



SJT GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS



Youth Development, Inc.

Independent Auditors' Report,
Consolidated Financial Statements,
and
Single Audit Information

June 30, 2021 and 2020

Youth Development, Inc.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4-5
Consolidated Statements of Functional Expenses	6-7
Consolidated Statements of Cash Flows	8-9
Notes to the Consolidated Financial Statements	10-23
Single Audit Information	
Schedule of Expenditures of Federal Awards	24
Notes to the Schedule of Expenditures of Federal Awards	25
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27
Independent Auditors' Report on Compliance for Each Major Program and On Internal Control Over Compliance Required by the Uniform Guidance	28-30
Schedule of Findings and Questioned Costs	31-37
Summary Schedule of Prior Year Audit Findings	38-39
Corrective Action Plan	40



SJT GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Board of Directors
Youth Development, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Youth Development, Inc. and YDI Foundation (collectively “YDI”, a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ 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 YDI’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 YDI’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.

 4811 Hardware Dr. NE, Suite E-4, Albuquerque, NM 87109

 (505) 312-8702  info@sjtgroupcpa.com  www.sjtgroupcpa.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of YDI as of June 30, 2021 and 2020, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 March 29, 2022, on our consideration of YDI'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 YDI's internal control over financial reporting and compliance.

SJT Group LLC

Albuquerque, New Mexico
March 29, 2022

Consolidated Financial Statements

Youth Development, Inc.
Consolidated Statements of Financial Position
June 30,

	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 1,250,460	\$ 3,072,969
Grants receivable	2,551,195	1,709,001
Other receivables	62,278	3,498
Prepaid expenses	9,873	-
Total current assets	3,873,806	4,785,468
Noncurrent assets		
Other long-term assets	14,990	47,298
Property, furniture and equipment, net	2,649,839	2,640,800
Total noncurrent assets	2,664,829	2,688,098
Total assets	\$ 6,538,635	\$ 7,473,566
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 1,158,927	\$ 676,623
Payroll related liabilities	1,257,630	2,267,983
Deposits held for others	48,068	48,003
Deferred revenue	20,000	138,077
Notes payable, current portion	458,398	989,020
Line of credit	41,749	-
Total current liabilities	2,984,772	4,119,706
PPP loan	314,265	3,750,000
Notes payable, less current portion	511,216	-
Total liabilities	3,810,253	7,869,706
Net assets		
Without donor restrictions	2,565,732	(557,766)
With donor restrictions	162,650	161,626
Total net assets	2,728,382	(396,140)
Total liabilities and net assets	\$ 6,538,635	\$ 7,473,566

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

Youth Development, Inc.
Consolidated Statement of Activities
For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Grants and contracts	\$ 27,142,415	\$ -	\$ 27,142,415
PPP forgiveness contribution	3,435,735	-	3,435,735
Contributions	263,591	9,668	273,259
Other revenue and support	142,670	602	143,272
Net assets released from restriction	9,246	(9,246)	-
Total revenues and other support	30,993,657	1,024	30,994,681
Expenses			
Program services			
Early childhood education including home visitation and nutrition	16,690,476	-	16,690,476
Youth education, employment and training	3,688,196	-	3,688,196
Behavioral health and community outreach	1,804,041	-	1,804,041
Health, safety and nutrition	682,815	-	682,815
Residential and shelter care	1,704,088	-	1,704,088
Total program services	24,569,616	-	24,569,616
Management and general	3,300,543	-	3,300,543
Total expenses	27,870,159	-	27,870,159
Change in net assets	3,123,498	1,024	3,124,522
Net assets (deficit), beginning of year	(557,766)	161,626	(396,140)
Net assets, end of year	\$ 2,565,732	\$ 162,650	\$ 2,728,382

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

Youth Development, Inc.
Consolidated Statement of Activities
For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Grants and contracts	\$ 24,401,623	\$ -	\$ 24,401,623
Contributions	122,508	14,910	137,418
Other revenue and support	148,551	-	148,551
Net assets released from restriction	7,011	(7,011)	-
Total revenues and other support	24,679,693	7,899	24,687,592
Expenses			
Program services			
Early childhood education including home visitation and nutrition	15,745,216	-	15,745,216
Youth education, employment and training	2,939,685	-	2,939,685
Behavioral health and community outreach	1,237,967	-	1,237,967
Health, safety and nutrition	598,418	-	598,418
Residential and shelter care	1,515,340	-	1,515,340
Total program services	22,036,626	-	22,036,626
Management and general	3,907,721	-	3,907,721
Total expenses	25,944,347	-	25,944,347
Change in net assets	(1,264,654)	7,899	(1,256,755)
Net assets, beginning of year	706,888	153,727	860,615
Net assets (deficit), end of year	\$ (557,766)	\$ 161,626	\$ (396,140)

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

Youth Development, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2021

	Program Services						Total
	Early Childhood Education including Home Visitation and Nutrition	Youth Education, Employment and Training	Behavioral Health and Community Outreach	Health, Safety and Nutrition	Residential and Shelter Care	Management and General	
Salaries and wages	\$ 9,374,297	\$ 2,688,713	\$ 1,210,553	\$ 551,730	\$ 1,007,334	\$ 1,698,595	\$ 16,531,222
Payroll taxes	1,171,560	292,191	147,653	25,993	133,182	17,650	1,788,229
Employee benefits	1,733,296	207,596	176,276	34,077	123,482	347,730	2,622,457
Total personnel expenses	<u>12,279,153</u>	<u>3,188,500</u>	<u>1,534,482</u>	<u>611,800</u>	<u>1,263,998</u>	<u>2,063,975</u>	<u>20,941,908</u>
Food and supplies	1,464,088	37,729	66,663	7,428	177,710	30,665	1,784,283
Professional fees	627,071	149,920	26,010	12,130	19,962	279,117	1,114,210
Telephone and utilities	576,439	63,226	38,422	17,458	46,775	61,184	803,504
Rent	497,893	128,533	16,514	22,768	123,229	145,741	934,678
Miscellaneous	30,834	17,174	78,957	25	19,476	50,774	197,240
Repairs and maintenance	534,384	1,097	1,391	4,563	18,050	10,263	569,748
Insurance	238,146	25,332	8,532	5,860	19,785	39,299	336,954
Training	219,923	34,539	8,900	352	4,033	5,047	272,794
Travel	54,233	18,797	19,658	272	4,446	5,698	103,104
Interest	10	-	-	-	-	31,687	31,697
Equipment	168,302	23,337	4,512	159	6,624	56,691	259,625
Penalties and fees	-	12	-	-	-	121,222	121,234
Total other expenses	<u>4,411,323</u>	<u>499,696</u>	<u>269,559</u>	<u>71,015</u>	<u>440,090</u>	<u>837,388</u>	<u>6,529,071</u>
Total expenses before depreciation and amortization	<u>16,690,476</u>	<u>3,688,196</u>	<u>1,804,041</u>	<u>682,815</u>	<u>1,704,088</u>	<u>2,901,363</u>	<u>27,470,979</u>
Depreciation and amortization	-	-	-	-	-	399,180	399,180
Total expenses	<u>\$ 16,690,476</u>	<u>\$ 3,688,196</u>	<u>\$ 1,804,041</u>	<u>\$ 682,815</u>	<u>\$ 1,704,088</u>	<u>\$ 3,300,543</u>	<u>\$ 27,870,159</u>

