ARKANSAS SHERIFFS' YOUTH RANCHES, INC.

Financial Statements,
and Compliance Information

December 31, 2016 and 2015

ARKANSAS SHERIFFS' YOUTH RANCHES, INC.
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December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Arkansas Sheriffs' Youth Ranches, Inc.
Batesville, Arkansas

Report of the Financial Statements

We have audited the accompanying financial statements of Arkansas Sheriffs' Youth Ranches, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arkansas Sheriffs' Youth Ranches Inc, as of December 31, 2016 and 2015, 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.

To the Board of Directors
Arkansas Sheriffs' Youth Ranches, Inc.
Batesville, Arkansas

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of governmental assistance on page 22 is presented for purposes of additional analysis 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2017 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arkansas Sheriffs' Youth Ranches, Inc's internal control over financial reporting and compliance.

Howland & Norris

June 30, 2017

ARKANSAS SHERIFFS' YOUTH RANCHES, INC.
Statements of Financial Position
December 31, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	$ 1,666,190	$ 760,906
Investments	2,470,634	2,450,814
Contributions receivable	240,000	297,566
Beneficial interest in trusts	10,980,520	10,830,467
Property and equipment, net	11,590,987	12,337,551
Other assets	15,323	20,771
Total Assets	$ 26,963,654	$ 26,698,075

Liabilities		
Accounts payable	$ 17,928	$ 18,202
Accrued expenses	40,058	35,149
Notes payable	2,568,803	2,743,706
Annuity and life estate liabilities	165,675	213,388
Other liabilities	35,678	20,654
Total Liabilities	$ 2,828,142	$ 3,031,099
Net Assets		
Unrestricted	$ 4,320,141	$ 3,840,276
Temporarily restricted	8,070,967	8,257,309
Permanently restricted	11,744,404	11,569,391
Total Net Assets	$ 24,135,512	$ 23,666,976
Total Liabilities and Net Assets	$ 26,963,654	$ 26,698,075

See accompanying notes to financial statements.

ARKANSAS SHERIFFS' YOUTH RANCHES, INC.
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions and appeals	$ 871,660	$ -	$ 25,000	$ 896,660
Bequests	742,784	-	-	742,784
Foundation gifts	88,240	-	-	88,240
Special fund raisers	297,190	-	-	297,190
Sales of ranch items	24,421	-	-	24,421
Rental income	14,405	-	-	14,405
Grants	34,347	-	-	34,347
Room and board - foster care	171,765	-	-	171,765
Trust income	579,029	-	150,053	729,082
Investment income	937	42,775	931	44,643
Loss on disposal of property and equipment	(274,764)	-	-	(274,764)
Change in value of annuity obligations	6,228	-	-	6,228
	$ 2,556,242	$ 42,775	$ 175,984	$ 2,775,001
Net asset reclassifications	230,088	(229,117)	(971)	-
Total Revenues	$ 2,786,330	$ (186,342)	$ 175,013	$ 2,775,001
Expenses				
Program services	$ 1,538,173	$ -	$ -	$ 1,538,173
Management and general	393,510	-	-	393,510
Fundraising	374,782	-	-	374,782
Total Expenses	$ 2,306,465	$ -	$ -	$ 2,306,465
Change in Net Assets	$ 479,865	$ (186,342)	$ 175,013	$ 468,536
Net Assets, Beginning of Year	3,840,276	8,257,309	11,569,391	23,666,976
Net Assets, End of Year	$ 4,320,141	$ 8,070,967	$ 11,744,404	$ 24,135,512

See accompanying notes to financial statements.

ARKANSAS SHERIFFS' YOUTH RANCHES, INC.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions and appeals	$ 866,682	$ -	$ -	$ 866,682
Bequests	682,389	-	-	682,389
Foundation gifts	37,000	-	-	37,000
Special fund raisers	206,424	-	-	206,424
Sales of ranch items	25,121	-	-	25,121
Rental income	58,132	-	-	58,132
Grants	55,154	-	-	55,154
Room and board - foster care	226,155	-	-	226,155
Trust income	584,402	-	(883,824)	(299,422)
Investment income	(18,295)	12,573	281	(5,441)
Loss on disposal of property and equipment	(282,482)	-	-	(282,482)
Change in value of annuity obligations	(33,228)	-	-	(33,228)
	$ 2,407,454	$ 12,573	$ (883,543)	$ 1,536,484
Net asset reclassifications	479,069	(478,878)	(191)	-
Total Revenues	$ 2,886,523	$ (466,305)	$ (883,734)	$ 1,536,484
Expenses				
Program services	$ 1,588,542	$ -	$ -	$ 1,588,542
Management and general	366,627	-	-	366,627
Fundraising	429,703	-	-	429,703
Total Expenses	$ 2,384,872	$ -	$ -	$ 2,384,872
Change in Net Assets	$ 501,651	$ (466,305)	$ (883,734)	$ (848,388)
Net Assets, Beginning of Year	3,338,625	8,723,614	12,453,125	24,515,364
Net Assets, End of Year	$ 3,840,276	$ 8,257,309	$ 11,569,391	$ 23,666,976

See accompanying notes to financial statements.

