

WESTERN YOUTH SERVICES
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2015 AND 2014

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, 2015 and 2014 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, 2015 and 2014 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 December 29, 2015 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.

Bates Coty Seis LLP

Brea, California
December 29, 2015

WESTERN YOUTH SERVICES
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2015 and 2014

ASSETS

	2015	2014
CURRENT ASSETS		
Cash	\$ 1,304,436	\$ 966,332
Accounts receivable	1,298,624	1,272,782
Prepaid expenses	2,335	2,335
Total current assets	2,605,395	2,241,449
 FIXED ASSETS , at cost, less accumulated depreciation of \$749,483 and \$673,692		
	185,207	267,698
 OTHER ASSETS		
Cash - reserved	2,832	164,576
Other receivable - reserved	-	27,713
Deposits	131,137	133,929
 Total assets	 \$ 2,924,571	 \$ 2,835,365

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 60,857	\$ 67,251
Accrued payroll and payroll taxes	426,431	401,042
Accrued vacation and benefits	433,750	420,719
Other liabilities and accruals	168,632	62,927
Total current liabilities	1,089,670	951,939
 OTHER LIABILITIES & COMMITMENTS		
Insurance claims reserve	2,832	192,289
Total liabilities	1,092,502	1,144,228
 NET ASSETS		
Unrestricted	1,632,069	1,516,137
Temporarily restricted	200,000	175,000
Total net assets	1,832,069	1,691,137
 Total liabilities and net assets	 \$ 2,924,571	 \$ 2,835,365

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

WESTERN YOUTH SERVICES
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2015 and 2014

	2015	2014
UNRESTRICTED REVENUES AND SUPPORT:		
Service contracts - County Agencies	\$ 10,090,082	\$ 10,448,267
Service contracts - City & Community Organizations	2,371,909	1,798,170
Service contracts - Administrative	-	33,452
Counseling fees	20	3,728
Contributions and Fundraising	50,400	48,150
Other income	13,684	1,107
	12,526,095	12,332,874
Assets released from temporarily restricted:		
Satisfaction of current use requirement	175,000	-
Total revenues and support	12,701,095	12,332,874
FUNCTIONAL EXPENSES		
Program services	11,067,932	10,734,434
Management and general	1,517,231	1,350,325
Total expenses	12,585,163	12,084,759
Net Change in Unrestricted Assets	115,932	248,115
TEMPORARILY RESTRICTED ASSETS:		
Contract advance - program services	200,000	175,000
Released to unrestricted assets	(175,000)	-
Net Change in Temporarily Restricted Assets	25,000	175,000
Total Change in Net Assets	140,932	423,115
Net Assets, Beginning of Year	1,691,137	1,268,022
Net Assets, End of Year	\$ 1,832,069	\$ 1,691,137

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

WESTERN YOUTH SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2015

	2015			
	Programs			Total
	Orange County Agencies	City & Community Organizations	Program Expense	Management & General
			Total Program Expense	Total Expense
STATEMENT OF EXPENSES				
Salaries and wages	\$ 6,667,659	\$ 1,617,072	\$ 8,284,731	\$ 9,194,230
Payroll taxes	397,077	134,860	531,937	564,570
Employee benefits	580,057	118,110	698,167	813,294
Contract service	37,432	60,376	97,808	148,374
Total personnel services	<u>7,682,225</u>	<u>1,930,418</u>	<u>9,612,643</u>	<u>10,720,468</u>
Fundraising expenses	-	-	-	4,322
Professional and outside services	3,513	7,597	11,110	28,719
Supplies and other office expense	18,011	4,267	22,278	13,525
Telephone and utilities	127,520	7,756	135,276	14,170
Facilities and equipment rental	942,338	10,159	952,497	81,715
Program supplies	32,366	8,869	41,235	292
Recruitment, staff development and training	10,282	6,031	16,313	125,429
Repair and maintenance	141,961	11,401	153,362	25,812
Travel	36,740	29,994	66,734	13,632
Dues, subscriptions and licenses	5,556	2,317	7,873	5,935
Insurance	40,992	7,619	48,611	3,773
Miscellaneous	-	-	-	3,540
Total expenses before depreciation	<u>9,041,504</u>	<u>2,026,428</u>	<u>11,067,932</u>	<u>1,428,689</u>
Depreciation	-	-	-	88,542
Total expenses	<u>\$ 9,041,504</u>	<u>\$ 2,026,428</u>	<u>\$ 11,067,932</u>	<u>\$ 1,517,231</u>
				<u>\$ 12,585,163</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, 2014

