

WESTERN YOUTH SERVICES
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2014 AND 2013

BATES COUGHTRY REISS LLP
Certified Public Accountants

WESTERN YOUTH SERVICES

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INDEPENDENT AUDITORS' REPORT

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To the Board of Directors
Western Youth Services, Inc.
Laguna Hills, California

Report on the Financial Statements

We have audited the accompanying financial statements of Western Youth Services, Inc. (a 501(c)(3) nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013 and the related statements of activities, 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 and implementation, and maintenance of internal control relevant to the preparation and fair representation 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 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 financial statements are free of 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 auditor's judgment, including the assessment of the risk of material misstatements 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 an Organization'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 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 Western Youth Services, Inc. as of June 30, 2014 and 2013 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2014 on our consideration of Western Youth Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Western Youth Services' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Paul J. Reis LLP". The signature is written in a cursive, flowing style.

Brea, California
November 10, 2014.

WESTERN YOUTH SERVICES
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2014 and 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash	\$ 966,332	\$ 561,117
Accounts receivable	1,272,782	1,324,302
Prepaid expenses	2,335	1,274
Total current assets	2,241,449	1,886,693
FIXED ASSETS , at cost, less accumulated depreciation of \$673,692 and \$614,016	267,698	292,430
OTHER ASSETS		
Cash - reserved	164,576	-
Other receivable - reserved	27,713	-
Deposits	133,929	129,865
Total assets	\$ 2,835,365	\$ 2,308,988

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 67,251	\$ 113,464
Accrued payroll and payroll taxes	401,042	372,877
Accrued vacation and benefits	420,719	397,769
Other liabilities and accruals	62,927	56,856
Line of credit	-	100,000
Total current liabilities	951,939	1,040,966
OTHER LIABILITIES & COMMITMENTS		
Insurance claims reserve	192,289	-
Total liabilities	1,144,228	1,040,966
NET ASSETS		
Unrestricted	1,516,137	1,268,022
Temporarily restricted	175,000	-
Total net assets	1,691,137	1,268,022
Total liabilities and net assets	\$ 2,835,365	\$ 2,308,988

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

WESTERN YOUTH SERVICES
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2014 and 2013

	2014	2013
REVENUES AND SUPPORT		
Service contracts - County Agencies	\$ 10,448,267	\$ 10,274,331
Service contracts - City & Community Organizations	1,798,170	1,560,167
Service contracts - Administrative	33,452	51,037
Counseling fees	3,728	1,977
Contributions and Fundraising	48,150	29,082
Other income	1,107	13,397
	12,332,874	11,929,991
Net Assets Released From Restrictions:		
Satisfaction of use requirements	-	19,950
Total revenues and support	12,332,874	11,949,941
FUNCTIONAL EXPENSES		
Program services	10,734,434	10,396,796
Management and general	1,350,325	1,282,199
Total expenses	12,084,759	11,678,995
Change in Unrestricted Assets	248,115	270,946
Changes in Temporarily Restricted Assets:		
Contract Advance - Program services	175,000	(19,950)
Change in Temporarily Restricted Assets	175,000	(19,950)
CHANGE IN NET ASSETS	423,115	250,996
NET ASSETS, Beginning of Year	1,268,022	1,017,026
NET ASSETS, End of Year	\$ 1,691,137	\$ 1,268,022