ARKANSAS SHERIFFS' YOUTH RANCHES, INC.

Statement of Functional Expenses

Year Ended December 31, 2016

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 521,453	$ 192,276	$ 103,500	$ 817,229
Employee benefits	114,987	42,399	19,792	177,178
In-kind services	39,957	-	18,193	58,150
Professional fees	-	54,210	-	54,210
Utilities & telephone	86,532	1,594	6,345	94,471
Insurance	96,910	12,035	12,035	120,980
Vehicle fuel and oil	52,234	5,159	6,845	64,238
Repairs and maintenance	34,762	5,282	-	40,044
Travel and training	-	12,114	12,847	24,961
Office supplies	-	19,047	16,204	35,251
Printing costs	-	-	62,416	62,416
Postage	-	-	64,069	64,069
Licenses and dues	25	8,463	-	8,488
Property taxes	-	162	-	162
Interest	106,269	-	-	106,269
Depreciation	345,793	40,682	20,341	406,816
Childrens benefits	6,458	-	-	6,458
Food and household costs	82,318	-	-	82,318
Livestock and ranch	50,475	-	-	50,475
Special fundraising	-	-	32,195	32,195
Miscellaneous	-	87	-	87
Total Expenses	$ 1,538,173	$ 393,510	$ 374,782	$ 2,306,465

ARKANSAS SHERIFFS' YOUTH RANCHES, INC.
Statement of Functional Expenses
Year Ended December 31, 2015

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 499,855	$ 178,478	$ 109,114	$ 787,447
Employee benefits	103,696	37,026	22,636	163,358
In-kind services	34,339	30	13,473	47,842
Professional fees	-	44,621	-	44,621
Utilities & telephone	131,826	3,123	2,681	137,630
Insurance	96,764	11,888	11,888	120,540
Vehicle fuel and oil	61,504	4,865	2,184	68,553
Repairs and maintenance	43,518	10,074	-	53,592
Travel and training	-	8,739	14,367	23,106
Office supplies	-	15,260	19,945	35,205
Printing costs	-	-	108,554	108,554
Postage	-	-	77,159	77,159
Licenses and dues	5,800	10,981	-	16,781
Property taxes	-	941	-	941
Interest	121,561	701	-	122,262
Depreciation	338,898	39,870	19,935	398,703
Childrens benefits	11,667	-	-	11,667
Food and household costs	102,580	-	-	102,580
Livestock and ranch	36,534	-	-	36,534
Special fundraising	-	-	27,767	27,767
Miscellaneous	-	30	-	30
Total Expenses	$ 1,588,542	$ 366,627	$ 429,703	$ 2,384,872

See accompanying notes to financial statements.

ARKANSAS SHERIFFS' YOUTH RANCHES, INC.

Statements of Cash Flows

Year Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	$ 468,536	$ (848,388)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	406,816	398,703
Change in value of annuity obligations	(47,713)	(11,960)
Amortization of discount on contributions receivable	-	(2,381)
Loss on disposal of property and equipment	274,764	282,482
Change in the value of perpetual trusts	(150,053)	883,824
Change in value of annuity contract	(8,693)	4,532
Noncash contributions	(13,738)	(934)
Realized (gain) loss on sale of investments	14,546	(55,241)
Unrealized (gain) loss on investment securities	3,183	111,640
(Increase) decrease in operating assets:		
Contributions receivable	57,566	(257,947)
Other assets	5,448	(11,659)
Increase (decrease) in operating liabilities:		
Accounts payable	(274)	(60,768)
Accrued payroll	4,909	10,990
Other liabilities	15,024	(2,001)
Net Cash Provided by Operating Activities	$ 1,030,321	$ 440,892
Cash Flows from Investing Activities		
Purchases of property and equipment	$ (63,872)	$ (163,377)
Sales of property and equipment	142,594	10,518
Proceeds from sales of investments	431,365	606,414
Purchases of investments	(460,221)	(389,359)
Net Cash Provided by Investing Activities	$ 49,866	$ 64,196
Cash Used in Financing Activities		
Borrowings on notes payable	$ -	$ 23,073
Repayments on notes payable	(174,903)	(124,271)
Net Cash Used in Financing Activities	$ (174,903)	$ (101,198)
Net Increase in Cash and Cash Equivalents	$ 905,284	$ 403,890
Cash and Cash Equivalents, Beginning of Year	760,906	357,016
Cash and Cash Equivalents, End of Year	$ 1,666,190	$ 760,906