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

Youth Development, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2020

	Program Services						Total
	Early Childhood Education including Home Visitation and Nutrition	Youth Education, Employment and Training	Behavioral Health and Community Outreach	Health, Safety and Nutrition	Residential and Shelter Care	Management and General	
Salaries and wages	\$ 9,218,890	\$ 1,968,461	\$ 819,261	\$ 412,775	\$ 967,129	\$ 1,954,365	\$ 15,340,881
Payroll taxes	1,225,679	215,259	109,734	37,247	133,999	152,921	1,874,839
Employee benefits	1,657,175	222,791	87,388	44,614	121,209	310,108	2,443,285
Total personnel expenses	<u>12,101,744</u>	<u>2,406,511</u>	<u>1,016,383</u>	<u>494,636</u>	<u>1,222,337</u>	<u>2,417,394</u>	<u>19,659,005</u>
Food and supplies	1,172,515	69,495	41,400	21,427	65,809	48,083	1,418,729
Professional fees	664,731	113,970	20,122	11,508	21,689	269,256	1,101,276
Telephone and utilities	530,293	83,543	36,279	18,702	55,244	116,733	840,794
Rent	421,939	158,351	2,647	31,061	54,564	49,662	718,224
Miscellaneous	65,346	9,292	68,389	272	8,731	99,896	251,926
Repairs and maintenance	192,256	2,750	1,326	5,309	8,100	30,793	240,534
Insurance	226,708	23,240	5,556	8,825	16,119	33,362	313,810
Training	189,693	4,703	6,022	864	2,250	3,540	207,072
Travel	76,906	51,782	31,007	3,638	15,299	19,716	198,348
Interest	-	-	-	-	-	216,010	216,010
Equipment	103,085	16,048	8,836	2,176	45,198	69,409	244,752
Penalties and fees	-	-	-	-	-	216,138	216,138
Total other expenses	<u>3,643,472</u>	<u>533,174</u>	<u>221,584</u>	<u>103,782</u>	<u>293,003</u>	<u>1,172,598</u>	<u>5,967,613</u>
Total expenses before depreciation and amortization	<u>15,745,216</u>	<u>2,939,685</u>	<u>1,237,967</u>	<u>598,418</u>	<u>1,515,340</u>	<u>3,589,992</u>	<u>25,626,618</u>
Depreciation and amortization	-	-	-	-	-	317,729	317,729
Total expenses	<u>\$ 15,745,216</u>	<u>\$ 2,939,685</u>	<u>\$ 1,237,967</u>	<u>\$ 598,418</u>	<u>\$ 1,515,340</u>	<u>\$ 3,907,721</u>	<u>\$ 25,944,347</u>

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

Youth Development, Inc.
Consolidated Statements of Cash Flows
For the Years Ended June 30,

	2021	2020
Cash flows from operating activities		
Cash received from grants and contracts	\$ 26,182,144	\$ 23,870,491
Cash received from contributions	273,259	137,418
Other cash receipts	84,492	149,203
Cash paid to employees and suppliers	(27,977,139)	(24,177,313)
Cash paid for interest	<u>(31,697)</u>	<u>(216,138)</u>
Net cash used by operating activities	<u>(1,468,941)</u>	<u>(236,339)</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(375,911)</u>	<u>(487,594)</u>
Net cash used by investing activities	<u>(375,911)</u>	<u>(487,594)</u>
Cash flows from financing activities		
Proceeds from note payable	544,597	15,370
Proceeds from line of credit	441,750	-
Proceeds from the PPP loan	-	3,750,000
Principal payments on notes payable	(564,003)	(25,342)
Payments on the line of credit	<u>(400,001)</u>	<u>-</u>
Net cash provided by financing activities	<u>22,343</u>	<u>3,740,028</u>
Net (decrease) increase in cash and cash equivalents	(1,822,509)	3,016,095
Cash and cash equivalents, beginning of year	<u>3,072,969</u>	<u>56,874</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,250,460</u></u>	<u><u>\$ 3,072,969</u></u>

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

Youth Development, Inc.
Consolidated Statements of Cash Flows - continued
For the Years Ended June 30,

	2021	2020
Reconciliation of change in net assets to net cash used by operating activities		
Change in net assets	<u>\$ 3,124,522</u>	<u>\$ (1,256,755)</u>
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	366,872	270,430
PPP forgiveness contribution	(3,435,735)	-
Amortization	32,308	47,299
Changes in assets and liabilities		
Grants receivable	(842,194)	(593,337)
Other receivables	(58,780)	652
Prepaid expenses	(9,873)	-
Accounts payable	482,304	304,373
Payroll related liabilities	(1,010,353)	925,801
Deposits held for others	65	2,993
Deferred revenue	<u>(118,077)</u>	<u>62,205</u>
Total adjustments	<u>(4,593,463)</u>	<u>1,020,416</u>
Net cash used by operating activities	<u>\$ (1,468,941)</u>	<u>\$ (236,339)</u>

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

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

1) Organization and Nature of Activities

Youth Development, Inc. (YDI) was established in 1971 to provide services to youth of New Mexico. Initially, YDI's programs focused on services to youth and provided leadership skills training, and encouraged self-responsibility, tolerance and respect for others. As YDI's programs evolved, its mission was expanded to include working closely with supporting families, as well as youth.

