

YOUTH SERVICES SYSTEM, INC
REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2012

DHHR - Finance

MAR 20 2013

Date Received



Certified Public Accountants

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March 11, 2013

WV Department of Health & Human Resources
Office of Internal Control & Policy Development
Division of Compliance and Monitoring
1900 Kanawha Boulevard East
State Capitol Complex, Building 3, Room 451
Charleston, WV 25305

Re: Youth Services System, Inc.

Sir or Madam:

Enclosed is a copy of the audited financial statement of Youth Services System, Inc. for the year ended June 30, 2012.

Should you have any additional questions, please do not hesitate to contact our office

Sincerely,

Brian D. Trischler, CPA, MSA

DHHR - Finance

Enclosures

MAR 20 2013

Date Received

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Youth Services System, Inc.:

We have audited the accompanying statement of financial position of Youth Services System, Inc. (a nonprofit organization) as of June 30, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Youth Services System, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

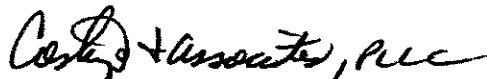
In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2013 on our consideration of Youth Services System, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Youth Services System, Inc.

Page Two

January 18, 2013

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards and Schedule of West Virginia State Grant Receipts and Expenditures for the year ended June 30, 2012, are presented for purposes of additional analysis as required by U.S. Office of Management and Budget A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and WV Code §12-4-14 and CSR §148-18, respectively, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and Schedule of West Virginia State Grant Receipts and Expenditures are fairly stated in all material respects in relation to the financial statements as a whole.



Costanzo & Associates, PLLC

Wheeling, WV

January 18, 2013

DHHR - Finance

MAR 20 2013

Date Received

YOUTH SERVICES SYSTEM, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS:

Cash	\$ 93,856
Restricted cash	331,049
Unconditional promises to give	10,179
Accounts receivable, net	627,229
Prepaid expenses	83,274
Investments at fair value	967,760
Beneficial interest in assets held at Community Foundation	25,656
Other assets	27,968
Property and equipment	<u>2,333,174</u>
 Total assets	 <u><u>4,500,145</u></u>

LIABILITIES:

Accounts payable	\$ 196,485
Accrued payroll and other liabilities	322,705
Construction work in progress payables	300,422
Deferred special event revenue	3,000
Short-term debt	810,410
Refundable advances	156,669
Capital leases payable	99,235
Long-term debt	<u>970,743</u>
Total liabilities	<u><u>2,859,669</u></u>

NET ASSETS:

Unrestricted	\$ 1,224,728
Temporarily restricted	168,892
Permanently restricted	<u>246,856</u>
Total net assets	<u><u>1,640,476</u></u>
 Total liabilities and net assets	 <u><u>\$ 4,500,145</u></u>

The accompanying notes are an integral part
of the financial statements.

YOUTH SERVICES SYSTEM, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and support				
Fees from government agencies	\$ 2,739,813			\$ 2,739,813
Grants and contracts from government agencies	3,205,055	3,500		3,208,555
Contributions from the public	204,278	161,308		365,586
Other contract income		9,335		9,335
Special events fundraisers	\$ 32,058			
Less costs of direct benefits to donors	<u>15,653</u>			
Investment gain	16,405			16,405
Rental income	15,493		59	15,552
Dividend and interest income	85,290			85,290
Miscellaneous	12,335			12,335
Miscellaneous	<u>1,949</u>			<u>1,949</u>
Total support, revenues and other gains	<u>6,280,618</u>	<u>174,143</u>	<u>59</u>	<u>6,454,820</u>
Net assets released from restrictions	140,081	(154,826)	14,745	
Total support, revenues, gains and reclassifications	<u>6,420,699</u>	<u>19,317</u>	<u>14,804</u>	<u>6,454,820</u>
Expenses				
Program services				
Residential services	2,976,357			2,976,357
Client services	1,060,055			1,060,055
Community-based services	791,632			791,632
Other program services	454,318			454,318
Supporting services				-
Management and general	<u>1,174,054</u>			<u>1,174,054</u>
Total expenses	<u>6,456,416</u>	<u>-</u>	<u>-</u>	<u>6,456,416</u>
Change in net assets	(35,717)	19,317	14,804	(1,596)
NET ASSETS, BEGINNING OF YEAR	<u>1,260,445</u>	<u>149,575</u>	<u>232,052</u>	<u>1,642,072</u>
NET ASSETS, END OF YEAR	<u>1,224,728</u>	<u>168,892</u>	<u>246,856</u>	<u>1,640,476</u>

The accompanying notes are an integral part of the financial statements.