See accompanying notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

Nature of Activities – The Arkansas Sheriffs' Youth Ranches, Inc. ("the Ranch") is a nonprofit Arkansas corporation and licensed child-care facility serving disadvantaged children in the State of Arkansas. Established in 1976 through the efforts of the State's 75 county sheriffs and other individuals, the ranch provides a therapeutic residential program to homeless, abused, neglected or abandoned children and Families in Need of Services (FINS) cases, without regard to race, creed, color, or gender. Children in the Ranch's long-term program are allowed to remain at the Ranch from age six through post-secondary education and/or job training. In addition, the Ranch provides outreach services to families needing resources that they are unable to locate on their own, such as residential treatment, counseling, or education, which often prevents the need to place children outside the home.

During the years ended December 31, 2016 and 2015, the Ranch actively operated children's therapeutic residential programs on campuses located at Batesville in Independence County, Arkansas, Amity in Clark County, Arkansas, and Mulberry in Crawford County, Arkansas.

The Ranch's primary source of revenue includes contributions (cash and in-kind) from private sources such as individuals, corporations, foundations, trusts, and investment income.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used primarily in the recording of allowance for doubtful accounts, determining useful lives of property and equipment, and fair value of investments.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Organization considers petty cash, cash on deposit with financial institutions, and certificates of deposit with original maturities of 90 days or less to be cash equivalents.

Investments - The Organization reports all investments at fair value. Restricted gains and investment income are recorded as unrestricted, temporarily, or permanently restricted depending on the existence of donor restrictions. Restricted gains and investment income whose restrictions are met in the period earned are reported as unrestricted investment income.

Contributions Receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free and risk-adjusted interest rates applicable to the years in which the promises are received.

Contributions receivable is stated net of an allowance for uncollectible contributions. The Organization maintains allowances for uncollectible contributions resulting from donors that fail to fulfill their pledges. The Organization reviews contributions receivable on a periodic basis and makes allowances where there is doubt as to the collectability of individual pledges. In evaluating the collectability of individual promises to give the Organization considers many factors, including the age of the promise to give, the donor's payment history, and current economic trends. Based on management's evaluation of all potential donors, the Organization estimates $ 0 and $ 25,000 of promises to give at December 31, 2016 and 2015, respectively, will not be collected.

Beneficial Interest in Trusts – The Organization maintains an interest in two perpetual trusts. A perpetual trust is established when a donor contributes assets to fund a trust that is administered by an individual or organization other than the nonprofit beneficiary. The Organization has legally enforceable rights and claims to such assets, including an irrevocable right to receive the income from the trust's assets in perpetuity. The income from such assets is to be used by the Organization according to the wishes of the donor. The fair value of the perpetual trusts, as determined by the present value of the future cash flows expected to be paid, is recorded as an asset in the Statement of Financial Position. Changes in the fair value of the perpetual trusts are included in the Statement of Activities and Changes in Net Assets as permanently restricted activity. The value of beneficial interests in trusts increased by $ 150,053 and decreased by $ 883,824 during the years ended December 31, 2016 and 2015, respectively.

Property and Equipment - The Organization capitalizes all expenditures for property and equipment in excess of $ 5,000. Property and equipment are stated at cost. Depreciation is computed using the straight line method over the estimated useful lives of the assets. Depreciation for the years ended December 31, 2016 and 2015 was $ 406,816 and $ 398,703, respectively.

Donated Property and Equipment - Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets 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 and equipment, are reported as restricted contributions. Absent donor stipulations regarding how long those 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.

Donated Assets – Donated investments and other noncash donations are recorded as contributions at their fair values at the date of donation.

Restricted Revenue Reported as Unrestricted - Restricted contributions whose restrictions are met in the period received are reported as unrestricted income.

Income Taxes - The Organization is generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code except to the extent the Organization has unrelated business income. There was no provision for income taxes due on unrelated business income for the years ended December 31, 2016 and 2015. The Organization held no uncertain tax positions at December 31, 2016 that would result in material unrecognized tax benefits or costs. The Organization's tax years after 2012 are open for examination by federal and state authorities.

Management's Review - Management has evaluated subsequent events through June 30, 2017, the date the financial statements were available for issuance.

Reclassification – Certain balances in the 2015 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2016 financial statements. These reclassifications had no effect on the change in net assets.

