

**WESTERN YOUTH SERVICES**  
**INDEPENDENT AUDITORS' REPORT**  
**JUNE 30, 2016 AND 2015**

**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, 2016 and 2015 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, 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.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report November 23, 2016 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 cursive script that reads "Bates Corthy Reiss LLP".

Brea, California  
November 23, 2016

WESTERN YOUTH SERVICES  
STATEMENTS OF FINANCIAL POSITION  
As of June 30, 2016 and 2015

**ASSETS**

	2016	2015
<b>CURRENT ASSETS</b>		
Cash	\$ 502,041	\$ 1,304,436
Accounts receivable	1,892,503	1,298,624
Prepaid expenses	1,270	2,335
Total current assets	2,395,814	2,605,395
 <b>FIXED ASSETS</b> , at cost, less accumulated depreciation of \$826,062 Pending and \$749,483		
	225,609	185,207
 <b>OTHER ASSETS</b>		
Cash - reserved	-	2,832
Deposits	135,137	131,137
 Total assets	 \$ 2,756,560	 \$ 2,924,571

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 178,375	\$ 60,857
Accrued payroll and payroll taxes	501,862	426,431
Accrued vacation and benefits	455,332	433,750
Other liabilities and accruals	669	168,632
Total current liabilities	1,136,238	1,089,670
 <b>OTHER LIABILITIES &amp; COMMITMENTS</b>		
Insurance claims reserve	-	2,832
Total liabilities	1,136,238	1,092,502
 <b>NET ASSETS</b>		
Unrestricted	1,620,322	1,632,069
Temporarily restricted	-	200,000
Total net assets	1,620,322	1,832,069
 Total liabilities and net assets	 \$ 2,756,560	 \$ 2,924,571

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

WESTERN YOUTH SERVICES  
STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2016 and 2015

	2016	2015
<b>UNRESTRICTED REVENUES AND SUPPORT:</b>		
Service contracts - County Agencies	\$ 12,072,421	\$ 10,090,082
Service contracts - City & Community Organizations	2,698,966	2,371,909
Counseling fees	-	20
Contributions and Fundraising	51,981	50,400
Other income	470	13,684
	14,823,838	12,526,095
Assets released from temporarily restricted:		
Satisfaction of current use requirement	200,000	175,000
Total revenues and support	15,023,838	12,701,095
<b>FUNCTIONAL EXPENSES</b>		
Program services	13,132,867	11,067,932
Management and general	1,902,718	1,517,231
Total expenses	15,035,585	12,585,163
<b>Net Change in Unrestricted Assets</b>	(11,747)	115,932
<b>TEMPORARILY RESTRICTED ASSETS:</b>		
Contract advance - program services	-	200,000
Released to unrestricted assets	(200,000)	(175,000)
<b>Net Change in Temporarily Restricted Assets</b>	(200,000)	25,000
<b>Total Change in Net Assets</b>	(211,747)	140,932
<b>Net Assets, Beginning of Year</b>	1,832,069	1,691,137
<b>Net Assets, End of Year</b>	\$ 1,620,322	\$ 1,832,069

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

WESTERN YOUTH SERVICES  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2016