YDI is organized in the following divisions: Early Childhood Education and Family Development Division (ECE); Employment, Education and Training Division (EE&T); Prevention, Intervention and Behavioral Health Division (PIBH); and an Administrative Division (Admin). ECE provides Head Start services (Pre-Kindergarten age children) and Early Head Start services (daycare and training for children ranging in age from six months through age four) in 30 locations in central and northern New Mexico.

ECE provides food services, transportation services, home visitation, subsidized extended daycare services and monitoring expectant mothers in various programs. Head Start service centers are certified by the National Association for the Education of Young Children (NAEYC) and have Five-Star ratings. All Head Start center programs meet the performance standards with emphasis on school readiness through the utilization of a research-based curriculum, development of social/emotional skills, family engagement, health, nutrition, mental health and transition services. Head Start Programs are located in Bernalillo, Rio Arriba and Taos counties. In fiscal year 2021, the fifteen EE&T programs served 2,150 clients.

The EE&T Division provides programs designed to help at-risk youth gain employment in both the private and public sector, case management of those youth, assistance with obtaining a GED for those youth without a high school diploma, BEST (Basic Employment Skills Training), direct work experience with employers, assisting with further educational support, as well as community corrections, gang intervention, victim/offender mediation activities and services. EE&T provides services in Bernalillo, Dona Ana, Grant, Hidalgo, Luna, Sierra, Socorro and Torrance Counties. In the fiscal 2021, the fifteen EE&T programs served 2,150 clients.

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

1) **Organization and Nature of Activities – continued**

The PIBH Division provides programs designed to address short-term and emergency housing for homeless and runaway youth, replacement housing, Individual and family counseling, family reunification, crisis intervention, case management, life and social skills training, and works with at risk youth to help prevent teenage pregnancy.

PIBH provides program services in Bernalillo, Sandoval, Valencia, Cibola, Torraine, Eddy and Santa Fe Counties. In the fiscal year 2021, the thirty-two PIBH programs served 2,164 clients.

The Administrative Services Division provides human resource services and support, public relations and communications, fund raising, procurement and contract support, accounting, budgeting, payment of vendors, and support of the various financial statement audits and program monitoring desk audits. Senior Administrative positions support the Board of Directors, assisting with the governance of the agency.

YDI Foundation, Inc. (the "Foundation") was incorporated on October 18, 2004, to collect, manage and distribute funds and properties for the benefit of YDI. In accordance with generally accepted accounting principles in the United States of America, the activities of the Foundation are consolidated into the accompanying financial statements. The Foundation's activities were not significant during the years ended June 30, 2021 and 2020. At June 30, 2021, the Foundation ceased operations and the balance in the bank account was transferred to YDI. The Foundation financial activity between YDI and the Foundation, as well as any balances between them at year-end, have been eliminated in these consolidated financial statements. References to YDI hereafter generally include the Foundation as well as YDI.

2) **Summary of Significant Accounting Policies**

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables and liabilities.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates include the useful lives of capitalized assets and the related depreciation and amortization expense and the fair value of in-kind donations of services and materials.

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

2) Summary of Significant Accounting Policies – continued

Basis of Presentation

The financial statements of YDI have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), which requires YDI to report information regarding its financial position and activities according to the following net asset classifications:

- ◆ *Net Assets Without Donor Restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of YDI management and the board of directors.
- ◆ *Net Assets with Donor Restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of YDI or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash on deposit with financial institutions and highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents.

Property, Furniture and Equipment

Property, furniture and equipment are stated at cost, or if donated, at the estimated fair market value on the date of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as support with donor restrictions.

Absent donor stipulations regarding how long those donated assets must be maintained, expirations of donor restrictions are reported when the donated or acquired assets are placed in service as instructed by the donor. Net assets with donor restrictions are reclassified to net assets without donor restrictions at that time.

YDI capitalizes assets with a cost or fair market value on the date of donation equal to or greater than \$5,000. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from three to forty years.

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

2) Summary of Significant Accounting Policies – continued

Impairment of Long-Lived Assets

YDI reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Grants Receivable and Deferred Revenue

Receivables consist primarily of government contracts and grants. YDI performs services under these grants and contracts and is reimbursed once the services are performed or costs incurred. An allowance for doubtful accounts has not been established since management is of the opinion that all receivables at year end are fully collectible.

Various reimbursement procedures are used for grant awards YDI receives. Consequently, timing differences between expenses and program reimbursements can exist during the fiscal year. Receivable balances at fiscal year-end represent an excess of accrual basis expenses over cash reimbursements received. Conversely, deferred revenue balances represent an excess of cash reimbursement (advances) over accrual basis expenses. Generally, receivables or deferred revenue balances caused by differences in the timing of cash reimbursements and expenses will be reversed in the remaining grant period.

Revenue Recognition

Revenues from grants are recognized when the performance requirements and/or the incurrence of allowable qualifying expenses occur. Amounts received prior to meeting the performance requirements or incurring qualifying expenditures are reported as deferred revenue in the consolidated statements of financial position.

Contributions are recognized as revenue when cash, securities or other assets or an unconditional promise to give is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions upon which they depend have been met. Contributions received are recorded as net assets with or without donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

In 2020, YDI received advance payment under the Paycheck Protection Program (PPP) of \$3,750,000 and recorded as a liability as of June 30, 2020. During 2021, YDI applied for \$3,435,735 of this loan to be forgiven, and in accordance with guidance for conditional contributions, has substantially met all performance obligations. Accordingly, \$3,435,735 has been recorded as revenue for the year ended June 30, 2021 (Note 6).

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

2) Summary of Significant Accounting Policies – continued

Accrued Annual Leave

Qualified employees are entitled to accumulate annual leave according to a graduated leave schedule depending on length of service and the employee's hire date. Employees can only carry over a maximum of 40 hours at the end of each fiscal year. Upon termination, employees will be paid for their unused annual leave. No payment shall be made for unused earned sick leave at termination of employment, except in the circumstances described below. At June 30, 2021 and 2020, the liability related to accrued annual leave totals \$187,958 and \$210,685, respectively, and is included in payroll related liabilities in the consolidated statements of financial position.