Note 2 - Investments

Cost and approximate market values of investments owned by the Organization were as follows:

	December 31, 2016		December 31, 2015	
	Cost	Fair Value	Cost	Fair Value
Certificates of deposit	$ 372,672	$ 372,672	$ 371,743	$ 371,743
Money market	330,849	330,849	307,862	307,862
Equity securities	360,665	354,337	376,168	356,513
Corporate bonds	252,440	250,344	321,172	312,514
U.S. treasury bonds	8,000	8,223	8,000	8,400
U.S. agency bonds	992,274	977,742	896,107	898,695
Annuity contract	120,801	166,749	120,801	166,669
Real estate	9,718	9,718	38,318	28,418
	$ 2,447,419	$ 2,470,634	$ 2,440,171	$ 2,450,814

The following schedule summarizes the investment income and its classification in the statement of activities for the year ended:

	December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 8,565	$ 37,295	$ 931	$ 46,791
Net realized and unrealized losses	(15,654)	5,480	-	(10,174)
Change in value of annuity contract	8,026	-	-	8,026
Total Investment Income	$ 937	$ 42,775	$ 931	$ 44,643

	December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 17,374	$ 30,973	$ 281	$ 48,628
Net realized and unrealized gains	(39,611)	(18,400)	-	(58,011)
Change in value of annuity contract	3,942	-	-	3,942
Total Investment Income	$ (18,295)	$ 12,573	$ 281	$ (5,441)

Investment management fees totaled $ 14,477 for the year ended December 31, 2016, and $ 14,156 for the year ended December 31, 2015. These amounts are recorded as professional fees under the management and general heading in the statement of functional expenses.

Note 3 – Contributions Receivable

Contributions receivable consisted of the following unconditional promises to give at December 31:

	2016	2015
Due in less than one year	$ 240,000	$ 322,566
Due in one to five years	-	-
	$ 240,000	$ 322,566
Allowance for uncollectible contributions	-	(25,000)
	$ 240,000	$ 297,566

Note 4 – Property and Equipment

Property and equipment consisted of the following at December 31:

	2016	2015
Land and improvements	$ 2,018,240	$ 2,104,022
Buildings	9,539,468	9,922,579
Furniture and equipment	977,334	963,692
Livestock	196,740	174,671
Vehicles	360,174	353,839
Leasehold improvements	2,966,762	2,962,162
	$ 16,058,718	$ 16,480,965
Accumulated depreciation	(4,467,731)	(4,143,414)
	$ 11,590,987	$ 12,337,551

Restricted Property and Equipment

The use of the campus located in Alma, Arkansas is restricted, by a contractual grant agreement, for a term of 21 years from the date of completion. The restriction will expire on January 1, 2027. During this time, the campus may only be used for charitable purposes, and this restriction would be binding upon any purchaser of the property. The carrying amounts of the Alma campus are as follows at December 31:

	2016	2015
Land and improvements	$ 1,207,277	$ 1,207,277
Buildings	6,421,325	6,421,325
Furniture and equipment	8,000	8,000
	$ 7,636,602	$ 7,636,602
Accumulated depreciation	(1,216,670)	(1,064,449)
	$ 6,419,932	$ 6,572,153

The Organization holds three tracts of land that are to be used in the Organization's operations. Should the Organization desire to dispose of the properties they must be donated to another non-profit youth organization. The carrying value for these properties is as follows at December 31:

	2016	2015
Land and improvements	$ 141,169	$ 141,169
Buildings	38,831	38,831
	$ 180,000	$ 180,000
Accumulated depreciation	(4,854)	(3,883)
	$ 175,146	$ 176,117

Note 5 – Notes Payable

Notes payable consisted of the following at December 31:

	2016	2015
Note payable to Citizens Bank of Batesville, bearing interest at 3.90%, secured by real estate with a carrying value of $1,791,678, monthly payments of $4,116, matures June 2020	$ 161,231	$ 203,463
Note payable to Citizens Bank of Batesville, bearing interest at 3.90%, secured by real estate with a carrying value of $1,791,678, monthly payments of $8,446, matures June 2025	1,176,680	1,231,121
Note payable to First Community Bank, bearing interest at the Wall Street Journal Prime Rate, currently 3.75%, open-ended and unsecured line of credit, interest payable quarterly, with unpaid interest and principal due February 2017	172,000	196,183
Note payable to First Community Bank, bearing interest at 4.25%, secured by inventory, chattel paper, accounts, equipment and general intangibles, monthly payments of $1,641, matures May 2018	79,999	95,710
Note payable to First Community Bank, bearing interest at 4.25%, secured by 430 acres in Harrison, Arkansas with a carrying value of $400,000, monthly payments of $3,036, matures July 2020	369,992	389,960
Note payable to Bank of the Ozarks, bearing interest at 2.18%, secured by restricted endowment funds held in a certificate of deposit with a carrying value of $371,743, due in full immediately upon lender's demand, but if no demand is made, principal and all accrued unpaid interest due in full December 2017.	190,000	190,000