	2016			
	Programs			Total Program Expense
	Orange County Agencies	City & Community Organizations	Management & General	
Total Program Expense	Total Program Expense	Management & General	Total Expense	
<b>STATEMENT OF EXPENSES</b>				
Salaries and wages	\$ 7,299,418	\$ 1,830,432	\$ 1,092,178	\$ 10,222,028
Payroll taxes	583,955	161,322	75,904	821,181
Employee benefits	702,300	167,620	135,841	1,005,761
Contract service	<u>362,781</u>	<u>94,864</u>	<u>69,854</u>	<u>527,499</u>
Total personnel services	8,948,454	2,254,238	1,373,777	12,576,469
Fundraising expenses	-	-	15,435	15,435
Professional and outside services	58,356	44,898	22,741	125,995
Supplies and other office expense	35,445	5,358	25,948	66,751
Telephone and utilities	136,723	10,171	13,067	159,961
Facilities and equipment rental	973,794	14,809	92,091	1,080,694
Program supplies	42,847	7,516	1,370	51,733
Recruitment, development, training, outreach	50,381	10,798	159,772	220,951
Repairs & maintenance - computer systems	360,557	38,572	81,555	480,684
Travel	51,826	19,036	14,900	85,762
Dues, subscriptions and licenses	6,602	4,570	8,041	19,213
Insurance	41,029	13,123	4,125	58,277
Interest	-	-	3,274	3,274
Miscellaneous	<u>2,565</u>	<u>1,200</u>	<u>10,043</u>	<u>13,808</u>
Total expenses before depreciation	10,708,578	2,424,289	1,826,139	14,959,006
Depreciation	-	-	76,579	76,579
Total expenses	<u>\$ 10,708,578</u>	<u>\$ 2,424,289</u>	<u>\$ 1,902,718</u>	<u>\$ 15,035,585</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, 2015

	2015							
	Programs			Total				
	Orange County Agencies	City & Community Organizations	Program Expense	Management & General				
<b>STATEMENT OF EXPENSES</b>								
Salaries and wages	\$ 6,667,659	\$ 1,617,072	\$ 8,284,731	\$ 909,499	\$ 9,194,230			
Payroll taxes	397,077	134,860	531,937	32,633	564,570			
Employee benefits	580,057	118,110	698,167	115,127	813,294			
Contract service	37,432	60,376	97,808	50,566	148,374			
Total personnel services	7,682,225	1,930,418	9,612,643	1,107,825	10,720,468			
Fundraising expenses	-	-	-	4,322	4,322			
Professional and outside services	3,513	7,597	11,110	28,719	39,829			
Supplies and other office expense	18,011	4,267	22,278	13,525	35,803			
Telephone and utilities	127,520	7,756	135,276	14,170	149,446			
Facilities and equipment rental	942,338	10,159	952,497	81,715	1,034,212			
Program supplies	32,366	8,869	41,235	292	41,527			
Recruitment, development, training, outreach	10,282	6,031	16,313	125,429	141,742			
Repairs & maintenance - computer systems	141,961	11,401	153,362	25,812	179,174			
Travel	36,740	29,994	66,734	13,632	80,366			
Dues, subscriptions and licenses	5,556	2,317	7,873	5,935	13,808			
Insurance	40,992	7,619	48,611	3,773	52,384			
Miscellaneous	-	-	-	3,540	3,540			
Total expenses before depreciation	9,041,504	2,026,428	11,067,932	1,428,689	12,496,621			
Depreciation	-	-	-	88,542	88,542			
Total expenses	\$ 9,041,504	\$ 2,026,428	\$ 11,067,932	\$ 1,517,231	\$ 12,585,163			

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

WESTERN YOUTH SERVICES  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2016 and 2015  
Increase (Decrease) in Cash and Cash Equivalents

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (211,747)	\$ 140,932
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	76,579	88,542
Miscellaneous loss on retirement of fixed assets	-	757
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(593,879)	(25,842)
(Increase) decrease in prepaid expenses	1,064	-
(Increase) decrease in deposits	(4,000)	2,792
Increase (decrease) in other receivable	-	27,713
Increase (decrease) in accounts payable	117,518	(6,394)
Increase (decrease) in accrued payroll and payroll taxes	75,431	25,389
Increase (decrease) in accrued vacation and benefits	21,582	13,031
Increase (decrease) in other liabilities and accruals	(167,962)	105,705
Increase (decrease) in insurance claims reserve	(2,832)	(189,457)
Total adjustments	<u>(476,499)</u>	<u>42,236</u>
Net cash (used) or provided by operating activities	<u>(688,246)</u>	<u>183,168</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	<u>(116,981)</u>	<u>(6,808)</u>
Net cash (used) by investing activities	<u>(116,981)</u>	<u>(6,808)</u>
Net (Decrease) or Increase in Cash and Cash Equivalents	(805,227)	176,360
Cash with reserved, and Cash Equivalents at Beginning of Year	<u>1,307,268</u>	<u>1,130,908</u>
Cash with reserved, and Cash Equivalents at End of Year	<u>\$ 502,041</u>	<u>\$ 1,307,268</u>