YOUTH SERVICES SYSTEM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	Program Services				Supporting Services	Total
	Residential Services	Client Services	Community-Based Services	Other Program Services		
Salaries and wages	\$ 1,564,077	\$ 683,367	\$ 407,133	\$ 280,408	\$ 497,828	\$ 3,432,813
Payroll taxes	177,120	68,881	42,458	32,876	42,031	363,366
Employee benefits	222,903	145,850	67,340	15,563	111,501	563,157
Accounting	27,509	12,443	9,135	5,085	6,902	61,074
Legal					684	684
Other professional services	420					420
Marketing/Advertising	360	375	27,701		51,777	80,213
Supplies	447,788	45,131	100,853	29,120	41,671	664,563
Telephone	19,095	7,923	4,629	3,685	20,593	55,925
Building and equipment maintenance	54,412	9,702	4,409	2,735	27,646	98,904
Utilities	98,510	10,985			71,307	180,802
Training	23,828	1,550	11,211	29,316	971	66,876
Meetings	310	73	658		4,594	5,635
Leases, contracts and licenses	99,760	972	63,236	223	72,096	236,287
Insurance	29,749	7,627	6,530	645	34,239	78,790
Travel	45,112	9,429	38,334	52,552	6,549	151,976
Medical services	15,034	36,211				51,245
Interest	3,237	1,120	1,385		74,363	80,105
Depreciation	98,917	13,801	6,620	2,110	65,580	187,028
Health care provider tax	47,588	2,782				50,370
Other expenses					223	223
Uncollectible accounts	628	1,833			43,499	45,960
	\$ 2,976,357	\$ 1,060,055	\$ 791,632	\$ 454,318	\$ 1,174,054	\$ 6,456,416

The accompanying notes are an integral part
of the financial statements.

YOUTH SERVICES SYSTEM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

Operating Activities:

Increase in net assets	\$ (1,596)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	187,028
Net unrealized and realized gains on investments	(15,552)
Increase in unconditional promises to give	(1,978)
Increase in accounts receivable	(64,811)
Increase in prepaid expenses	(13,088)
Increase in cash surrender value of insurance	(24,518)
Increase in other assets	(100)
Increase in accounts payable	44,376
Increase in accrued payroll and other liabilities	10,531
Increase in refundable advances	8,892
Net cash provided by operating activities	129,184

Investing Activities:

Purchase of property and equipment	(275,141)
Purchase of investments	(87,558)
Proceeds on sale of investments	61,298
Net cash used by investing activities	(301,401)

Financing Activities:

Proceeds from short-term debt	460,000
Payment of short-term debt	(334,226)
Payments of long-term debt	(122,683)
Net cash provided by financing activities	3,091

Decrease in cash	(169,126)
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Cash, beginning of year	594,031
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Cash, end of year	\$ 424,905
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Supplemental Information:

Interest paid	\$ 81,981
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Non-Cash Investing and Financing Activities:

Capital assets purchased through debt	\$ 492,556
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The accompanying notes are an integral part
of the financial statements.

YOUTH SERVICES SYSTEM, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2012

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Nature of activities: Youth Services System, Inc. (the Organization) is a nonprofit organization licensed by the state of West Virginia to serve children and their families in the state, and more specifically the Northern Panhandle, by providing social services, education, transitional living skills, training, therapy and developmental skills through intervention. The Organization's mission is to create environments, provide services, and be totally available to children and their families whose legitimate needs demand effective responses.

Basis of accounting: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) topic, *Financial Statements of Not-for-Profit Organizations*. The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Net asset accounting: Under FASB, the Organization is required to report limitations, designations, and restrictions placed on the use of resources available to the Organization according to three classes of net assets:

Unrestricted Net Assets - Unrestricted net assets represent net assets that are not subject to donor imposed restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted Net Assets - Temporarily restricted net assets are assets subject to donor-imposed restrictions that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are transferred to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions

Temporarily restricted net assets are available for the following purposes:

Program grants with time restrictions	\$ 31,703
Unexpended temporarily restricted donations	137,189
	<u>\$ 168,892</u>

Permanently Restricted Net Assets - Permanently restricted net assets are subject to donor-imposed restrictions that will not terminate. Funds are held in perpetuity while the income is available for general use. Permanently restricted net assets reflect the Organization's endowment contributions, beneficial interest in assets held by the Community Foundation, and amounts received from federal financial assistance used to acquire or substantially restore real property and vehicles. Restrictions exist on the use of these assets and should the Organization cease to use the real property and wish to dispose of the assets, federal regulations may require the Organization to repay the federal agencies the federal participation percentage of the assets' fair value at that time.

YOUTH SERVICES SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Net assets subject to permanent restrictions in accordance with regulations relating to federal financial assistance and endowment contributions include:

Properties utilized in residential programs	\$ 104,902
Properties utilized in client programs	115,553
Beneficial interest in assets held by Community Foundation	25,656
Endowment contributions held in perpetuity	745
	<u>\$ 246,856</u>

Cash and cash equivalents: The Organization considers only amounts held in checking and savings accounts to be cash and cash equivalents. For purposes of the Statement of Cash Flows, cash and restricted cash are considered cash and cash equivalents. Restricted cash totaling \$331,049 consists of \$129,576 of temporarily restricted contributions, \$745 of permanently restricted contributions, and \$200,728 of collateralized cash held in checking and savings accounts

Unconditional promises to give: Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are recognized as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Investments: Investments are recorded at fair value. Certificates of deposit are stated at cost which approximates fair value. Changes in fair value are recorded as unrealized gains (losses). Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the financial statements. Contributions of securities from donors are recorded at fair value at the time the gift is made. The Organization records its investment transactions on a trade date basis. Interest income is recorded on the accrual basis and is reported net of related expenses of \$4,485 for the year ended June 30, 2012.