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

WESTERN YOUTH SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2014

	2014				
	Programs			Total	
	Orange County Agencies	City & Community Organizations	Program Expense		Management & General
Total	Program Expense	Management & General	Total Expense	Total Expense	
STATEMENT OF EXPENSES					
Salaries and wages	\$ 6,764,446	\$ 1,135,993	\$ 7,900,439	\$ 906,291	\$ 8,806,730
Payroll taxes	544,663	64,406	609,069	71,387	680,456
Employee benefits	499,137	84,852	583,989	64,065	648,054
Contract service	<u>6,000</u>	<u>33,452</u>	<u>39,452</u>	<u>26,031</u>	<u>65,483</u>
Total personal services	7,814,246	1,318,703	9,132,949	1,067,774	10,200,723
Fundraising expenses	-	-	-	1,838	1,838
Professional and outside services	6,641	6,785	13,426	23,292	36,718
Supplies and other office expense	38,230	2,504	40,734	11,887	52,621
Telephone and utilities	154,780	3,231	158,011	21,977	179,988
Facilities and equipment rental	1,001,251	8,131	1,009,382	73,664	1,083,046
Program supplies	50,640	3,597	54,237	465	54,702
Recruitment and training	19,634	46,385	66,019	12,311	78,330
Repair and maintenance	127,311	7,536	134,847	27,214	162,061
Travel	61,947	10,629	72,576	14,667	87,243
Dues, subscriptions and licenses	3,513	2,210	5,723	4,710	10,433
Insurance	39,628	6,902	46,530	3,612	50,142
Interest	-	-	-	310	310
Miscellaneous	-	-	-	1,073	1,073
Total expenses before depreciation	<u>9,317,821</u>	<u>1,416,613</u>	<u>10,734,434</u>	<u>1,264,794</u>	<u>11,999,228</u>
Depreciation	-	-	-	85,531	85,531
Total expenses	<u>\$ 9,317,821</u>	<u>\$ 1,416,613</u>	<u>\$ 10,734,434</u>	<u>\$ 1,350,325</u>	<u>\$ 12,084,759</u>

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

WESTERN YOUTH SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2013

	2013				
	Programs		Total		
	Orange County Agencies	City & Community Organizations	Program Expense	Management & General	
Total	Total	Total	Total	Expense	
STATEMENT OF EXPENSES					
Salaries and wages	\$ 6,512,706	\$ 997,816	\$ 7,510,522	\$ 843,153	\$ 8,353,675
Payroll taxes	513,553	89,449	603,002	63,657	666,659
Employee benefits	538,144	81,409	619,553	51,499	671,052
Contract service	56,587	-	56,587	32,838	89,425
Total personal services	<u>7,620,990</u>	<u>1,168,674</u>	<u>8,789,664</u>	<u>991,147</u>	<u>9,780,811</u>
Fundraising expenses	-	-	-	188	188
Professional and outside services	6,217	5,788	12,005	21,820	33,825
Supplies and other office expense	169,973	11,478	181,451	49,826	231,277
Telephone and utilities	191,449	248	191,697	18,564	210,261
Facilities and equipment rental	989,785	243	990,028	62,303	1,052,331
Program supplies	55,018	1,411	56,429	1,157	57,586
Recruitment and training	30,031	1,140	31,171	33,272	64,443
Repair and maintenance	7,604	-	7,604	-	7,604
Travel	66,247	7,611	73,858	14,360	88,218
Dues, subscriptions and licenses	4,624	3,541	8,165	4,811	12,976
Insurance	47,669	7,055	54,724	4,474	59,198
Interest	-	-	-	520	520
Miscellaneous	-	-	-	615	615
Total expenses before depreciation	<u>9,189,607</u>	<u>1,207,189</u>	<u>10,396,796</u>	<u>1,203,057</u>	<u>11,599,853</u>
Depreciation	-	-	-	79,142	79,142
Total expenses	<u>\$ 9,189,607</u>	<u>\$ 1,207,189</u>	<u>\$ 10,396,796</u>	<u>\$ 1,282,199</u>	<u>\$ 11,678,995</u>

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

WESTERN YOUTH SERVICES
 STATEMENTS OF CASH FLOWS
 For the Years Ended June 30, 2014 and 2013
 Increase (Decrease) in Cash and Cash Equivalents