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

**WESTERN YOUTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**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, wages and direct cost are allocated to functional categories based upon actual expenditures. Indirect 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, 2016 AND 2015**

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

**Property and Equipment:**

The Organization currently capitalizes property and equipment that has a per item purchase price in excess of \$500. Donated property placed into service is also capitalized if the estimated fair market value is in excess of \$500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to seven years. 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, 2016 the following filed tax returns remain open for the years ended June 30: 2015, 2014, 2013 and the additional year 2012 for California.

The Federal and California tax returns for the year ended June 30, 2016 have respective extended filing due dates of February 15, 2017.

**Subsequent Events:**

The Organization's management has evaluated subsequent events through November 23, 2016 the date that the financial statements were available to be issued.

See independent auditors' report.

**WESTERN YOUTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 2 – CASH & CASH RESERVED**

The following is a schedule of the cash accounts as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
General and Payroll Checking	\$ 495,438	\$ 1,292,335
Benefits Admin. Checking	6,353	11,851
Petty Cash	<u>250</u>	<u>250</u>
Cash and Cash Equivalents Available	<u>\$ 502,041</u>	<u>\$ 1,304,436</u>
Cash Reserved - Insurance Claims Reserve	<u>\$ -</u>	<u>\$ 2,832</u>

**NOTE 3 – ACCOUNTS RECEIVABLE**

	<u>2016</u>	<u>2015</u>
Accounts Receivable	\$ 1,884,276	\$ 1,291,268
Pledge Receivable	200	-
Other Receivables	<u>8,027</u>	<u>7,356</u>
Total	<u>\$ 1,892,503</u>	<u>\$ 1,298,624</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, 2016 and 2015.

See independent auditors' report.

**WESTERN YOUTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 4 – FIXED ASSETS**

	<u>Computer &amp; Office Equipment</u>	<u>Furniture &amp; Fixtures</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<b>Year 2015</b>				
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>
<b>Year 2016</b>				
Cost at beginning of year	\$ 663,049	\$ 243,640	\$ 28,001	\$ 934,690
Additions	104,534	12,447	-	116,981
Retirements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cost at June 30, 2016	<u>767,583</u>	<u>256,087</u>	<u>28,001</u>	<u>1,051,671</u>
Accumulated Depreciation	<u>(564,813)</u>	<u>(241,552)</u>	<u>(19,697)</u>	<u>(826,062)</u>
Net Book Value at June 30, 2016	<u>\$ 202,770</u>	<u>\$ 14,535</u>	<u>\$ 8,304</u>	<u>\$ 225,609</u>

The aggregate depreciation expense was as follows for the year ended June 30: 2016 - \$76,579 and 2015 - \$88,542.

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, 2016 AND 2015**

**NOTE 5 – OTHER LIABILITIES AND ACCRUALS**

The following is a schedule of the other liability accounts as of June 30, 2016 and 2015:

	2016	2015
Payables to Contract Agencies	\$ -	\$ 161,266
Miscellaneous - other	669	7,366
	\$ 669	\$ 168,632

**NOTE 6 – LINE OF CREDIT**

During the fiscal year 2016 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, 2017 maturity date. As of June 30, 2016, the outstanding loan balance was \$-0-.

In the previous fiscal year 2015, the Organization had a \$800,000 line of credit agreement with California United Bank. At June 30, 2015, the outstanding loan balance was \$-0-.