Accrued Sick Leave

Prior to 2014, YDI employees with over 25 years of service were allowed to convert sick leave in excess of 520 hours to annual leave on a one for one basis for immediate use prior to the final date of employment. On June 16, 2014, YDI's board of directors approved a resolution discontinuing the sick leave conversion program for YDI employees. As part of the resolution, any YDI employee who had 25 years of service and accrued sick leave over 520 hours could keep their accumulated sick leave earned as of this date. This resolution affected three employees and allowed them to convert their accrued sick leave to annual leave prior to their final date of employment. The converted annual leave would be paid to the employees upon termination. At June 30, 2021 and 2020, the liability related to accrued sick leave totals \$245,877 and \$238,144, respectively, and is included in payroll related liabilities in the consolidated statements of financial position.

Donated Services and Materials

Significant contributions of services are recorded if the services create or enhance non-financial assets or require specialized skills. Recognized contributed services are recorded at the fair value of the services on the date of donation. Significant donations of materials are recorded at their fair value on the date of donation. For the years ended June 30, 2021 and 2020, YDI had no in-kind donated services that met the revenue recognition criteria above.

The Head Start program also has a number of volunteers who donate their time. The value of their time, including fringe benefits, as well as additional community in-kind services, are estimated to be \$2.5 million and \$1.3 million for the years ended June 30, 2021 and 2020, respectively. In accordance with accounting principles generally accepted in the United States of America, the value of the volunteer and community service time is not recorded in the consolidated financial statements.

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

2) Summary of Significant Accounting Policies – continued

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. Significant expenses that are allocated include the following:

Expense	Allocation Method
Salaries and wages	Time and effort
Employee benefits	Time and effort
Payroll taxes	Time and effort
Food and supplies	Specific identification
Professional fees	Specific identification
Telephone and utilities	Specific identification
Rent	Specific identification

Income Taxes

YDI and the Foundation are not-for-profit corporations, exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation has been classified as an entity that is not a private foundation within the meaning of Section 509 (a) and qualifies for deductible contributions as provided by Section 170(b)(1)(A)(vi). Accordingly, no provision has been made for income taxes in the consolidated financial statements.

YDI adopted the provision relating to accounting for uncertain tax positions. YDI recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. YDI had no unrecognized tax benefits at June 30, 2021 and 2020. YDI and the Foundation file an exempt organization return and applicable unrelated business income tax return in the U.S. Federal jurisdiction, New Mexico Attorney General and New Mexico Department of Taxation and Revenue. YDI's income tax filings are subject to audit by various taxing authorities. YDI's open audit periods are for the years ending June 30, 2018 and forward.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. YDI recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements.

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

2) Summary of Significant Accounting Policies – continued

YDI’s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are available to be issued.

YDI has evaluated subsequent events through March 29, 2022, which is the date the consolidated financial statements were available to be issued. In September 2022, YDI paid in full a short-term note by mortgaging a property owned by YDI in a long-term note structure. YDI expanded billing to include Medicaid for families in its home visit programs in October of 2022. YDI entered into additional leasing agreements to provide general fund revenue from tenants in its 6301 Central NW and 6306 Central SW properties.

3) **Grants Receivable and Deferred Revenue**

Grants receivable and deferred revenue consist of the following at June 30, 2021:

	Grants Receivable	Deferred Revenue
U.S. Department of Agriculture	\$ 168,835	\$ -
U.S. Department of Interior	22,898	-
U.S. Department of Justice	11,471	-
U.S. Department of Labor	612,528	-
U.S. Department of Health and Human Services	946,861	-
State, City and Other Grants	788,602	20,000
Total	<u>\$ 2,551,195</u>	<u>\$ 20,000</u>

Grants receivable and deferred revenue consist of the following at June 30, 2020:

	Grants Receivable	Deferred Revenue
U.S. Department of Agriculture	\$ 15,099	\$ -
U.S. Department of Housing and Urban Development	12,977	-
U.S. Department of Justice	46,793	-
U.S. Department of Labor	197,841	49,401
U.S. Department of Health and Human Services	288,694	-
State, City and Other Grants	1,147,597	88,676
Total	<u>\$ 1,709,001</u>	<u>\$ 138,077</u>

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

4) Property, Furniture and Equipment

Property, furniture and equipment consists of the following at June 30:

	<u>2021</u>	<u>2020</u>
Buildings and building improvements	\$ 4,780,779	\$ 4,676,424
Equipment	2,798,207	2,798,206
Vehicles	1,617,756	1,617,756
Furniture and fixtures	<u>230,687</u>	<u>199,175</u>
Total depreciable assets	9,427,429	9,291,561
Less: Accumulated depreciation	<u>(7,104,929)</u>	<u>(6,838,118)</u>
Total depreciable assets, net	2,322,500	2,453,443
Land	<u>327,339</u>	<u>187,357</u>
Property, furniture and equipment, net	<u>\$ 2,649,839</u>	<u>\$ 2,640,800</u>

5) Payroll Related Liabilities

Payroll related liabilities consist of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Accrued salaries	\$ 360,081	\$ 440,374
Accrued benefits and taxes	260,770	759,067
Accrued unemployment payable	202,944	619,713
Accrued annual and sick leave	<u>433,835</u>	<u>448,829</u>
Total payroll related liabilities	<u>\$ 1,257,630</u>	<u>\$ 2,267,983</u>

6) Paycheck Protection Program (PPP) Loan

In fiscal year 2020, YDI was granted a \$3,750,000 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and was fully guaranteed by the Federal government. YDI is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. YDI initially recorded the loan as a refundable advance and could record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan. Proceeds from the loan are eligible for forgiveness if they are used for certain payroll, rent, and utility expenses. During fiscal year 2020, no contribution revenue was recorded and the balance was recorded as a liability at June 30, 2020 in the accompanying consolidated statements of net position.

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

6) Paycheck Protection Program (PPP) Loan – continued

On June 29, 2021, YDI filed its application for PPP loan forgiveness requesting \$3,478,681 in allowed expenditures. Interest of \$42,946 was computed by the Small Business Administration and added to the PPP loan leaving a balance of \$314,265. During fiscal year 2021, YDI recorded the forgiveness of \$3,435,735 in accordance with guidance for conditional contributions. YDI is required to repay \$314,265 in monthly payments of \$7,206, beginning September 5, 2021, for the unforgiven portion, plus interest accrued at 1%. The last payment for the PPP Loan will be made on or before May 5, 2026.