Unsecured note payable to the Adolph Thomas Trust, bearing interest at 3.90%, interest and outstanding principal are due upon maturity in June 2017	400,000	411,413
Note payable to Ally Finance, bearing interest at 4.99%, secured by vehicle with a carrying value of $8,399, monthly payments of $386, matures October 2019	11,145	15,781
Note payable to Agricredit Acceptance LLC, bearing interest at 0.74%, secured by equipment with a carrying value of $9,664, monthly payments of $193, matures June 2020	7,756	10,075
	$ 2,568,803	$ 2,743,706

Aggregate annual maturities of notes payable are as follows:

Year ending December 31,	
2016	$ 906,388
2017	196,259
2018	136,361
2019	392,693
2020	65,955
Thereafter	871,147
Total	$ 2,568,803

Note 6 – Presentation of Net Assets

Net assets consisted of the following at December 31:

	2016	2015
Unrestricted net assets		
Undesignated:		
Represented by property and equipment, less related debt	$ 3,017,106	$ 3,446,988
Other	1,303,035	393,288
Unrestricted Net Assets	$ 4,320,141	$ 3,840,276

	2016	2015
Temporarily restricted net assets		
Restricted for:		
Restricted use property	$ 6,499,931	$ 6,652,153
Use in future periods	14,297	9,769
College scholarships	40,301	21,913
Unconditional promises to give	-	25,000
Reynolds campus maintenance	1,334,195	1,328,087
Charitable annuity reserves	182,243	194,722
Assets subject to life estate	-	25,665
Temporarily Restricted Net Assets	$ 8,070,967	$ 8,257,309

	2016	2015
Permanently restricted net assets		
Restricted for:		
Restricted use land	$ 95,146	$ 96,117
Endowment assets	11,649,258	11,473,274
Permanently Restricted Net Assets	$ 11,744,404	$ 11,569,391

Net asset reclassifications in 2016 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Net assets released from restrictions:			
Satisfaction of use restrictions	$ 167,745	$ (167,745)	$ -
Expiration of time restrictions	61,372	(61,372)	-
Other	971	-	(971)
Net Reclassification of Net Assets	$ 230,088	$ (229,117)	$ (971)

Net asset reclassifications in 2015 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Net assets released from restrictions:			
Satisfaction of use restrictions	$ 182,133	$ (182,133)	$ -
Expiration of time restrictions	296,745	(296,745)	-
Other	191	-	(191)
Net Reclassification of Net Assets	$ 479,069	$ (478,878)	$ (191)

Note 7 – Endowment Funds

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

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

<u>Investment Return Objectives, Risk Parameters and Strategies</u> - The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to emphasize total return over the long-term. While shorter-term investment results are monitored, adherence to a sound long-term investment policy, balancing short-term spending needs with the preservation of the real inflation-adjusted value of assets, is of primary importance. The Organization expects to achieve an inflation-adjusted minimum average annual return, net of fees, over a rolling ten-year period. This real return is defined as the sum of capital appreciation (loss) and current income (interest and dividends) adjusted for inflation as measured by the Consumer Price Index.

The primary goal is to safeguard the assets of the Organization, while at the same time, gaining a return on the investments held through prudent placement in income and growth-oriented vehicles. The Organization targets a diversified asset allocation. The following transactions are prohibited; margin purchases; private placements or other restricted securities; foreign issues unless traded on U.S. exchanges or markets; and auction rate securities. The investment advisors communicate the performance of all investment managers on a quarterly basis or more frequently, if necessary. The investment policy is reviewed by the Board of Directors on an annual basis.

Investment policies are based on principles of responsible financial stewardship, as well as ethical and social stewardship. The Organization is committed to a diversified asset allocation strategy, consisting primarily of domestic equities, international equities, domestic fixed income, and international fixed income.

<u>Spending Policy</u> – The spending policy varies for each fund within the endowment as follows:

Adolph Thomas Trust – This is a perpetual trust which distribute a portion of its income annually to the Organization in accordance with the terms of the trust. The distributions are available for operations of the Organization and are typically expended in the year received.

Charles M. Taylor III Memorial Endowment Fund – Earnings from this fund may be used for the operations of the Organization. Funds are expended on an as needed basis subject to the overall restrictions of the donor.

Clark County Endowment Fund – This represents funds held in trust for the Organization. Income is distributed annually and expended for the operations of the Organization.