	2014			
	Programs			Total Program Expense
	Orange County Agencies	City & Community Organizations	Management & General	
	\$	\$	\$	\$
STATEMENT OF EXPENSES				
Salaries and wages	6,764,446	1,135,993	906,291	8,806,730
Payroll taxes	544,663	64,406	71,387	680,456
Employee benefits	499,137	84,852	64,065	648,054
Contract service	6,000	33,452	26,031	65,483
Total personnel services	<u>7,814,246</u>	<u>1,318,703</u>	<u>1,067,774</u>	<u>10,200,723</u>
Fundraising expenses	-	-	1,838	1,838
Professional and outside services	6,641	6,785	23,292	36,718
Supplies and other office expense	38,230	2,504	11,887	52,621
Telephone and utilities	154,780	3,231	21,977	179,988
Facilities and equipment rental	1,001,251	8,131	73,664	1,083,046
Program supplies	50,640	3,597	465	54,702
Recruitment and training	19,634	46,385	12,311	78,330
Repair and maintenance	127,311	7,536	27,214	162,061
Travel	61,947	10,629	14,667	87,243
Dues, subscriptions and licenses	3,513	2,210	4,710	10,433
Insurance	39,628	6,902	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>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>\$ 1,350,325</u>	<u>\$ 12,084,759</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, 2015 and 2014
Increase (Decrease) in Cash and Cash Equivalents

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	<u>\$ 140,932</u>	<u>\$ 423,115</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	88,542	85,531
Miscellaneous loss on retirement of fixed assets	757	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(25,842)	51,520
(Increase) decrease in prepaid expenses	-	(1,062)
(Increase) decrease in deposits	2,792	(4,064)
Increase (decrease) in other receivable	27,713	(27,713)
Increase (decrease) in accounts payable	(6,394)	(46,213)
Increase (decrease) in accrued payroll and payroll taxes	25,389	28,165
Increase (decrease) in accrued vacation and benefits	13,031	22,950
Increase (decrease) in other liabilities and accruals	105,705	6,071
Increase (decrease) in insurance claims reserve	<u>(189,457)</u>	<u>192,289</u>
Total adjustments	<u>42,236</u>	<u>307,474</u>
Net cash provided by operating activities	<u>183,168</u>	<u>730,589</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(6,808)</u>	<u>(60,798)</u>
Net cash used by investing activities	<u>(6,808)</u>	<u>(60,798)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings/(repayments) from a credit line agreement	<u>-</u>	<u>(100,000)</u>
Net cash provided/(used) by financing activities	<u>-</u>	<u>(100,000)</u>
 Net Increase in Cash and Cash Equivalents	176,360	569,791
 Cash with reserved, and Cash Equivalents at Beginning of Year	<u>1,130,908</u>	<u>561,117</u>
 Cash with reserved, and Cash Equivalents at End of Year	<u>\$ 1,307,268</u>	<u>\$ 1,130,908</u>

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

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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, 2015 AND 2014**

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, 2015 the following filed tax returns remain open for the years ended June 30: 2014, 2013, 2012 and the additional year 2011 for California.

The Federal and California tax returns for the year ended June 30, 2015 have respective extended filing due dates of February 15, 2016.

Subsequent Events:

The Organization's management has evaluated subsequent events through December 29, 2015, the date that the financial statements were available to be issued. Management renewed a line of credit with their bank and signed an amended office lease agreement.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 2 – CASH & CASH RESERVED

The following is a schedule of the cash accounts as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
General and Payroll Checking	\$ 1,292,335	\$ 948,628
Benefits Admin. Checking	11,851	17,414
Petty Cash	<u>250</u>	<u>290</u>
Cash and Cash Equivalents Available	<u>\$ 1,304,436</u>	<u>\$ 966,332</u>
Cash Reserved - Insurance Claims Reserve	<u>\$ 2,832</u>	<u>\$ 164,576</u>

NOTE 3 – ACCOUNTS RECEIVABLE

	<u>2015</u>	<u>2014</u>
Accounts Receivable	\$ 1,291,268	\$ 1,251,078
Pledge Receivable	-	2,000
Other Receivables	<u>7,356</u>	<u>19,704</u>
Total	<u>\$ 1,298,624</u>	<u>\$ 1,272,782</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, 2015 and 2014.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 4 – FIXED ASSETS

	<u>Computer & Office Equipment</u>	<u>Furniture & Fixtures</u>	<u>Leasehold Improvements</u>	<u>Total</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>
Year 2015				
Cost at beginning of year	\$ 670,812	\$ 242,577	\$ 28,001	\$ 941,390
Additions	5,745	1,063	-	6,808
Retirements	<u>(13,508)</u>	<u>-</u>	<u>-</u>	<u>(13,508)</u>
Cost at June 30, 2015	<u>663,049</u>	<u>243,640</u>	<u>28,001</u>	<u>934,690</u>
Accumulated Depreciation	<u>(491,661)</u>	<u>(240,301)</u>	<u>(17,521)</u>	<u>(749,483)</u>
Net Book Value at June 30, 2015	<u>\$ 171,388</u>	<u>\$ 3,339</u>	<u>\$ 10,480</u>	<u>\$ 185,207</u>

The aggregate depreciation expense was as follows for the year ended June 30: 2015 - \$88,542 and 2014 - \$85,531.