Property, plant and equipment: Property and equipment are stated at cost and are being depreciated over their estimated useful lives (ranging from 3 to 40 years) under the straight-line method. The Organization's Board of Directors has adopted a policy to capitalize fixed assets over \$1,000. Donations of property, plant and equipment are recorded as support at their estimated fair value. Such donations are recorded as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding the length of time donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property acquired through donations which place permanent limitations on the use or on the proceeds from disposal of such property, or whose title may revert to a third party, are classified as permanently restricted net assets at the time they are acquired.

YOUTH SERVICES SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Functional expenses: Operating expenses directly identifiable with a functional area are charged to that area and, where expenses affect more than one area, they are allocated on the basis of ratios determined by management.

Revenue recognition: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions in the period the commitment is made. Temporarily restricted support are reclassified to unrestricted net assets upon satisfaction of restrictions and reported in the statement of activities as net assets released from restrictions

Revenue from government grant and contract agreements is recognized as it is earned through expenditure or service delivery in accordance with the agreement

Donated services/materials: The value of contributed services is not recognized as contributions in the financial statements because they did not meet the recognition criteria under the *Accounting for Contributions Received and Contributions Made* topic of the FASB ASC. Donated materials and equipment are reflected at their estimated value at date of receipt and totaled \$63,594 for the year ended June 30, 2012.

Fair value measurements: FASB guidance on fair value measurements defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. The guidance applies to all assets and liabilities that are measured and reported on a fair value basis. The carrying amounts of financial instruments, including cash, cash equivalents, unconditional promises to give, accounts receivable, prepaid expenses, other assets, accounts payable, refundable advances and accrued liabilities, approximate fair value due to the short maturity of these instruments

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes: The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a)(2) of the Code.

2 UNCONDITIONAL PROMISES TO GIVE:

Unconditional promises to give consist primarily of receivables amounting to \$7,779 for child care and \$2,400 for the Youth Initiative programs. There are no allowances for uncollectible accounts at June 30, 2012 as all unconditional promises to give are expected to be collected in full within the next fiscal year.

YOUTH SERVICES SYSTEM, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2012

3. ACCOUNTS RECEIVABLE:

Accounts receivable are stated net of an allowance for uncollectible amounts of \$610 at June 30, 2012. This allowance is based on historical collection and receivable aging analysis. Restrictions in reimbursements and delays in receiving payments could have a significant effect on the Organization's ability to carry on many of its program activities.

4. FAIR VALUE MEASUREMENTS:

FASB ASC No. 820, Fair Value Measurement, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets, which have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets. Level 3 inputs, which have the lowest priority, use primarily unobservable inputs. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Fair values of assets measured on a recurring basis at June 30, 2012 are as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:			
Certificates of deposit/savings	\$ 369,992	\$	\$
Money Market funds	19,627		
Fixed income mutual funds	195,243		
Equity mutual funds	60,740		
Equity Securities	322,158		
Beneficial interest in assets held by Community Foundation	25,656		
	<u>\$ 993,416</u>	<u>\$</u>	<u>\$</u>

YOUTH SERVICES SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

5. INVESTMENTS:

The Organization has investments which are stated at fair value.
Investments at June 30, 2012 consisted of:

	Cost	Fair Market Value	Cumulative Unrealized Gain (Loss)
Certificates of deposit/savings	\$ 369,992	\$ 369,992	\$ -
Money Market funds	19,627	19,627	-
Fixed Income mutual funds	195,000	195,243	243
Equity mutual funds	53,309	60,740	7,431
Equity securities	257,513	322,158	64,645
	<u>\$ 895,441</u>	<u>\$ 967,760</u>	<u>\$ 72,319</u>

\$937,193 of the investment balance has been pledged as collateral against the Organization's lines of credit and long-term debt.

Investment income for the year ended June 30, 2012 consisted of the following:

Unrealized gains (losses)	\$ 12,225
Realized gains (losses)	3,268
Interest and dividend income	16,820
Investment fees	(4,485)
	<u>\$ 27,828</u>

6. BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION:

The Organization is a beneficiary of a permanently endowed designated fund maintained by the Community Foundation for the Ohio Valley, Inc. The fund's assets are to be held in perpetuity and the Community Foundation for the Ohio Valley, Inc. has been granted variance power to bear the responsibility of redirecting distributions from this fund if the Organization's stated intent becomes inconsistent with the charitable needs of the local community. The Organization expects to receive periodic distributions of its share of the fund's annual income. These distributions will be recorded in the statement of activities as distributions from beneficial interest in assets held by the Community Foundation. The beneficial interest in assets held by the Community Foundation is reported in the statement of financial position at the fair market value of the Organization's interest in the fund, which amounted to \$25,656 at June 30, 2012. The change in value of the beneficial interest in assets held by the Community Foundation is recorded as permanently restricted gain or loss in the statement of activities.

The increase in value of the beneficial interest in assets held by the Community Foundation (investment return retained in the fund) totaled \$59 for the fiscal year ended June 30, 2012. There was no investment income (distributions) from beneficial interests in assets held by the Community Foundation for the year ended June 30, 2012.

YOUTH SERVICES SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

7. OTHER ASSETS:

Other assets consisted of the following at June 30:

Lease deposits	\$ 3,450
Cash surrender value - Life insurance	24,518
	\$ 27,968

8. PROPERTY AND EQUIPMENT:

Property and equipment consisted of:

Construction work in progress	\$ 669,983
Land	77,127
Buildings	1,180,759
Building improvements	562,134
Leasehold improvements	1,013,411
Vehicles	289,651
Equipment	298,718
Furniture	47,431
	4,139,214
Less accumulated depreciation	(1,806,040)
	\$ 2,333,174

Depreciation expense totaled \$187,028 for the fiscal year ended June 30, 2012. The Organization had incurred \$159,293 in construction commitments at June 30, 2012.