Walker Family Post-Secondary Education Scholarship Endowment – Earnings from this fund can be used to provide scholarships for residents of the Ranch for post-secondary education. Income from this fund is typically expended in the year earned.

Ben J. Altheimer Foundation, Inc. Endowment – Earnings from this fund may be used to cover the expense of housing residents from an area of Jefferson County, Arkansas and for no other purpose. The Organization did not have a resident from the area in the current year; therefore, no amount was spent.

Endowment net asset composition by type of fund at December 31, 2016 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment funds:				
Donor-restricted	$ -	$ 54,598	$ 11,649,258	$ 11,703,856

Endowment net asset composition by type of fund at December 31, 2015 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment funds:				
Donor-restricted	$ -	$ 31,682	$ 11,473,274	$ 11,504,956

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ -	$ 31,682	$ 11,473,274	$ 11,504,956
Trust income	579,029	-	-	579,029
Investment income	-	4,482	931	5,413
Net appreciation	-	18,434	150,053	168,487
Contributions	-	-	25,000	25,000
Amounts appropriated for expenditure	(579,029)	-	-	(579,029)
Endowment net assets, end of year	$ -	$ 54,598	$ 11,649,258	$ 11,703,856

Changes in endowment net assets for the year ended December 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ -	$ 46,009	$ 12,356,040	$ 12,402,049
Trust income	584,402	-	-	584,402
Investment income	-	7,393	281	7,674
Net depreciation	-	(14,377)	(883,824)	(898,201)
Contributions	-	-	777	777
Amounts appropriated for expenditure	(584,402)	(7,343)	-	(591,745)
Endowment net assets, end of year	$ -	$ 31,682	$ 11,473,274	$ 11,504,956

Note 8 – Retirement Plan

Effective May 1, 1989, the Ranch established a retirement plan for the purpose of purchasing annuity contracts for its covered employees pursuant to Section 403(b) of the Internal Revenue Code of 1986, as amended. Employees are eligible to make pretax elective deferrals under the plan immediately upon being hired. They are eligible for employer contributions under the plan upon the earlier of (a) the completion of six months of employment, including any calendar month in which the employee is credited at least one hour of service, or (b) the completion of one year of service. Employees may contribute to the plan up to the maximum amount allowed by the Internal Revenue Code. Employer matching contributions are made at a rate equal to 100% of elective deferrals of each eligible employee, up to a maximum of 5% to 8%, depending on length of service.

Retirement plan expense for the year ended December 31, 2016 and 2015 under this plan were $ 19,085 and $ 17,350, respectively.

Note 9 – Concentration of Credit Risk

The Organization maintains cash balances in local financial institutions. The balances at each institution are insured by the Federal Deposit Insurance Corporation up to $ 250,000. At December 31, 2016, the Organization had $ 1,325,039 in uninsured cash balances.

The Organization also maintains investment balances with various investment brokers. The Securities Investor Protection Corporation (SIPC) insures investors up to a ceiling of $ 500,000 per customer per brokerage firm for unregistered securities, including a $ 250,000 maximum for cash claims. At December 31, 2016, the Organization had no uninsured cash balance in these accounts.

Note 10 – Leases

Department of the Army Lease

On October 6, 2000, the Ranch entered into a lease agreement with the Department of the Army ("the Department") for property at Cox Creek Landing on DeGray Lake in Clark and Hot Springs Counties, Arkansas, for construction of the Organization's Lake DeGray campus. The 230-acre site is leased for a term of 25 years which expires on September 30, 2025. The annual lease payment under this agreement is $ 375 per year.

Under the terms of the agreement, the Ranch agreed to certain development plans, as well as ongoing maintenance and management stipulations which the Department reviews annually for compliance.

Note 11 – Supplemental Disclosures of Cash Flow Information

Cash paid for interest amounted to $ 89,812 for the year ended December 31, 2016 and $ 101,021 for the year ended December 31, 2015.

Note 12 – Contingencies

Altheimer Endowment Fund

During the year ended December 31, 2001, the Benjamin J. Altheimer Foundation, Inc. ("the Altheimer Foundation") gifted $ 300,000 to the Ranch for the establishment of an endowment fund to help defray the residential care costs associated with children from the Altheimer, Arkansas area. As part of the this gift, it was agreed that if the Ranch did not have a resident from the Altheimer area within a 48 month period, between January 1, 2004 and December 31, 2007, the Altheimer Foundation had the right to have their gift returned. The Ranch did not have a resident from the Altheimer area during the required 48 month period.

Note 13 – Fair Value of Assets and Liabilities

Determination of Fair Value

Under Accounting Standards Codification Topic 820, "Fair Value Measurements and Disclosures", fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon the Organization's estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future values.