7) **Line of credit**

In September 2020, YDI established a line of credit in the amount of \$250,000, secured by real and personal property. In addition, YDI assigned and granted the financial institution a security interest in a YDI savings account. The current line of credit continues until such time as both parties agree in writing to terminate the agreement. This is an on-demand line of credit and YDI would be required to pay the loan in full upon the lender’s demand. Interest on the financial institution line of credit is payable monthly at a variable rate equal to 0.85 percentage points over the Bank of the West prime rate, 4.1% at June 30, 2021. The line of credit contains certain affirmative covenants including reporting requirements, as defined in the agreement. Management believes that YDI was in compliance with all of its covenants as of June 30, 2021. Changes in the line of credit for the year ended June 30, 2021, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Line of credit	<u>\$ -</u>	<u>\$ 441,750</u>	<u>\$ (400,001)</u>	<u>\$ 41,749</u>

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

8) Notes Payable

Notes payable consist of the following as of June 30:

	2021	2020
Note payable to Compass Bank, due September 2020, interest rate of 4.8%, monthly payments of \$4,615, collateralized by real estate	\$ -	\$ 523,650
Note payable to YES Housing, Inc., due June 2021 but modified and now due June 2022, interest rate of 8%, monthly payments of \$3,797, collateralized by real estate. YDI repaid this loan in full in September 2021	452,992	450,000
Note payable to a mortgage company, interest rate at 6.5%, secured by property. This note is structured as a 15-year amortization for monthly payments and is due in full in November 2035	516,622	-
Note payable to a bank, interest rate of 7.25%. This is a short-term loan for a van purchased, collateralized by the vehicle.	-	15,370
Total notes payable	969,614	989,020
Less: current portion	(458,398)	(989,020)
Notes payable, net of current portion	\$ 511,216	\$ -

Future principal payments on these notes payable as of June 30, 2021, are as follows:

<i>Years Ending June 30,</i>	
2022	\$ 458,398
2023	6,358
2024	6,698
2025	7,354
2026	7,736
Thereafter	483,070
	\$ 969,614

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

9) Operating Leases

YDI leases equipment and buildings under long-term non-cancelable operating leases. Lease expense was \$848,766 and \$784,875 during the years ended June 30, 2021 and 2020, respectively. The future minimum lease payments are as follows:

<i>Years Ending June 30,</i>	
2022	\$ 305,354
2023	306,885
2024	266,797
2025	171,548
2026	174,739
Thereafter	<u>1,164,108</u>
	<u>\$ 2,389,431</u>

10) Rental Income

YDI receives rental income by leasing space to third parties at their Los Lunas locations. Subsequent to June 30, 2021, other lease agreements have been executed with other YDI-owned properties. Total rental income was \$56,638 and \$85,152 for the years ended June 30, 2021 and 2020, respectively and is included with other revenue and support in the accompanying consolidated statements of activities. Future minimum rentals under the leases are as follows:

<i>Years Ending June 30,</i>	
2022	\$ 97,863
2023	110,105
2024	149,198
2025	<u>82,916</u>
	<u>\$ 440,082</u>

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

11) Net Assets with Donor Restrictions and Releases from Donor Restrictions

Net assets with donor restrictions are comprised of contributions with donor-imposed stipulations and are available for the following purposes as of June 30:

	2021	2020
Head Start Parent Fund	\$ 62,835	\$ 65,420
Casa Hermosa	96,206	96,206
Courts for Sports	3,609	-
Net assets with donor restrictions	\$ 162,650	\$ 161,626

During fiscal year 2021 net assets released from restrictions consisted of a net decrease in restricted contributions and expenses of \$2,585 for the Head Start Parent Fund, no change in Casa Hermosa restricted funds, and a net increase in restricted contributions and expenses of \$3,609 for the Courts for Sports program. During fiscal year 2020, net assets released from restrictions consisted of a net increase in restricted contributions and expenses of \$7,899 for the Head Start Parent Fund.

12) Retirement Plan

Full-time regular employees of YDI can participate in a tax-sheltered annuity plan designed to comply with the requirements of Section 403(b) of the Internal Revenue Code. This plan is classified as a defined contribution plan. Employee contributions to the plan are considered a reduction of salary for federal income tax purposes.

All employees with one month of service are eligible to participate in this plan. YDI makes a contribution of 6% of each employee's bi-weekly salary to the plan. Employees are automatically enrolled in the plan and must waive the benefit in writing if the employee is not willing to contribute any earnings to their respective retirement plan. YDI contributed \$687,018 and \$460,585 to the retirement plan during the years ended June 30, 2021 and 2020, respectively.

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

13) Credit Risk

YDI maintains its cash balances in financial institutions insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, portions of the cash balances in the financial institutions may exceed the insured limits. YDI has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash or cash equivalents.

14) Economic Dependence

YDI receives substantial support from federal, state, and local governmental agencies. The continued operations of YDI are dependent on funding from these agencies. YDI received approximately 59% and 69% of its grants and contracts revenue from the U.S. Department of Health and Human Services in fiscal years 2021 and 2020 respectively.

15) Recently Issued Accounting Pronouncements

The following accounting pronouncement has been issued but has not been implemented by YDI.

Leases

On February 25, 2016, the FASB issued ASU 2016-02 *Leases*, which significantly changes the accounting for leases in the financial statements of lessees and supersedes FASB ASC Topic 840. With this update, U.S. GAAP now will require lessees under operating leases to recognize a liability in the statement of financial position, a liability to make lease payments (the lease liability), and an asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Cash flows related to operating leases will continue to be reported within operating activities on the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2021 (YDI's fiscal year ending June 30, 2023).

As of the date of these financial statements, management has not determined the impact this new accounting pronouncement will have on future reporting periods.