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 423,115	\$ 250,996
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	85,531	79,142
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	51,520	(76,915)
(Increase) decrease in prepaid expenses	(1,061)	10,254
(Increase) decrease in deposits	(4,064)	2,157
Increase (decrease) in other receivable	(27,713)	-
Increase (decrease) in accounts payable	(46,213)	(158,593)
Increase (decrease) in accrued payroll and payroll taxes	28,165	25,509
Increase (decrease) in accrued vacation and benefits	22,950	13,345
Increase (decrease) in other liabilities and accruals	6,071	(136,469)
Increase (decrease) in insurance claims reserve	192,289	-
Total adjustments	307,475	(241,570)
Net cash provided by operating activities	730,590	9,426
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(60,799)	(105,047)
Net cash used by investing activities	(60,799)	(105,047)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings/(repayments) from a credit line agreement	(100,000)	100,000
Net cash provided/(used) by financing activities	(100,000)	100,000
Net Increase in Cash and Cash Equivalents	569,791	4,379
Cash with reserved, and Cash Equivalents at Beginning of Year	561,117	556,738
Cash with reserved, and Cash Equivalents at End of Year	\$ 1,130,908	\$ 561,117

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

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Western Youth Services, Inc., “the Organization” was incorporated September 21, 1979 pursuant to the General Nonprofit Corporation Law of the State of California and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is considered a publicly supported organization. Its purpose is to provide youth and family counseling services under various programs.

Significant Accounting Policies

Financial Statement Presentation:

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

The Organization implements Statement of Financial Accounting Standards FASB ASC 958-225 (formerly referenced as (SFAS) No. 117, “Financial Statements of Not-for-Profit Organizations”). In accordance with FASB ASC 958-225, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board-designated or appropriated amounts, are reported as part of the unrestricted class.

Statement of Cash Flows:

The statement of cash flows is prepared on the cash and cash equivalent basis using the indirect method. For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Statement of Functional Expenses:

Salaries and wages are allocated to functional categories based upon actual expenditures. Other expenses are generally apportioned based upon the salaries and wages to each functional category.

Contributions:

The Organization implements FASB ASC 958-205 (formerly referenced as SFAS No. 116, “Accounting for Contributions Received and Contributions Made”). In accordance with FASB ASC 958-205, contributions are recognized when they are received or when a donor makes a promise to give to the Organization that is, in substance, unconditional.

Absent any donor restriction, contributions received or recognized are recorded as unrestricted along with contributions that are restricted by the donor but which restrictions expire in the fiscal year in which the donation is received.

All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Advertising:

The Organization expenses advertising production costs as they are incurred and advertising communication cost the first time the advertising takes place.

See independent auditors’ report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property and Equipment:

Property and equipment are stated at cost or, if donated, at estimated fair market value; less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Betterments and improvements are capitalized, while repairs and maintenance costs are expensed in the period incurred.

Estimates:

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

Fair Value Measurements:

The fair value of financial instruments including cash and cash equivalents, accounts receivable, accounts payable, credit card payables, accrued expenses and bank line of credit approximates their carrying value, principally because of the short maturity of those items.

Uncertain Tax Positions:

The Organization has adopted FASB ASC 740, Income Taxes (formerly referenced as SFAS Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109), which changes the framework for accounting for uncertainty in income taxes. Management has considered its tax positions and believes that the positions taken by the Organization are more likely than not to be sustained upon examination. Management does not believe that any material uncertain tax positions exist.

The Organization's tax returns are subject to examination by Federal taxing authorities for a period of three years from the date they are actually filed and a period of four years for California taxing authorities. As of the June 30, 2014 the following filed tax returns remain open for the years ended June 30: 2013, 2012, 2011 and the additional year 2010 for California.

The Federal and California tax returns for the year ended June 30, 2014 have respective filing due dates of November 15, 2014 and December 15, 2014 with an option available to file an application for an extension of time to file.