FASB ASC 820 specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independents sources (observable inputs). In accordance with FASB ASC 820, the following summarizes the fair value hierarchy:

> Level 1 Inputs – Unadjusted quoted market prices for identical assets and liabilities in an active market that the Organization has the ability to access.

Level 2 Inputs – Inputs, other than the quoted prices in active markets that are observable either directly or indirectly.

Level 3 Inputs – Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurements.

The Organization assesses the classification of instruments at each measurement date, and any transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfers in accordance with the Organization's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value.

Short-term Financial Assets and Liabilities - Short-term financial assets include cash and cash equivalents. Short-term financial liabilities include accounts payable and accrued expenses. These assets and liabilities are carried at historical cost. The carrying value approximates fair value because of the relatively short period of time between their origination and expected realization.

Certificates of Deposit - Fair value approximates carrying value since stated rates are similar to rates currently available to the Organization for investments with similar terms and remaining maturities.

Contributions Receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. The carrying value approximates fair value because of the short maturity of these instruments. Unconditional promises to give that are expected to be collected in future years are reported at net present value; therefore, carrying value approximates fair value.

Beneficial Interests in Trusts - The fair value of beneficial interests in trusts are determined using the present value of the future cash flows expected to be paid or received over the expected terms of the agreements. These assets are classified as Level 3.

Annuity Contract – The cash surrender value approximates the fair value, since the Organization would be able to obtain the surrender value in cash from the issuing insurance company. These assets are classified as Level 3.

Investment Securities - Securities are recorded at fair value on a recurring basis. When available, the Organization uses quoted market prices to determine the fair value of investment securities. These securities are classified in Level 1 of the fair-value hierarchy and include items such as exchange traded equity securities and money market funds.

For securities traded over the counter such as U. S. Agency funds, the Organization generally determines fair value utilizing prices obtained from independent vendors. Vendors compile prices from various sources and may apply matrix pricing for similar bonds where no price is observable. If available, the Organization may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified as Level 2. However, when less liquidity exists for a security, a quoted price is stale, or prices from independent sources vary, the security is generally classified as Level 3.

Investment in Long-Lived Assets – Real estate held for sale is originally valued at cost or fair value in the case of a gift. Subsequently, these assets are valued at their fair value less costs to sell. Fair values are based on independent market prices or appraisal values. These assets are classified as Level 3.

Notes Payable - Fair value approximates carrying value since stated rates are similar to rates currently available to the Organization for obligations with similar terms and remaining maturities.

Items Measured at Fair Value on a Recurring Basis

The following table presents, for each of the fair-value hierarchy levels, the Organization's assets and liabilities that are measured at fair value on a recurring basis at:

December 31, 2016	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 372,672	$ -	$ 372,672
Investments:				
Equity securities				
Stocks	165,305	-	-	165,305
Large cap equity funds	32,050	-	-	32,050
Small/mid cap equity funds	6,888	-	-	6,888
International equity funds	30,355	-	-	30,355
Growth & income fund	28,848	-	-	28,848
Fixed income funds	90,891	-	-	90,891
US agency bonds	-	977,742	-	977,742
US treasury bonds	-	8,223	-	8,223
Corporate bonds	250,344	-	-	250,344
Annuity contract	-	-	166,749	166,749
Real estate held for sale	-	-	9,718	9,718
Beneficial interests	-	-	10,980,520	10,980,520
Contributions receivable	-	-	240,000	240,000
	$ 604,681	$ 1,358,637	$ 11,396,987	$ 13,360,305

December 31, 2015	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 371,743	$ -	$ 371,743
Investments:				
Equity securities				
Stocks	157,922	-	-	157,922
Large cap equity funds	28,433	-	-	28,433
Small/mid cap equity funds	8,234	-	-	8,234
International equity funds	40,236	-	-	40,236
Growth & income fund	52,705	-	-	52,705
Fixed income funds	68,983	-	-	68,983
US agency bonds	-	898,695	-	898,695
US treasury bonds	-	8,400	-	8,400
Corporate bonds	312,514	-	-	312,514
Annuity contract	-	-	166,669	166,669
Real estate held for sale	-	-	28,418	28,418
Beneficial interests	-	-	10,830,467	10,830,467
Contributions receivable	-	-	297,566	297,566
	$ 669,027	$ 1,278,838	$ 11,323,120	$ 13,270,985

The following table presents the changes in the Level 3 fair value category for the years ended December 31, 2016 and 2015. The organization classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically also rely on a number of inputs that are observable either directly or indirectly. Thus, any gains and losses presented below may include changes in fair value related to both observable and unobservable inputs.