Youth Development, Inc.
Notes to the Consolidated Financial Statements
June 30, 2021 and 2020

16) Availability and Liquidity

YDI's working capital and cash flows have variations during the year attributable primarily to monthly requests for reimbursements for program costs. To manage liquidity, YDI makes every effort to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due. Furthermore, grants receivable of \$2.6 million is expected to be collected within one year. The following represents YDI's financial assets at June 30:

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 1,250,460	\$ 3,072,969
Grants receivable	2,551,195	1,709,001
Other receivables	<u>62,278</u>	<u>3,498</u>
Total financial assets	3,863,933	4,785,468
Contractual or donor-imposed restrictions:		
Deposits held for others	(48,068)	(48,003)
Current portion of notes payable principal payments	(458,398)	(989,020)
Payroll liabilities expected to be paid within next year	(823,795)	(1,819,154)
Cash restricted by donor	<u>(162,650)</u>	<u>(161,626)</u>
Financial assets available to meet cash needs for expenses within one year	<u>\$ 2,371,022</u>	<u>\$ 1,767,665</u>

17) Uncertainty Related to the COVID-19 Outbreak

YDI's operations in fiscal years 2020, 2021 and 2022 have been affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which has been declared a pandemic by the World Health Organization. The ultimate disruption caused by the outbreak is uncertain; however, it could have an adverse impact on YDI's financial position, operations and cash flows.

Single Audit Information

Youth Development, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

<u>Grantor Agency/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
<i>Pass-Through, Food and Nutrition Service</i>			
Child and Adult Care Food Program	10.558	117	\$ 460,458
Child and Adult Care Food Program	10.558	28	411,197
Total U.S. Department of Agriculture			<u>871,655</u>
U.S. Department of Housing and Urban Development			
<i>Pass-through, Office of Community Planning and Development</i>			
Emergency Homeless Assistance Program	14.231	16-02-YDI-Eha-001	23,536
Total U.S. Department of Housing and Urban Development			<u>23,536</u>
U.S. Department of Interior			
<i>Direct Award, National Park Service</i>			
Outdoor Recreation, Acquisition, Development and Planning	15.931	P21AC10403-01	37,211
Total U.S. Department of Interior			<u>37,211</u>
U.S. Department of Justice			
<i>Pass-through, Institute for Educational Leadership</i>			
Juvenile Mentoring Program	16.726	2019-JU-FX-0012	73,050
Total U.S. Department of Justice			<u>73,050</u>
U.S. Department of Labor			
<i>Direct Award, Employment Training Administration</i>			
Youth Build	17.274	YB-31108-17-60-A-35	90,187
Total direct awards			<u>90,187</u>
<i>Pass-Through, Employment Training Administration</i>			
WIOA Central NM Youth Activities (WIOA Cluster)	17.259	C12-003-YDI	1,393,852
WIOA Southern NM Youth Activities (WIOA Cluster)	17.259	C12-003-YDI	1,464,041
Total pass through awards			<u>2,857,893</u>
Total U.S. Department of Labor			<u>2,948,080</u>
U.S. Department of Health and Human Services			
<i>Direct Award, Administration for Children and Families</i>			
Transitional Living for Homeless Youth	93.550	90CX7280-03-00	215,087
Promoting Safe and Stable Families	93.556	G-1501NMFPS	430,548
Youth Reaching Youth Street Outreach Program	93.557	90YO2376-02-00	168,452
Head Start (Head Start Cluster)	93.600	06CH010436	15,092,233
Early Head Start Child Care Partnership (Head Start Cluster)	93.600	06HP0042101	1,478,288
Basic Center Grant	93.623	90CY7226-01-00	165,177
Total U.S. Department of Health and Human Services			<u>17,549,785</u>
Total Expenditures of Federal Awards			<u>\$ 21,503,317</u>

The accompanying notes are an integral part of this schedule.

Youth Development, Inc.
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Youth Development, Inc. (YDI) under programs of the federal government for the year ended June 30, 2021. Because the Schedule presents only a selected portion of the operations of YDI, it is not intended to and does not present the financial position, changes in net assets, or cash flows of YDI.

2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3) Indirect Cost Rate

YDI has received a Negotiated Indirect Cost Agreement for fiscal years ending June 30, 2021 and 2020. As such, under the Uniform Guidance, YDI is no longer eligible to receive the de minimis rate of 10%.



Independent Auditors' 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*

Board of Directors
Youth Development, Inc.

We have audited, 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, the consolidated financial statements of Youth Development, Inc. and YDI Foundation, Inc. (collectively "YDI"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 29, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered YDI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of YDI's internal control. Accordingly, we do not express an opinion on the effectiveness of YDI'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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a significant deficiency.

 4811 Hardware Dr. NE, Suite E-4, Albuquerque, NM 87109

 (505) 312-8702  info@sjtgroupcpa.com  www.sjtgroupcpa.com

Compliance and Other Matters

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

YDI's Response to the Finding

YDI's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. YDI's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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 YDI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering YDI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SJT Group LLC

Albuquerque, New Mexico
March 29, 2022



Independent Auditor’s Report on Compliance for Each Major Program and On Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
Youth Development, Inc.

Report on Compliance for Each Major Federal Program

We have audited Youth Development, Inc. and YDI Foundation, Inc.’s (collectively “YDI”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on YDI’s major federal programs for the year ended June 30, 2021. YDI’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of YDI’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 YDI’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 YDI’s compliance.

Opinion on Each Major Federal Program

In our opinion, YDI 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, 2021.

 4811 Hardware Dr. NE, Suite E-4, Albuquerque, NM 87109

 (505) 312-8702  info@sjtgroupcpa.com  www.sjtgroupcpa.com

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-002 and 2021-003. Our opinion on each major federal program is not modified with respect to these matters.

YDI's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. YDI's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of YDI 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 YDI'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 YDI's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2021-002 and 2021-003 that we consider to be significant deficiencies.

YDI's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. YDI's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

SJT Group LLC

Albuquerque, New Mexico
March 29, 2022

Youth Development, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

Section I — Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor’s report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	Yes

Youth Development, Inc.
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2021

Section I — Summary of Auditor’s Results — continued

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.558	Child and Adult Care Food Program
93.600	Head Start and Early Head Start

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
---	-----------

Auditee qualified as low-risk auditee?	No
--	----

Youth Development, Inc.
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2021

Section II — Financial Statement Findings

2021-001 – Account Reconciliations and Financial Statement Preparation

Criteria: Maintenance of complete and accurate accounting records and preparation of annual financial statements and footnotes in accordance with generally accepted accounting principles (GAAP) ensures that timely, accurate and useful information is available to management, those charged with governance and other interested parties. Internal controls must be in place to safeguard assets and ensure accurate financial accounting and reporting. Fundamental to a good system of internal controls is thorough review processes, accurate record keeping of accounting transactions, and timely reconciliations.