Subsequent Events:

The Organization's management has evaluated subsequent events through November 10, 2014 the date that the financial statements were available to be issued.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 – CASH & CASH RESERVED

The following is a schedule of the cash accounts as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Petty Cash	\$ 290	\$ 290
General and Payroll Checking	948,628	542,003
Benefits Admin. Checking	<u>17,414</u>	<u>18,824</u>
Cash and Cash Equivalents Available	<u>\$ 966,332</u>	<u>\$ 561,117</u>
Cash Reserved - Insurance Claims Reserve	<u>\$ 164,576</u>	<u>\$ -</u>

NOTE 3 – ACCOUNTS RECEIVABLE

	<u>2014</u>	<u>2013</u>
Accounts Receivable	\$ 1,251,078	\$ 1,312,699
Pledge Receivable	2,000	-
Other Receivables	<u>19,704</u>	<u>11,603</u>
Total	<u>\$ 1,272,782</u>	<u>\$ 1,324,302</u>

All accounts receivable are reported at their net realizable value.

When applicable the Organization provides for probable uncollectible amounts for accounts receivable through a charge to bad debt expense and a credit to the allowance for doubtful accounts. The amount is based on management's assessment of the current status of individual accounts. In the event that an account remained outstanding management would pursue reasonable collection efforts before the amount is written off against any prior balance of the allowance for doubtful accounts. Based on historical experience, and management's evaluation of accounts receivable as being fully collectable, no provision for uncollectible accounts was considered necessary for the years ended June 30, 2014 and 2013.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 4 – FIXED ASSETS

	<u>Computer & Office Equipment</u>	<u>Furniture & Fixtures</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Year 2013				
Cost at beginning of year	\$ 664,020	\$ 245,207	\$ 13,505	\$ 922,732
Additions	90,551	-	14,496	105,047
Retirements	<u>(115,882)</u>	<u>(5,451)</u>	<u>-</u>	<u>(121,333)</u>
Cost at June 30, 2013	<u>638,689</u>	<u>239,756</u>	<u>28,001</u>	<u>906,446</u>
Accumulated Depreciation	<u>(362,663)</u>	<u>(238,184)</u>	<u>(13,169)</u>	<u>(614,016)</u>
Net Book Value at June 30, 2013	<u>\$ 276,026</u>	<u>\$ 1,572</u>	<u>\$ 14,832</u>	<u>\$ 292,430</u>
Year 2014				
Cost at beginning of year	\$ 638,689	\$ 239,756	\$ 28,001	\$ 906,446
Additions	57,977	2,821	-	60,798
Retirements	<u>(25,854)</u>	<u>-</u>	<u>-</u>	<u>(25,854)</u>
Cost at June 30, 2014	<u>670,812</u>	<u>242,577</u>	<u>28,001</u>	<u>941,390</u>
Accumulated Depreciation	<u>(418,833)</u>	<u>(239,514)</u>	<u>(15,345)</u>	<u>(673,692)</u>
Net Book Value at June 30, 2014	<u>\$ 251,979</u>	<u>\$ 3,063</u>	<u>\$ 12,656</u>	<u>\$ 267,698</u>

The aggregate depreciation expense was as follows for the year ended June 30: 2014 - \$85,531 and 2013 - \$79,142.

Substantially all of the fixed assets have been purchased with funds provided under county agency contracts and are subject to provisions requiring the return of such assets in the event of contract termination.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5 – OTHER LIABILITIES AND ACCRUALS

The following is a schedule of the other liability accounts as of June 30, 2014 and 2013:

	2014	2013
Payables to Contract Agencies	\$ 44,445	\$ 25,536
403(b) Benefits Plan expense reserve	-	15,209
Miscellaneous - other	18,482	16,111
	\$ 62,927	\$ 56,856

NOTE 6 – LINES OF CREDIT

The Organization has a line of credit agreement with California United Bank for \$800,000 with a maturity date of November 15, 2014 and the agreement is collateralized by the Organization's assets. Principal is payable on demand with variable interest currently payable monthly at 4.75%. At June 30, 2014, the outstanding loan balance was \$-0-

In the previous year, the Organization's line of credit loan balance had a \$800,000 similar agreement with California United Bank. At June 30, 2013, the outstanding loan balance was \$100,000.