9. SHORT-TERM DEBT:

The Organization has a bank line of credit up to \$450,000 to provide for working capital requirements. The line of credit is secured by the Organization's savings, receivables, land and buildings with a net book value of \$1,631,794 at June 30, 2012. The outstanding balance at June 30, 2012 was \$345,489 with interest at 4.25% per annum.

The Organization has an additional bank line of credit up to \$375,000 to provide for additional working capital requirements. The line of credit is secured by the Organization's investment trust account at the bank with a value of \$596,573 at June 30, 2012. The outstanding balance at June 30, 2012 was \$375,000 with interest at 4% per annum.

The Organizations has a construction loan up to \$202,000 to provide for additional financing for a building renovation. The construction loan is secured by a certificate of deposit and first deeds of trusts on land and buildings with a net book value of \$1,028,933 at June 30, 2012. The outstanding balance at June 30, 2012 was \$89,921 with a variable interest rate of 4.25% per annum.

YOUTH SERVICES SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

10. REFUNDABLE ADVANCES:

The Organization received certain grant funding in advance of their related expenditures or have not yet fully satisfied all grant requirements to recognize the receipts as revenue. The refundable advance consisted of:

Casework Grant	\$	475
Workforce Investment Act		19,094
Federal Home Loan Bank Grant		137,100
		156,669
		\$ 156,669

11. CAPITAL LEASE PAYABLE:

The Organization acquired its copiers under multiple capital lease agreements. The copiers have a net book value of \$36,063 at June 30, 2012. Interest on these capital leases vary between 13-32% per annum.

The Organization acquired six vehicles under multiple capital lease agreements. The vehicles have a net book value of \$64,338 at June 30, 2012. Interest on these capital leases is 17.45% per annum

Minimum future annual lease payments are:

June 30, 2013	\$	33,499
June 30, 2014		33,499
June 30, 2015		33,499
June 30, 2016		31,241
June 30, 2017		5,688
		137,426
Less amount representing interest		(38,191)
Present value of net minimum capital lease payments		\$ 99,235

12. LONG-TERM DEBT:

Long-term debt consisted of the following:

Mortgage payable to a bank with a variable interest rate of 4.25%, due in monthly installments of \$4,613 through February 2029, secured by saving account, receivables, and first deeds of trusts on land and buildings with a net book value of \$1,631,794.	\$ 657,532
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YOUTH SERVICES SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Multiple vehicle loans payable to a financing company with 0% interest on all five loans, due in total monthly installments of \$2,864 through July 2012, secured by vehicles with a net book value of \$27,497	2,864
Note payable to a bank with a variable interest rate of 3.25%, due in monthly installments of \$245 through November 2015, secured by savings account with a value of \$217,384.	21,551
Note payable to a bank with a variable interest rate of 3.25%, due in monthly installments of \$2,204 through November 2015, secured by savings account with a value of \$217,384.	168,017
Mortgage payable to a bank with a variable interest rate of 6.25%, due in monthly installments of \$1,096 through June 2014 and \$1,081 through June 2026, secured by investment account and first deeds of trusts on land and buildings with a net book value of \$721,145.	<u>120,779</u> \$ 970,743 <u><u> </u></u>

Scheduled future maturities of long-term debt are as follows:

2013	\$ 60,149
2014	59,644
2015	61,916
2016	154,997
2017	40,304
2018 and beyond	<u>593,733</u>
	<u><u>\$ 970,743</u></u>

13. OPERATING LEASES:

The Organization leases the Detention Center property from the City of Wheeling under a thirty-year lease dated July 31, 1985. The lease calls for lease payments of \$1 per year.

On February 20, 2009, the Organization entered into a two-year lease with a realty company for the use of apartments for clients of the transitional living program. \$1,350 was due monthly beginning March 1, 2009 through February 28, 2011, at which time the lease was extended under the same terms and conditions for another two-year period through February 28, 2013.

YOUTH SERVICES SYSTEM, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2012

On August 3, 2010, the Organization entered into a month-to-month lease with another non-profit corporation for use of building space to operate the Youth Achievement Center. \$5,500 is due monthly under the terms of the lease. Beginning on August 31, 2010 the Organization executed the option to renew the lease in additional three-month increments.

14. RETIREMENT AND OTHER EMPLOYEE BENEFITS:

Pension plan: The Organization maintains a retirement plan for employees in the form of a tax sheltered annuity 403(b) plan. Entry dates for the plan are January 1st and July 1st. The Plan is open to employees who average 20 or more hours of work per week (1,000 hours annually). An employee can contribute, under a salary reduction agreement, up to 100% of annual earnings not to exceed an annual cap set by IRS regulations, or \$20 minimum per month. Prior to January 1, 2004, the employer had agreed to match the lesser of employee contributions according to the policy schedule or up to 6% of annual gross wages on the following policy schedule:

<u>Years of Service</u>	<u>Employer Match</u>
0 through 2 years	None
3 through 4 years	5 to 1
5 through 9 years	1 to 1
10 or more years	2 to 1

Effective January 1, 2004, the Organization suspended the employer match portion of the pension plan until further notice.