Condition: Internal controls have not been implemented to ensure all accounts are reconciled, reviewed, and approved by management on a timely basis. Adjustments were needed after the trial balance was obtained and the books were closed. In addition, several differences in the accounting records were identified after the trial balance was obtained, causing additional delays and entries to correct the differences. The biggest issue related to the grant receivable/deferred revenue roll-forward as this had to be redone and adjusted several times. As has been the case in prior years, YDI also incurred penalties and fines of approximately \$80,000, mainly due to not submitting tax and other payments in a timely manner. Penalties and fines in fiscal year 2020 totaled \$216,000. Also, when we obtained the initial trial balance, indirect cost revenues were approximately \$600,000 less than the corresponding indirect cost expenses. An entry of \$628,605 was needed to correct these balances, but that still left a difference of \$82,000. YDI's interfund balances are also off approximately \$30,000. Lastly, several of YDI's funds/programs generated a loss during the year and continue to put a cash flow constraint on the organization.

Cause and Effect: Certain accounts were not reconciled on a timely basis. Due to this, the accounting records and financial statements throughout the year were not kept in accordance with GAAP. In addition, due to the delays in account reconciliations, it was difficult to monitor programs and funds losing money and to ensure that indirect cost revenue was properly charged and interfunds were in balance. Lastly, proper communication between departments did not occur to ensure expenses were paid in a timely manner, which resulted in late fees and penalties.

Auditors' Recommendations: Implement effective internal controls that ensure all significant matters impacting the accounting records and financial statements are evaluated for proper accounting treatment in a timely manner. Balance sheet accounts should be reconciled monthly on a timely basis. For penalties and fees, implement internal controls to ensure payments or arrangements are made to prevent such penalties and fees. Monitor programs and funds on a timely basis to ensure program losses are limited. Cash receipts should be recorded in a consistent manner, making them easier to locate in the accounting system.

Youth Development, Inc.
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2021

Section II — Financial Statement Findings — continued

2021-001 – Account Reconciliations and Financial Statement Preparation – continued

Management's Response: YDI fiscal personnel worked to remove the previous year's audit finding regarding fixed assets, count, reconciliation, and implementation of the fixed assets module. YDI fiscal personnel also worked on the reconciliation and reporting required for the forgiveness of the PPP loan.

Growth of COVID-related funding and other agency programs throughout fiscal year 2021 have added additional hours of work for fiscal personnel; YDI is working diligently to grow the number of administrative fiscal employees to manage the overall workload. There is a long lead time required to identify, hire, and train new employees.

YDI continues to work to fill finance positions with qualified professionals in order to meet the mark of monthly reconciliations of the balance sheet accounts. YDI was not immune to the "great resignation" and the toll on the number of employees was high. YDI had significant turnover in its finance department due to COVID-19 impacts, low pay, and a dearth of qualified job-seekers. YDI is looking for strategies to improve pay structure within all YDI departments.

The majority of the penalties paid for late payment of payroll liabilities occurred in August of 2020 for past years state unemployment tax payments. YDI acknowledges a clerical error was made in depositing payroll taxes in November 2020. YDI has strengthened its internal review and submission of the payroll tax deposits.

As discussed, when YDI accounting personnel released the YDI trial balance by fund to the audit firm, the indirect cost calculations and reconciliations were not yet complete and some adjustments would be needed. YDI fiscal personnel completed the final calculations and associated adjusting journal entries totaling the \$628,605 as needed to release the indirect expense issue. We passed that entry on to the auditors as they requested.

YDI's indirect cost rate is complex as several funders are not awarding the YDI approved federal rate of 10.75%, and in some cases the rate is 8%, 5% or none at all. YDI has implemented a monthly review of indirect cost calculation by program to ensure the correct rate is used for each program, entered and posted correctly to each affected program.

The deferred revenue schedule prepared at June 30, 2020 for the audit had adjustments that impacted the deferred revenue schedule at June 30, 2021. The final number on the deferred revenue was \$20,000. Deferred revenue will be reconciled each month going forward.

Monthly financial reports are provided to the Board of Directors through the Finance Committee monthly reporting calling out monthly surplus and deficit positions. This has been a practice since December 2020. YDI accounting personnel continue to refine the report and add information to assist the Board and program managers in their responsibilities.

Youth Development, Inc.
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2021

Section II — Financial Statement Findings — continued

2021-001 – Account Reconciliations and Financial Statement Preparation – continued

Management's Response – continued: Each program division vice-president has an option to use any fund surplus to cover a program deficit in their division. Ancillary analysis of the fiscal year 2021 statement of activities demonstrated each program division ended the fiscal year with a surplus.

YDI's cash receipts processing and recording has evolved and is consistently recorded in a timely/regular manner. All cash receipts samples requested by auditors during field work were delivered for analysis with no exceptions.

Youth Development, Inc.
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2021

Section III — Federal Award Findings and Questioned Costs

2021-002 – Cash Management

Federal program information:

Funding Agency:	U.S. Department of Agriculture
Title:	Child and Adult Care Food Program (CACFP)
CFDA number:	10.558
Award number:	206NM326N1099 and 206NM346N2020
Award period:	October 1, 2020 – September 30, 2021

Criteria: In accordance with 7 CFR sections 226.16(g) and (h) a sponsoring organization must disburse advance and meal reimbursement payments to centers and day care homes under its sponsorship within five working days of receiving them from its state agency.

Condition: For four of fourteen cash receipts reviewed, YDI did not pay the providers within five working days of receiving the monies.

Questioned Costs: None.

Context: Four of fourteen cash receipts recorded.

Cause and Effect: This occurred during the early stages of the COVID-19 pandemic, while employees were working from home, and the individual processing checks was not notified of when the grant funds were actually received. Therefore, provider checks were not processed within five working days of receiving the money. YDI was not in compliance with the cash management timeliness requirement of issuing checks within five days of cash receipts as payments were five days late for the four items mentioned above.