The Organization has credit cards with American Express, Capital One, and First Bank with an aggregate credit limit of \$288,000. Credit Card use is limited to certain management personnel. Balances are generally paid in full every month during the credit card's grace period to avoid interest charges. As of June 30, 2016 and 2015 there were outstanding aggregate balances of \$52,976 and \$3,508, respectively, which 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.

Upon the termination of the UST plan the Organization received a trust fund reimbursement of \$197,695. Management reserved the cash for potential unemployment benefit claims and for the reimbursement of program costs to certain Orange County Agencies.

By the end of the year ended June 30, 2015 the Organization had paid out EDD insurance claims totaling \$32,813, reimbursed Agency program costs of \$123,964 and recognized \$38,086 as a credit against current year unemployment insurance expense.

During the year ended June 30, 2016 the remaining \$2,832 reserve for the liability was eliminated and the corresponding miscellaneous balance of the reserved cash account was closed.

See independent auditors' report.

**WESTERN YOUTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**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. During the year ended June 30, 2016 the Organization extended various leases.

The following schedule indicates future minimum lease payments under the non-cancellable operating leases for office space and equipment:

	<u>2016 Operating Leases</u>	<u>2015 Operating Leases</u>
Year ending June 30,		
2016	\$ -	\$ 695,889
2017	936,749	683,322
2018	370,817	503,023
2019	295,584	257,105
2020	108,137	64,120
2021 with thereafter	<u>45,762</u>	<u>-</u>
	<u>\$ 1,757,049</u>	<u>\$ 2,203,459</u>

As of June 30, 2016 and 2015, the Organization had various deposits totaling \$135,137 and \$131,137, respectively, of which are security deposits that are refundable as each lease agreement ends.

**NOTE 9 – NET ASSETS**

	<u>2016</u>	<u>2015</u>
Unrestricted - general	\$ 1,620,322	\$ 1,632,065
Temporarily restricted - contract advance for program services	<u>-</u>	<u>200,000</u>
Total net assets	<u>1,620,322</u>	<u>1,832,065</u>

See independent auditors' report.

**WESTERN YOUTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 10 – OTHER INCOME**

As of June 30, 2016 and 2015 other income consists of the following:

	2016	2015
Miscellaneous income	\$ 470	\$ 13,684

**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, 2016 and June 30, 2015.

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, 2016 and 2015 was \$95,747 and \$63,773 respectively. An employee's maximum contribution for any year is limited by applicable Internal Revenue Code provisions.

For the year ended June 30, 2016 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, 2017 unless an extension is filed.

**NOTE 13 – STATEMENT OF CASH FLOWS**

A. Supplemental disclosure of cash flow information:

	2016	2015
Interest	\$ 3,274	\$ -

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

See independent auditors' report.

**WESTERN YOUTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 14 – MAJOR CUSTOMERS AND CONCENTRATIONS OF CREDIT RISK**

For the years ended June 30, 2016 and 2015, the Organization received an aggregate of \$11,581,800 and \$9,760,696 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 2016 and 2015 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, 2016 and 2015, the Organization had aggregate FRC program revenues of \$490,621 and \$394,384, 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 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, 2016 the aggregate total of three checking accounts with California United Bank exceeded the FDIC limit by \$609,260 before outstanding items and as of June 2015 the uninsured amount was \$597,989.

**NOTE 15 – RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2016 the Organization paid \$81,840 for technical consulting services provided by a former Board Member that had resigned in the prior year, in accordance with the Organization's policy, to avoid a conflict of interest.

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.

For the years ended June 30, 2016 and June 30, 2015 the Organization did not have billable services to or from 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, 2016, 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 23, 2016.

**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.

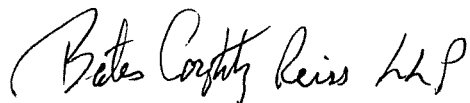
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 that reads "Bates Conroy Reiss LLP". The signature is written in a cursive, flowing style.

Brea, California  
November 23, 2016