Employer contributions are 100% vested when paid. Employee contributions approximated \$18,152 at June 30, 2012. There were no employer contributions at June 30, 2012.

Employee benefits, shown in the statement of functional expenses, total \$563,157 including retirement contributions of \$-0-, medical insurance benefits of \$556,797, and child care benefits of \$4,355 and other benefits of \$2,005 at June 30, 2012.

Cafeteria plan: The Organization offers to employees a flexible benefits plan under Section 125 of the Internal Revenue Code. The plan provides all full-time employees (1,872 hours per year) the ability to receive medical, disability, dental and vision benefits. Newly eligible employees are enrolled in the plan on the first day of the fourth month of employment. Each participant receives an amount of flexible pay equal to the employer contribution, which is withheld to cover the cost of the selected benefits. Any flexible pay, not expended for the purchase of benefits under the plan, is considered a cash benefit under the plan.

YOUTH SERVICES SYSTEM, INC
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Compensated absences: The Organization offers compensated annual leave, ranging from 15 to 26.5 days per year if hired before July 1, 1998, ranging from 12 to 21 days per year if hired after July 1, 1998 and before July 1, 2009, and ranging from 12 to 15 days per year if hired after July 1, 2009, to employees who have continuous employment of more than three months. The Organization also offers compensated days for actual illness of up to 12 days per year. Unused sick days can be accumulated up to sixty days. In addition, according to the executive director's contract, this position's compensated annual leave and sick pay accrue without limit. An estimated liability for compensated annual leave of \$131,912 is reflected in the statement of financial position as accrued payroll and other liabilities at June 30, 2012.

15 SPECIAL EVENT FUNDRAISERS:

Various special event fundraisers were held during the year. Gross revenues and direct expenses related to those events are as follows at June 30, 2012:

	<u>Good Samaritan Dinner</u>	<u>Sleep Out</u>	<u>Total</u>
Special event revenue	\$ 2,400	\$ 29,658	\$ 32,058
Less: Direct benefit to donors	<u>(6,227)</u>	<u>(9,426)</u>	<u>(15,653)</u>
	<u>\$ (3,827)</u>	<u>\$ 20,232</u>	<u>\$ 16,405</u>

16. CONCENTRATIONS:

Youth Services System, Inc. maintains their bank accounts in several financial institutions located in the area. At June 30, 2012, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest bearing transaction accounts and unlimited insurance coverage for noninterest bearing transaction accounts. At fiscal year end 2012, the Organization's uninsured cash balance totaled \$1,122. Management has not experienced any losses and does not believe there is a significant market risk associated with such balances.

The Organization receives major concentrations of fee revenue and grant support from West Virginia Department of Health and Human Resources (38%), the West Virginia Division of Juvenile Services (22%), Medicaid revenues (16%) and contributions from the public.

Youth Services System, Inc.'s outstanding receivables are concentrated in West Virginia Department of Health and Human Resources (46%) and West Virginia State Medicaid (24%) at June 30, 2012.

YOUTH SERVICES SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

17. RELATED PARTY TRANSACTIONS:

In May 2010, the Organization purchased a \$1,200,000 flexible premium adjustable universal life insurance policy on the executive director. Quarterly premiums amounting to \$35,400 were paid by the Organization for the fiscal year ending June 30, 2012. A cash surrender value of this policy is \$24,518 at June 30, 2012.

Included in accounts payable are amounts due to employees totaling \$12,372 at June 30, 2012, for mileage reimbursements, travel expense and other expenses.

18. COMMITMENTS:

The Organization has several contracts with individual, psychological, psychiatric and medical care providers to service the Organization's clients based on identified medical needs. These fee for service contracts are mostly open ended. One contract requires a \$1,200 monthly payment for services rendered for clients in the juvenile detention facility.

19. SUBSEQUENT EVENTS

The Organization assessed events occurring subsequent to June 30, 2012, through the date of this report for potential recognition and disclosure in the financial statements. No events have occurred that would require adjustment to or disclosure in the financial statements which were available to be issued January 18, 2013.

YOUTH SERVICES SYSTEM, INC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct programs:			
Runaway and Homeless Youth – Basic Center Program	93.623		\$ 152,172
Runaway and Homeless Youth – Transitional Living Program	93.550		144,174
Total direct programs			<u>296,346</u>
Pass-through programs from:			
Ohio County (WV) Substance Abuse Prevention Coalition:			
Drug Free Communities Support Program Grant	93.276	5H79SP015746-02/03	130,496
WV Department of Health and Human Resources:			
Block Grant for Prevention and Treatment of Substance Abuse	93.959	G120136	97,689
Substance Abuse Prevention & Treatment Block Grant	93.959	AFA 2-2011	12,335
Chafee Foster Care Independence Program	93.674	G120373	44,800
Total WV Department of Health and Human Resources			<u>154,824</u>
Total pass-through programs			<u>285,320</u>
Total U.S. Department of Health and Human Services			<u>581,666</u>
U.S. Department of Justice:			
Pass-through programs from WV Division of Criminal Justice Services:			
Juvenile Justice and Delinquency Prevention – Allocation to States	16.540	10/11-JJP-005/006	20,935
Justice Assistance Grant – Formula Grant	16.579	11-JAG-53	29,422
Total pass-through programs			<u>50,357</u>
Total U.S. Department of Justice			<u>50,357</u>
U.S. Department of Housing and Urban Development:			
Direct programs:			
Community Development Block Grants/Entitlement Grants	14.218		3,500
ARRA-Homeless Prevention and Rapid Re-Housing Program	14.257		86,884
Total U.S. Department of Housing and Urban Development			<u>90,384</u>
U.S. Department of Labor:			
Pass-through programs from WV Department of Labor – Northern Panhandle Workforce Investment Board:			
ARRA-Workforce Investment Act – Youth Activities	17.259		397,153
U.S. Department of Agriculture:			
Pass-through programs from WV Department of Education:			
Child and Adult Care Food Program	10.558		15,831
Child Nutrition Cluster Cash Assistance:			
School Breakfast Program	10.553		19,391
National School Lunch Program	10.555		32,931
Total Child Nutrition Cluster Cash Assistance			<u>52,322</u>
Total U.S. Department of Agriculture			<u>68,153</u>
Total expenditures of federal awards			<u>\$ 1,187,713</u>