Auditor's Recommendations: Ensure proper communication is maintained so when grant funds are received, the budget analyst can process provider payments on a timely basis.

Management's Response: As mentioned earlier, COVID-19 induced challenges and changes in the normal day-to-day YDI finance department workflows. YDI personnel were learning how to work remotely and align the workflows for accounts payable entry, budget entry and tracking of expenses within programs, cash receipts and physical cash flow throughout each month. These challenges were a direct cause of the occurrence of the late payments to providers.

As YDI personnel were required to return to the office to work in person, communication was greatly improved. YDI improved its accounting staff in key positions and as a result a true accounting closing schedule was implemented, as all general ledger entries are reviewed prior to posting in the general ledger software. A daily cash report is completed by the financial specialist and then reviewed by the CFO daily. Cash needs and cash availability are reviewed during this process. This process has improved YDI's overall cash management and keeps us in compliance.

Youth Development, Inc.
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2021

Section III — Federal Award Findings and Questioned Costs – continued

2021-003 – Reporting

Federal program information:

Funding Agency:	U.S. Department of Health and Human Services
Title:	Head Start and Early Head Start
CFDA number:	93.600
Award number:	06CH010436 and 06HP0042101
Award period:	1/1/20 – 12/31/20 and 1/1/21 – 06/30/21

Criteria: For Head Start and Early Head Start, SF-425 reports are required on a semi-annual and annual basis.

Condition: The budget and project period was from January 1, 2021 through June 30, 2021. YDI did not file the required SF-425 for this period.

Questioned Costs: None.

Context: One of three reports reviewed for Head Start and one of two reports reviewed for Early Head Start.

Cause and Effect: Internal control procedures have not been enforced to ensure SF-425 reports are being submitted. As a result, the programs described above are not in compliance with reporting requirements.

Auditor's Recommendation: All reports should be submitted as specified in the grant agreements. The directors and grant accounting personnel should utilize a detailed calendar to ensure reports are submitted in accordance with the grant agreements. Reports should be reviewed by an appropriate independent person.

Management's Response: Please note YDI has a very long record of completing all SF-425 reports in a timely manner. That said, YDI has experienced extraordinary staff turnover in its accounting department in 2021 and continuing through fiscal year ending 2022. As a result, YDI has not filed the required SF-425 reports in a timely manner. In spite of the internal controls in place, one YDI employee left YDI's employ without completing the work on the reports.

YDI continues to work to fill finance positions with qualified professionals. YDI was not immune to the “great resignation” and the toll on the number of employees was high. YDI had significant turnover in its finance department due to COVID-19 impacts, low pay, and a dearth of qualified job-seekers. YDI is looking to strategies to improve pay structure within all YDI departments. YDI is seeking technical assistance to complete these reports and have made them a priority with the replacement budget analyst. There is a calendar in place for these reports to ensure they are completed in a timely manner.

Youth Development, Inc.
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2021

2020-001 (2018) — Account Reconciliations and Financial Statement Preparation

Condition: Internal controls have not been implemented to ensure all accounts are reconciled, reviewed, and approved by management on a timely basis. During fiscal year 2020, a prior period restatement was needed to adjust for unrecorded sick leave balances not recorded in previous years. In addition, several adjustments were needed after the trial balance was obtained and the books were closed. Adjustments were needed to the following accounts: Grants Receivable, Deferred Revenue, Grant Revenue, Accounts Payable, and various expense accounts. YDI also incurred penalties and fines of approximately \$216,000 due to not submitting tax and other payments in a timely manner. Lastly, several of YDI's funds/programs generated a loss during the year and continue to put a cash flow constraint on the organization.

Current Status: Unresolved, see repeated and modified findings at 2021-001.

2020-002 — Credit Card Charges

Condition: We selected two months to review the propriety of credit card charges. During our review, we noted the following:

- Thirty purchases reviewed had no support such as a receipt or invoice.
- Sixty-one transactions did not have a purchase requisition to support the charge.
- On four different occasions, gift cards were purchased with the credit cards.
- Two purchases exceeded the 10% variance allowance from the purchase requisition.

Current Status: Resolved, corrective action taken.

2020-003 — Background Investigations

Condition: One employee reviewed did not have their background check updated after five years. The employee's last background check was completed in 2013.

Current Status: Resolved, corrective action taken.

Youth Development, Inc.
Summary Schedule of Prior Year Audit Findings — continued
For the Year Ended June 30, 2021

2020-004 — Property and Equipment

Condition: YDI has conducted an inventory count within the last two years; however, YDI personnel have not reconciled the inventory count with the detailed capital asset listing and the general ledger control totals. The detailed capital asset listing contains several items that appear to no longer exist but have not been removed from the listing.

Current Status: Resolved, corrective action taken.

2020-005 — Allowable Costs

Condition: During fiscal year 2020, both the Head Start and Early Head Start programs reported revenues in excess of expenses. During 2020, Head Start reported revenues in excess of expenses of \$771,117 (taking into account fixed asset purchases) and Early Head Start reported revenues in excess of expenses of \$190,981. These are both federal cost reimbursement grants that should not have revenues exceeding expenses during the year. An audit adjustment of \$962,098 was needed to reduce the excess of revenues over expenses at June 30, 2020.

Current Status: Resolved, corrective action taken.



Youth Development, Inc.
Corrective Action Plan
For the Year Ended June 30, 2021

2021-001 – Account Reconciliations and Financial Statement Preparation

Corrective Action: Complete timely reconciliations each month.

Person Responsible: Chief Financial Officer (Terri Owens-Sweetland) and Senior Accountant (Rosa Lira)

Completion Date: September 30, 2022

2021-002 – Cash Management

Corrective Action: Complete daily cash flow sources and uses analysis.

Person Responsible: Chief Financial Officer (Terri Owens-Sweetland), Senior Accountant (Rosa Lira), and Accounts Receivable Financial Specialist (Margarita Perez)

Completion Date: November 1, 2021

2021-003 – Reporting

Corrective Action: Complete SF-425 Reports.

Person Responsible: Chief Financial Officer (Terri Owens-Sweetland), Senior Accountant (Rosa Lira), Budget Analyst 1 (Jorge Vazquez) (ECE), and Budget Analyst 1 (Benigno Vasquez) (PIBH)

Completion Date: July 1, 2022