The Organization has a First Bank Visa credit card and (2) store credit cards that in aggregate have a credit limit of \$30,000. Balances are generally paid in full every month during the credit card's grace period to avoid interest charges. As of June 30, 2014 and 2013 there were outstanding aggregate balances of \$2,598 and \$5,616, respectively, and the amounts were recorded in accrued payables.

NOTE 7 – INSURANCE CLAIMS RESERVE

Effective January 1, 2014 the Organization terminated their participation in the Unemployment Services Trust (UST), which is an alternative unemployment insurance system for nonprofit 501(c)(3) organizations, and transitioned into the State of California Employee Development Department (EDD) system for unemployment insurance.

UST provided a trust fund reimbursement of \$169,982 and held back a retainage amount of \$27,713 which the Organization has accrued as a June 30, 2014 reserved other receivable. The combined cash and receivable amount of \$192,289, net of a \$5,406 claim payment to the EDD, have been segregated from the Organization's current assets. Management has reserved these assets for potential unemployment benefit claims which may be made by the EDD during a five calendar-quarter period, and then for the payment of certain programs cost reimbursements.

As of June 30, 2014 Management has accrued a corresponding contingent liability of \$192,289 which is equal to the reserved assets. Management estimates that the segregated assets will exceed the subsequent insurance claims made by the EDD. After the claims period ends, excess reserved cash will be distributed to certain program Agencies as an insurance cost reimbursement on a prorated percentage basis based on their historical funding of program wages. Any residual cash, which an amount is not yet determinable, would be recognized by the Organization as miscellaneous income in a future period.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 – COMMITMENTS

The Organization has several operating leases for office space that expire at various dates. Several leases contain one-year extension options. There are also several noncancellable operating leases for office equipment.

The following is a schedule by years of future minimum lease payments under the current noncancellable operating leases for office space and equipment as of June 30, 2014 and 2013.

	<u>2014 Operating Leases</u>	<u>2013 Operating Leases</u>
Year ending June 30,		
2014	\$ -	\$ 954,089
2015	898,659	507,726
2016	705,686	523,033
2017	621,701	434,281
2018	392,009	199,816
2019	104,912	-
2020 and thereafter	-	-
	<u>\$ 2,722,967</u>	<u>\$ 2,618,945</u>

As of June 30, 2014 the Organization had various deposits totaling \$133,929 of which \$129,049 are security deposits that are refundable as each lease agreement ends.

As of June 30, 2013 the Organization had similar refundable security deposits of \$127,777.

NOTE 9 – NET ASSETS

<u>Unrestricted Assets:</u>	<u>2014</u>	<u>2013</u>
Unrestricted - general	\$ 1,516,137	\$ 1,268,022
Unrestricted - designated reserve	-	-
Total unrestricted assets	<u>1,516,137</u>	<u>1,268,022</u>
<u>Temporarily Restricted:</u>		
Contract Advance - program services	<u>175,000</u>	-
Total Net Assets	<u>\$ 1,691,137</u>	<u>\$ 1,268,022</u>

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 – OTHER INCOME

As of June 30, 2014 and 2013 other income consists of the following:

	2014	2013
Miscellaneous income	\$ 1,107	\$ 13,397

NOTE 11 – CONTRACT CONTINGENCIES

Periodic audits may be performed by the various governmental agencies and certain costs may be questioned as not being reimbursable expenditures under the terms of the service contract. Such audits could lead to reimbursement to those agencies. Management believes disallowance, if any, would be immaterial for the years ended June 30, 2014 and June 30, 2013.

In certain situations governmental agencies may issue provisional payments in excess of actual billings and the Organization records the over funding as an accounts payable.

NOTE 12 – RETIREMENT PLAN

The Organization has a Section 403(b) deferred tax annuity plan covering all eligible employees electing to participate. The Organization's contribution to the Plan for the years ended June 30, 2014 and 2013 was \$52,078 and \$50,391 respectively. An employee's maximum contribution for any year is limited by applicable Internal Revenue Code provisions.