	Beneficial Interests	Annuity Contract	Real Estate Held for Sale	Contributions Receivable	Total
Balances, January 1, 2015	$ 11,714,291	$ 171,201	$ 28,418	$ 37,238	$ 11,951,148
Amortization of discount	-	-	-	4,762	4,762
Annuity distributions	-	(8,614)	-	-	(8,614)
Gain/(loss) included in change in net assets	(883,824)	4,082	-	-	(879,742)
Pledges collected	-	-	-	(17,000)	(17,000)
Pledges made	-	-	-	272,566	272,566
Balances - December 31, 2015	$ 10,830,467	$ 166,669	$ 28,418	$ 297,566	$ 11,323,120
Annuity distributions	-	(8,614)	-	-	(8,614)
Gain/(loss) included in change in net assets	150,053	8,694	(18,700)	-	140,047
Pledges collected	-	-	-	(57,566)	(57,566)
Balances - December 31, 2016	$ 10,980,520	$ 166,749	$ 9,718	$ 240,000	$ 11,396,987

Items Measured at Fair Value on a Nonrecurring Basis

The Organization may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or market accounting or write downs of individual assets. There were no assets measured at fair value on a nonrecurring basis at December 31, 2016.

Note 14 – Split Interest Agreements and Retained Life Interests

The Organization receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest or be guaranteed an annuity payment until death.

Charitable gift annuities

The Organization has entered into irrevocable agreements with donors whereby, in exchange for the gift from the donor, the Organization is obligated to provide an annuity to the donor or other designated beneficiaries for a specific number of years.

A liability is recognized for the estimated present value of the annuity obligation and the related assets are recorded at their fair market value. The discount rates and life expectancy tables used in calculating the annuity obligation are those provided in the Internal Revenue Service guidelines and actuarial tables.

It is the Organization's policy to invest the related assets in investments that provide income and growth to meet the periodic annuity payments required. At the death of the annuitants, the remaining balances are disbursed as designated by the donor in the agreement and are generally in amounts that approximate or exceed the original gift. The Organization maintains investments with a total fair market value not less than 110% of the calculated present value of all future benefits to be paid to the annuitants. The calculated annuity liability for future benefits was $ 165,675 and $ 177,020 for the years ended December 31, 2016 and 2015, respectively. The fair market value of assets held in annuity accounts was approximately $ 370,000 and $ 384,000 at December 31, 2016 and 2015, respectively.

There were no new charitable gift annuities established in the years ended December 31, 2016 and December 31, 2015.

Note 15 – Related Party Transactions

As discussed in Note 5, the Organization has an outstanding note payable to the Adolph Thomas Trust. The Organization is a beneficiary of the trust, which has a carrying value of $ 10,956,140 and $ 10,805,993 at December 31, 2016 and 2015, respectively. The Organization's interest in the trust is reported in "beneficial interest in trusts" on the statement of financial position.

Note 16 – Business Combination

On December 16, 2016 the Arkansas Sheriff's Youth Ranches Foundation, Inc. was merged into the Arkansas Sheriff's Youth Ranches, Inc. Prior to the combination the Foundation was under the control of the Youth Ranch by virtue of a majority voting interest on the Foundation's board of directors. Additionally, the Ranch was the sole beneficiary of the fundraising efforts of the Foundation. The assets of the Foundation have been recorded on the financial statements at their net book value on the date of the transfer. The 2016 and 2015 financial statements include the results of operations for both the Ranch and the Foundation.

ARKANSAS SHERIFFS' YOUTH RANCHES, INC.

Compliance Information

December 31, 2016 and 2015

ARKANSAS SHERIFFS' YOUTH RANCHES, INC.

Schedule of Governmental Assistance

Year Ended December 31, 2016

Department/Division Program	CFDA/Contract Number	Fed/State Revenue	Fed/State Expenditures
Federal Assistance			
US Dept of Health and Human Services			
Foster Care - Title IV-E	93.658	$ 89,292	$ 89,292
State Assistance			
AR Department of Human Services/CFS			
Foster Care	N/A	82,473	82,473
Total Governmental Assistance		$ 171,765	$ 171,765

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MEMBERS AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors
Arkansas Sheriffs' Youth Ranches, Inc.
Batesville, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Arkansas Sheriffs' Youth Ranches, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Howland & Norris

June 30, 2017

ARKANSAS SHERIFFS' YOUTH RANCHES, INC.
Supplemental Data Sheet
December 31, 2016

Entity Name:	Arkansas Sheriffs' Youth Ranches, Inc.
Address:	100 St. Vincent Place Batesville, AR 72501
FEIN:	71-0471266
Phone:	870-793-6841
Director:	Nancy Weaver
Contact Person:	Nancy Weaver
Audit Fee:	Available upon Request