See accompanying notes to schedule of expenditure of federal awards.

YOUTH SERVICES SYSTEM, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE A. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Youth Services System, Inc. under programs of the federal government for the year ended June 30, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Youth Services System, Inc. it is not intended to and does not present the financial position, changes in net assets, or cash flows of Youth Services System, Inc.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

YOUTH SERVICES SYSTEM, INC.
 SCHEDULE OF WEST VIRGINIA STATE GRANT RECEIPTS AND EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2012

Awarding Agency: Grant Name	Grant ID Number	Period of Award	Total Grant	Total Receipts	Total Expenditures	Unexpended Balance	Receivable Balance
WV Department of Health and Human Resources:							
Casework Grant	G120073	7/01/11-6/30/12	\$ 611,118	\$ 427,779	\$ 427,304	\$ 183,814	\$ 15,000
Division of Early Care and Education	N/A	5/10/11-10/31/11	2,500	2,500	2,500	-	-
Intensive Outpatient Program – Drug and Violent Crime Control	G120136	7/01/11-6/30/12	141,000	107,093	140,681	319	33,588
Jobs Skills Development	G120373	7/01/11-6/30/12	11,200	11,200	11,200	-	-
WV Department of Education:							
WV State Child Nutrition Matching Grant	C371733	7/01/11-6/30/12	1,500	1,500	1,500	-	-
WV Division of Juvenile Services: Northern Regional Juvenile Detention Facility Program	N/A	7/01/11-6/30/12	1,520,280	1,366,313	1,427,517	92,763	61,204
			<u>\$ 2,287,598</u>	<u>\$ 1,916,385</u>	<u>\$ 2,010,702</u>	<u>\$ 276,896</u>	<u>\$ 109,792</u>

The accompanying notes are an integral part
of the financial statements.



Certified Public Accountants

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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 of Youth Services System, Inc.

We have audited the financial statements of Youth Services System, Inc. (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Youth Services System, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Youth Services System, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Youth Services System, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Youth Services System, Inc.'s internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or

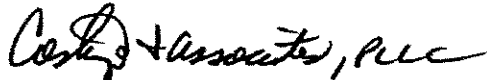
material weaknesses We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Youth Services System, Inc. in a separate letter dated January 18, 2013.

This report is intended solely for the information and use of the board of directors, management, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Costanzo & Associates, PLLC

Wheeling, WV

January 18, 2013

DHHR - Finance

MAR 20 2013

Date Received



Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133

To the Board of Directors of Youth Services System, Inc.

Compliance

We have audited Youth Services System, Inc.'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Youth Services System, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Youth Services System, Inc.'s management. Our responsibility is to express an opinion on Youth Services System, Inc.'s compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Youth Services System, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Youth Services System, Inc.'s compliance with those requirements.

In our opinion, Youth Services System, Inc. complied, in all material respects, with the 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, 2012.

Internal Control over Compliance

Management of Youth Services System, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Youth Services System, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Youth Services System, Inc.'s internal control over compliance.

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

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

This report is intended solely for the information and use of the board of directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Costanzo & Associates, PLLC
Wheeling, WV
January 18, 2013

DHHR - Finance

MAR 20 2013

Date Received

YOUTH SERVICES SYSTEM, INC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Youth Services System, Inc.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Youth Services System, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Youth Services System, Inc. expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 and reported in this schedule.
7. The program tested as major programs was: 17.259 – ARRA Workforce Investment Act – Youth Activities
8. The threshold used for distinguishing between Type A and B programs was \$300,000
9. Youth Services System, Inc. was determined to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None



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January 18, 2013

To the Senior Management and
Board of Directors of Youth Services System, Inc. :

In planning and performing our audit of the financial statements of Youth Services System, Inc. (the "Organization") as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, during our audit, we identified certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated January 18, 2013 on the financial statements of Youth Services System, Inc. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to thank the staff and management of Youth Services System, Inc. for their cooperation and courtesies extended to our representatives during this audit.