For the year ended June 30, 2014 the filing of the Organization's Form 5500 and the related limited-scope audit for their 403(b) deferred tax annuity plan is due by January 31, 2015 unless an extension is filed.

NOTE 13 – STATEMENT OF CASH FLOWS

A. Supplemental disclosure of cash flow information:

	2014	2013
Interest	\$ 310	\$ 520

B. Supplemental disclosure of noncash investing and financing activities: none.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 14 – MAJOR CUSTOMERS AND CONCENTRATIONS OF CREDIT RISK

For the years ended June 30, 2014 and 2013, the Organization received an aggregate of \$9,590,337 and \$9,393,239 respectively, in program revenue for their largest service contract with the County of Orange Health Care Agency. A significant reduction in this government service contract, if it were to occur, would have a significant effect on the Organization's program and activities. For fiscal year 2014 and 2013 the Organization also has an outreach service contract with the same County Agency.

The Organization also has several service contracts from the County of Orange Social Services Agency which includes revenues that pass-through other entities for the "FRC" programs. For the years ended June 30, 2014 and 2013, the Organization had aggregate "FRC" program revenues, respectively, of \$350,734 and \$353,398 from these contracts.

The Organization also has various contracts with City Schools and other nonprofit Organizations. Other revenue and support is derived from counseling fees and community contributions.

During the year the Organization maintained one checking account with Opus Bank and three checking accounts with California United Bank. The current standard Federal Deposit Insurance Corporation (FDIC) insured amount is \$250,000 per insured bank. As of June 30, 2014 the aggregate total of three checking accounts with California United Bank exceeded the FDIC limit by \$738,274 before outstanding items.

NOTE 15 – RELATED PARTY TRANSACTIONS

Effective November 1, 2011 the Organization and, a similar named, affiliate supporting organization Western Family Services entered into a start-up management and administrative service agreement. Western Family Services is a nonprofit entity that was established in February 2011. The purpose of the agreement is for the Organization to assist Western Family Services until it matriculates to self-sufficiency. The agreement can be cancelled by either party upon a thirty (30) day written notice to the other party. Both Organizations have a common purpose of engaging in efforts for the improvement and betterment of conditions for the underserved community located primarily in the Orange County California area.

Under the agreement the Organization is to provide management and administrative services and program operation services. The Organization shall be reimbursed by Western Family Services for the direct and indirect expenses incurred on their behalf. For the year ended June 30, 2014 the Organization billed Western Family Services \$33,452 for expense reimbursements and had an accounts receivable balance of \$7,522. For the year ended June 30, 2013 Organization billed Western Family Services \$51,037 for expense reimbursements and had an accounts receivable balance of \$12,769.

During the years ended June 30, 2014 and June 30, 2013 both parties were engaged by an Orange County Agency to provide services. As the lead contractor, the Organization processed contract billings on behalf of Western Family Services and remitted payments to them. As of June 30, 2014 and June 2013 the Organization had an accounts payable balance, respectively of \$7,522 and \$12,582 to Western Family Services.

See independent auditors' report.

**Bates
Coughtry
Reiss
LLP**

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**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**

David L. Bates
Wayne R. Coughtry
(1936 - 1997)
Stephen P. Janowicz*
Kenneth J. Liekhus*
Jeffrey P. Reiss

.....
Brian D. Bates
Steve Bertolucci
Robyn R. Bjorklund
Kathy Evans
Lori Henderson
Debra L. Howe
Shawn B. LaBurn
Louis H. Lopez
Judith A. Pappe
(1946 - 2005)

*Professional Corporation

To the Board of Directors of
Western Youth Services, Inc.
Laguna Hills, California

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 Western Youth Services, Inc., (a 501(c) (3) nonprofit organization), which comprise the statement of financial position as of the year ended June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Western Youth Services' 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 Western Youth Services' 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 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 the attention by those in charge 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 Western Youth Services' 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 consideration the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "D. St. Reinhold". The signature is written in a cursive, somewhat stylized font.

Brea, California
November 10, 2014