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, 2015 AND 2014**

NOTE 5 – OTHER LIABILITIES AND ACCRUALS

The following is a schedule of the other liability accounts as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Payables to Contract Agencies	\$ 161,266	\$ 44,445
Miscellaneous - other	<u>7,366</u>	<u>18,482</u>
	<u>\$ 168,632</u>	<u>\$ 62,927</u>

NOTE 6 – LINE OF CREDIT

During the fiscal year 2015 the Organization had available a line of credit agreement with California United Bank for \$800,000 that was collateralized by the Organization's assets. Interest was payable monthly at a variable rate of 4.75% with principal payable periodically or in full at the December 10, 2015 maturity date. As of June 30, 2015, the outstanding loan balance was \$-0-. In December 2015 Management renewed the line of credit.

In the previous fiscal year 2014, the Organization had a similar \$800,000 line of credit agreement with California United Bank. At June 30, 2014, the outstanding loan balance was \$-0-.

The Organization has a First Bank Visa credit card and one store credit card that in aggregate have a credit limit of \$38,000. Balances are generally paid in full every month during the credit card's grace period to avoid interest charges. As of June 30, 2015 and 2014 there were outstanding aggregate balances of \$3,508 and \$2,598, respectively, and the amounts were recorded in accounts 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) organization, and transitioned into the State of California Employee Development Department (EDD) system for unemployment insurance.

As of June 30, 2014 UST had provided a trust fund reimbursement of \$197,695 and after paying an EDD insurance claim of \$5,406 the Organization accrued a corresponding contingent liability reserve of \$192,289. Management reserved the cash asset for potential unemployment benefit claims which may be made by the EDD during a five calendar-quarter period, and then for the reimbursement of program costs to certain Orange County Agencies.

During the year ended June 30, 2015 the Organization paid additional EDD insurance claims totaling \$27,407, reimbursed Agency program costs of \$123,964 and recognized \$38,086 as a charge against current year unemployment insurance expense. As of June 30, 2015 the remaining reserve for the liability was \$2,832.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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.

In September 2015 Management signed an office lease amendment which is included in the following schedule by years of the future minimum lease payments under the non-cancellable operating leases for office space and equipment:

	<u>2015</u> <u>Operating Leases</u>	<u>2014</u> <u>Operating Leases</u>
Year ending June 30,		
2015	\$ -	\$ 898,659
2016	695,889	705,686
2017	683,322	621,701
2018	503,023	392,009
2019	257,105	104,912
2020 with thereafter	<u>64,120</u>	<u>-</u>
	<u>\$ 2,203,459</u>	<u>\$ 2,722,967</u>

As of June 30, 2015 and 2014, the Organization had various deposits totaling \$136,137 and \$129,049, respectively, of which are security deposits that are refundable as each lease agreement ends.

NOTE 9 – NET ASSETS

	<u>2015</u>	<u>2014</u>
Unrestricted - general	\$ 1,617,645	\$ 1,516,137
Temporarily restricted - contract advance for program services	<u>200,000</u>	<u>175,000</u>
Total net assets	<u>1,817,645</u>	<u>1,691,137</u>

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 10 – OTHER INCOME

As of June 30, 2015 and 2014 other income consists of the following:

	2015	2014
Miscellaneous income	\$ 13,684	\$ 1,107

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, 2015 and June 30, 2014.

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, 2015 and 2014 was \$63,773 and \$52,078 respectively. An employee's maximum contribution for any year is limited by applicable Internal Revenue Code provisions.

For the year ended June 30, 2015 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, 2016 unless an extension is filed.

NOTE 13 – STATEMENT OF CASH FLOWS

A. Supplemental disclosure of cash flow information:

	2015	2014
Interest	\$ -	\$ 310

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

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 14 – MAJOR CUSTOMERS AND CONCENTRATIONS OF CREDIT RISK

For the years ended June 30, 2015 and 2014, the Organization received an aggregate of \$9,760,696 and \$9,590,337 respectively, in program revenue from their largest service contract with the County of Orange Health Care Agency (HCA). A significant reduction in this government service contract, if it were to occur, would have an adverse effect on the Organization's programs and activities. For fiscal year 2015 and 2014 the Organization also has an outreach service contract with HCA.

The Organization also has several service contracts from the County of Orange Social Services Agency (SSA) which includes revenues that pass-through other entities for the Family Resource Center (FRC) programs. For the years ended June 30, 2015 and 2014, the Organization had aggregate FRC program revenues of \$329,386 and \$350,734, respectively.

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, 2015 the aggregate total of three checking accounts with California United Bank exceeded the FDIC limit by \$597,989 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, 2015 the Organization did not have billable service to Western Family Services.

For the year ended June 30, 2014 Organization billed Western Family Services \$33,452 for expense reimbursements and had an accounts receivable balance of \$7,522.

See independent auditors' report.

**Bates
Coughtry
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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**

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

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

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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

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, 2015, 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 December 29, 2015.

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.

Handwritten signature in cursive script that reads "Brian C. Reiss CPA".

Brea, California
December 29, 2015