-	756,867	-	756,867
Total Cash and Restricted Cash	\$ 1,950,994	\$ 45,451	\$ 756,867	\$ -	\$ 2,753,312
Supplemental Disclosures of Noncash Investing and Financing Activities					
Purchases of Property and Equipment Included in Accounts Payable	\$ -	\$ -	\$ 212,978	\$ -	\$ 212,978
Supplemental Disclosures of Cash Flow Information					
Cash Payment for Interest, Net of Interest Capitalized 2020 - \$99,050	127,183	-	16,872	-	144,055

SINGLE AUDIT SECTION

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

	CFDA Numbers	Grant Identifying Number	Amount
<i>U.S. Department of Agriculture:</i>			
Passed through the S.D. Department of Education:			
Child and Adult Care Food Program (Note 1)	10.558	N/A	\$ 1,046,113
<i>Child Nutrition Cluster (Note 1):</i>			
Summer Food Service Program for Children	10.559	N/A	61,259
Covid-19 - Summer Food Service Program for Children	10.559	N/A	521,771
Total Child Nutrition Cluster			583,030
Total U.S. Department of Agriculture			1,629,143
 <i>U.S. Department of Justice:</i>			
Passed through the S.D. Department of Social Services:			
Crime Victim Assistance	16.575	N/A	71,487
Consolidated and Technical Assistance Grant Program to Address Children and Youth Experiencing Domestic and Sexual Violence and Engage Men and Boys as Allies	16.888	2019-CY-AX-0011	14,038
Total U.S. Department of Justice			85,525
 <i>U.S. Department of Homeland Security:</i>			
Passed through United Way of the Black Hills:			
Emergency Food and Shelter National Board Program	97.024	37-7580-00	5,478
Emergency Food and Shelter National Board Program - CARES	97.024	CARES-7580-00	7,810
Total U.S. Department of Homeland Security			13,288
 <i>U.S. Department of Education:</i>			
Passed through S.D. Department of Education:			
21st Century Community Learning Centers	84.287C	S287C190042	150,000
 <i>U.S. Department of Housing and Urban Development:</i>			
Passed through the City of Rapid City:			
<i>Entitlement Grants Cluster:</i>			
Community Development Block Grant Entitlement Funds	14.218	N/A	93,932
Total Entitlement Grants Cluster			93,932
Total U.S. Department of Housing and Urban Development			93,932

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

	CFDA Numbers	Grant Identifying Number	Amount
<i>U.S. Department of Health and Human Services:</i>			
Direct Funding:			
<i>Head Start Cluster:</i>			
Head Start 0-5 and Early Head Start	93.600	N/A	6,580,164
Head Start 0-5 and Early Head Start CARES	93.600	N/A	106,213
Head Start 0-3 and Early Head Start Expansion	93.600	N/A	962,708
Early Head Start CARES	93.600	N/A	19,387
Total Head Start Cluster			7,668,472
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	N/A	870,442
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	5U79SM063086-04	598,981
Maternal and Child Health Federal Consolidated Programs	93.110	N/A	48,582
Drug Free Communities (DFC) Support Program	93.276	N/A	132,842
Total U.S. Department of Health and Human Services			9,319,319
Total			\$ 11,291,207

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.



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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.,
Youth & Family Services Foundation and
Youth & Family Services QALICB, Inc.
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 financial statements of **YOUTH & FAMILY SERVICES, INC. (YFS), YOUTH & FAMILY SERVICES FOUNDATION** (the Foundation), and **YOUTH & FAMILY SERVICES QALICB, INC.** (the QALICB), collectively, the Organization, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion(s) 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as #2020-001 and #2020-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 financial statements. 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*.

The Organization's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 30, 2020



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street
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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.,
Youth & Family Services Foundation and
Youth & Family Services QALICB, Inc.
Rapid City, SD

Report on Compliance for Each Major Federal Program

We have audited **YOUTH & FAMILY SERVICES, INC. (YFS)**, **YOUTH & FAMILY SERVICES FOUNDATION** (the Foundation), and **YOUTH & FAMILY SERVICES QALICB, INC. (the QALICB)**, collectively, the Organization, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Organization's major federal programs for the year ended June 30, 2020. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings.

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 each of Organization's major federal programs 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 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 each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each 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 each of its major federal programs for the year ended June 30, 2020.

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 each 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 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 30, 2020

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

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020**

A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unmodified opinion on the financial statements.
2. Two material weaknesses were disclosed during the audit of the financial statements and 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 independent 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 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

MATERIAL WEAKNESSES

#2020-001 FINDING: Financial Statement Preparation

Condition and Cause: The auditors were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the Organization's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the Organization at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size.

Criteria and Effect: This deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the Organization's management.

Repeat Finding from Prior Year: Yes, prior year finding #2019-001.

Recommendation: We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy. We have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the Organization's statements. We are satisfied that the appropriate steps have been taken to provide the Organization with the completed financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials: See Organization's Corrective Action Plan

#2020-002 FINDING: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed material audit adjustments.

Criteria and Effect: These adjustments were not identified as a result of the Organization's existing internal controls, and therefore, could have resulted in a material misstatement of the Organization's financial statements.

Repeat Finding from Prior Year: N/A

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

**SCHEDULE OF FINDINGS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

Recommendation: We recommend the following:

- Record donated rent.
- Purchases of property and equipment exceeding \$5,000 with a useful life greater than one year should be capitalized and added to the deprecation schedule.
- Accounts payable should be recorded for goods received and services provided as of year-end.
- Ensure intercompany activities net to zero.

Views of Responsible Officials: See Organization's Corrective Action Plan

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

None

MANAGEMENT RESPONSE



Counseling\Crisis Intervention\Child Care\Education\Girls Incorporated\Head Start\Nutrition & Health\Parent Enhancement\Prevention Programs\Recreation

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2020**

Finding No. 2019-001: Financial Statement Preparation

Status: It is more cost effective for the Organization to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements as a part of the annual audit process. The Organization has designated a member of management to review the draft financial statements and accompanying notes to the financial statements.

Initial Year Report: 2019

Reasons for Recurrence and Corrective Action Plan: As the Organization has accepted the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2020, see Corrective Action Plan.



Counseling\Crisis Intervention\Child Care\Education\Girls Incorporated\Head Start\Nutrition & Health\Parent Enhancement\Prevention Programs\Recreation

**CORRECTION ACTION PLAN
JUNE 30, 2020**

Youth & Family Services, Inc. respectfully submits the following corrective action plan regarding findings from the June 30, 2020 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2020 Schedule of Findings.

Finding No. 2020-001: Financial Statement Preparation

Responsible Individuals: Kari Williams, Chief Financial Officer; Rebecca Hauff, Finance Coordinator

Corrective Action Plan: The Organization has accepted the risk associated with the finding regarding the preparation of the financial statements, and will continue to have the independent auditor prepare the annual financial statements.

Anticipated Completion Date: Ongoing

Finding No. 2020-002: Adjusting Journal Entries

Responsible Individuals: Kari Williams, Chief Financial Officer; Rebecca Hauff, Finance Coordinator

Corrective Action Plan: The agency will review the adjusting entries and add notes to complete the entries as recommended. The agency will also review entries throughout the year to ensure the recommendations are completed.

Anticipated Completion Date: Ongoing