Sincerely,

Costanzo & Associates, PLLC

DHHR - Finance

MAR 20 2013

Date Received

CURRENT YEAR COMMENTS

12-01 ORGANIZATION NEEDS TO TRACK RESTRICTED CONTRIBUTIONS

The Organization needs to keep track of restricted contributions on an ongoing basis and determine when these have been expended for their specific purpose. We annually review and keep track of any restricted contributions in the current and prior years to determine if they have been fully expended. This should be a function of the business office and not the responsibility of the auditors. All restricted contributions should be tracked and followed up on when received and subsequent expenditures occur. A tracking spreadsheet or similar system should be maintained so that the Organization knows which funds they are currently holding are restricted and which can be used for unrestricted purposes. The Organization currently performs this task with their grant funding, however as contribution revenue grows, should apply this same procedure with their restricted contributions.

SUMMARY OF PRIOR YEAR COMMENTS

There were corrective actions taken on some of the prior year audit recommendations and the Organization continues to work on appropriate corrective measures. We have made the following observations relating these prior year comments to the current fiscal year:

11-01 CONSISTENCY IN DETERMINING WHEN SENIORITY BENEFITS ACCRUE

We previously observed inconsistencies on how years of service were determined and when they took effect. Human Resources and the Business Office provided us with two different interpretations of the Organization's policy. There were also discrepancies between the two offices on full time start dates for some employees. As a result of this comment, Human Resources and the Business Office started to consistently apply the benefits policy during fiscal year 2012. The consistent treatment of seniority benefits should be fully implemented in the 2013 fiscal year.

10-01 TRANSITIONAL LIVING START-UP DOCUMENTATION PROCESS

In previous audits, we discovered that start-up costs for transitional living clients were not being properly documented or substantiated. Copies of receipts could not be provided or proof that receipts were remitted for reimbursement for four out of five clients. We recommended, and management has implemented, a written policy and procedure requiring proper documentation to support all start-up expenditures. In addition, transitional living billings to the WV Department of Health and Human Resources (DHHR) are standardized and formal records are being kept to substantiate the Organization's reimbursable expenses. Therefore this comment has been fully addressed.

10-02 FINANCIAL POLICIES AND PROCEDURES NEED TO BE FULLY IMPLEMENTED

As a result of internal control testing, we discovered three instances where the Financial Policies and Procedures, adopted in fiscal year 2010 were not being followed. Policies and procedures are put into place to facilitate the normal functioning of the finance office while strengthening internal control. Having a policy and procedure document alone does not accomplish this goal without proper implementation. If the procedures are circumvented or ignored, a weakening of internal controls occurs. We recommend stricter adherence to the Financial Policies and Procedures, and where practicable, revisions to the policy if the intended purpose of the control procedure cannot be implemented.

09-04 PROPER ALLOCATION PERCENTAGES

Previously, our expense testing noted the use of outdated expense allocation percentages to the Organization's cost centers. The use of outdated allocation percentages caused inaccurate expense recognition for the appropriate cost centers. Allocation percentages are essential to proper recognition of expenses to the cost centers. In the current year, we observed that new allocation percentages were used when a new cost center was created. Particularly with regard to the workers compensation allocation percentages, we observed that the percentages were updated annually when the annual policy invoice was received. Management has adopted our suggestion and the need to list this as a comment in the future has been eliminated.

09-06 SUTA REPORTS UNDERSTATED/OVERSTATED

During testing of the WV State Unemployment reports filed by the Organization for fiscal year 2009, we noted two quarters that understated wages. In fiscal year 2010, we concluded that the third and fourth quarters of 2009 and second quarter of 2010 SUTA reports were understated. In fiscal year 2011, we noted the third and fourth quarters of 2010 and second quarter of 2011 SUTA reports were understated and the first quarter 2011 SUTA report was overstated. In fiscal year 2012 the second quarter of 2012 was overstated.

We continue to recommend using the payroll register to complete the SUTA report printed after all paychecks have been printed and distributed for the quarter and to include third-party sick pay. Therefore, Youth Services System, Inc will be reporting the proper total wages for WV SUTA.

09-10 INACCURATE LABOR COSTS CHARGED TO GRANTS

Labor costs (salaries) are usually the most significant costs charged to a government contract/grant, and they usually comprise the base used for the allocation of related indirect costs. The accuracy of the labor cost allocation is directly dependent on the accuracy of the company's employee labor hours charged. Also, hours recorded on an employee's time sheet must be adequately supported and documented if they are to be accepted as the basis for reimbursable labor costs on government contracts. In fiscal year 2009 audit testing of employee wages allocation per grant, we noted double billing of one employee's salary. In the prior year audit we noted two employees that had more than 100% of their wages allocated to grants; however, in year to date wages only one employee was over by an immaterial amount. The current fiscal year showed no inaccuracies in labor costs charged to grants. Although we will continue to monitor this on an annual basis, we were satisfied that this comment was adequately addressed.

09-14 TRACKING OF COLLATERAL AND OTHER DEBT COVENANTS

Previously, we inquired personnel about the tracking of collateral and any other debt covenants that might apply to the Organization. Youth Services System, Inc. had not fully established a method to monitor compliance with identified covenants and restrictions and collateral had not been tracked. The Organization has since adopted a method of tracking collateral for all financial institution obligations. A spreadsheet was established to show the Organization's loan, collateral and covenants of the loan. The Organization also now has the ability to determine the net book value of their pledged assets held as collateral as a result of the finance office maintaining fixed asset schedules. Therefore we will eliminate this comment in the future.

08-02 CHARITABLE CONTRIBUTION RECORDING / ACKNOWLEDGEMENTS

The Organization receives cash and in-kind contributions throughout the year and normally thank you acknowledgements are written. Previously, in reviewing the Organization's donor acknowledgement letters, we became aware of inconsistencies in these letters - some acknowledgements lacked proper wording. The Internal Revenue Service requires certain criteria to be retained in order for the donor to be able to deduct the cash contribution regardless of the amount. In order to meet these criteria the written communication from the qualified organization must include the name of the organization, the date of the contribution, and the amount of the contribution (for non-cash contributions a description of the contribution but not the value). Also a statement that no goods or services were provided by the organization in return for the contributions, if that was the case. Further guidance can be obtained in Publication 526 (<http://www.irs.gov/pub/irs-pdf/p526.pdf>).

The Organization has an established written policy for contribution receipts and this policy is being consistently applied. All donations (cash and non-cash) and acknowledgement letters are being maintained at one location for tracking purposes and consistency. The Organization implemented a consistent way of recognizing in-kind contribution of goods and established a minimum in-kind value to record. This policy has allowed for a more consistent accounting treatment of contributed goods at all the remote sites. Improvements made in this area eliminate the need to list this as a future comment.

08-03 TIME CARD VALIDATION

Previously, a supervisor falsified time cards for an employee who was part of her immediate family. This comment should be read in conjunction with comment number 05-06. In response to this situation, the Organization has put together a "Payroll and Time Cards" policy; however, it has not been fully implemented. During fiscal years 2012, 2011, 2010 and 2009, we noted instances of missing supervisor or employee signatures on time cards. Payroll checks should not be processed unless time cards are properly approved. Fully adopting and implementing the policy should address this problem.

We continue to endorse the idea of an electronic time tracking system and/or finger-printing clock in system where applicable. An added benefit of automating the payroll process would be a reduction in administrative time in processing the payroll cards in addition to the added safeguards that could be built into such a system. In fiscal year 2013, the Organization contracted a 3rd party to administer their payroll. This comment will need to be reviewed in the next fiscal year for relevance.

07-02 CHILDCARE RECEIPTS BEING MAINTAINED ON CASH-BASIS

The Organization previously maintained all childcare revenues on a cash basis. In fiscal year 2009, the Organization attempted to track childcare fees on an accrual basis when the Organization began booking a receivable for childcare income from the Access database. In fiscal year 2010, receivable reports did not properly math and delinquent receivables were not properly followed up. In the current fiscal year the receivable was not timely reconciled nor evaluated for uncollectible amounts. The posting of payments onto the database should include the check number and post date to make it easier to identify payment date detail. This comment will remain until a complete accrual basis tracking system and reconciliations/evaluating write-offs are put into place.

06-06 GRANTS EXPENDITURE REPORTS WERE NOT TIMELY SUBMITTED IN ACCORDANCE WITH GRANT AGREEMENTS

During the current year fieldwork we noted that the Organization did not timely file the quarterly expenditure reports for the several grants (SAPS, IOP, BRIDGES, WIB, and JAG).

We continue to recommend that all grants be reviewed at the end of the grant period for final required documentation submissions to the grantor agency. In addition, we suggest that a schedule containing all grant reporting due dates be adhered to. Although we recognized improvement in this area, we still noted several grant reports that were not timely filed with the grantor agency. We will continue to monitor this comment in future audits.

05-05 RECONCILIATIONS OF ACCOUNTS PAYABLE NEED TO BE TIMELY POSTED TO THE GENERAL LEDGER

The accounts payable ledger is consistently not reconciled to the accounts payable trial balance account. Management indicated they have tried to account for the difference but have been unable to come up with a solution even after consulting their general ledger software vendor. We continue to recommend that the Organization work more intensely with the software company to resolve this issue. This issue needs to be addressed to solve this chronic problem. The result of this problem is spending additional audit time making accounting entries and extended testing on the payable ledger to substantiate the accounts payable balance. Monthly reconciliations should be compared to the general ledger balance so that any differences can be accounted for and general ledger balances can be substantiated.

05-06 CARE SHOULD BE TAKEN IN PREPARING AND KEEPING ACCURATE RECORDS REGARDING PAYROLL AND RELATED COMPLIANCE REPORTING FUNCTIONS

For FY 2012, in our limited payroll testing, we experienced a 24% exception rate (43%, 48%, 57%, 62%, 20%, 17% and 20 % for FY 2011 through 2005). Despite implementing a "Payroll and Time Cards" policy the error rate has slightly improved. As in prior year testing, several time cards lacked the proper supervisor's approval, and some lacked the employee's signature. Although these errors are not judged to be material overall, greater care should be exhibited to eliminate these exceptions, especially when the largest expenditure and federal/state grant reimbursement is for payroll and benefits. A management comment will be issued in this area until the error rate improves or until the organization changes the way the current time-card system is used. Note that in fiscal year 2013, the Organization contracted a 3rd party to administer their payroll. This comment will need to be reviewed in the next fiscal year for relevance.

05-07 AREA OF IMPROVEMENT FOR INTERNAL CONTROL OF PAYABLES AND EXPENDITURES

We recommended strengthening internal control and documentation in purchasing and expenditures. Management has not implemented a formal purchase order system. We would continue to recommend they do so. It is also recommended that a breakdown of expense allocations be shown on either the invoice or check stub accompanying the invoice and that all expenditures should also be documented as being properly approved.