

WESTERN YOUTH SERVICES
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2017 AND 2016

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, 2017 and 2016 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, 2017 and 2016 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 January 16, 2018 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, appearing to read "Betsy Reiss LHP". The signature is written in a cursive, flowing style.

Brea, California
January 16, 2018

WESTERN YOUTH SERVICES
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2017 and 2016

ASSETS

| | 2017 | 2016 |
|---|--------------|--------------|
| CURRENT ASSETS | | |
| Cash | \$ 819,345 | \$ 502,041 |
| Accounts receivable | 2,039,696 | 1,892,503 |
| Prepaid expenses | 24,140 | 1,270 |
| Total current assets | 2,883,181 | 2,395,814 |
| | | |
| FIXED ASSETS , at cost, less accumulated depreciation of \$373,669 and \$826,062 | 448,900 | 225,609 |
| | | |
| OTHER ASSETS | | |
| Deposits | 139,686 | 135,137 |
| Total assets | \$ 3,471,767 | \$ 2,756,560 |

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | | |
|-----------------------------------|------------|------------|
| Accounts payable | \$ 127,135 | \$ 178,375 |
| Accrued payroll and payroll taxes | 573,518 | 501,862 |
| Accrued vacation and benefits | 478,237 | 455,332 |
| Other liabilities and accruals | 174,444 | 669 |
| Total current liabilities | 1,353,334 | 1,136,238 |

OTHER LIABILITIES & COMMITMENTS

| | | |
|-------------------------------------|-----------|-----------|
| Tenant lease Improvements allowance | 276,003 | - |
| Total liabilities | 1,629,337 | 1,136,238 |

NET ASSETS

| | | |
|----------------------------------|--------------|--------------|
| Unrestricted | 1,832,430 | 1,620,322 |
| Temporarily restricted | 10,000 | - |
| Total net assets | 1,842,430 | 1,620,322 |
| | | |
| Total liabilities and net assets | \$ 3,471,767 | \$ 2,756,560 |

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

WESTERN YOUTH SERVICES
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|--|---------------|---------------|
| UNRESTRICTED REVENUES AND SUPPORT: | | |
| Service contracts - County Agencies | \$ 12,379,321 | \$ 12,072,421 |
| Service contracts - City & Community Organizations | 3,186,893 | 2,698,966 |
| Clinical service fees | 1,194,210 | - |
| Contributions and Fundraising | 22,107 | 51,981 |
| Other income | 81,393 | 470 |
| | 16,863,924 | 14,823,838 |
| Assets released from temporarily restricted: | | |
| Satisfaction of current use requirement | - | 200,000 |
| Total revenues and support | 16,863,924 | 15,023,838 |
| FUNCTIONAL EXPENSES | | |
| Program services | 14,313,146 | 13,132,867 |
| Management and general | 2,338,670 | 1,902,718 |
| Total expenses | 16,651,816 | 15,035,585 |
| Net Change in Unrestricted Assets | 212,108 | (11,747) |
| TEMPORARILY RESTRICTED ASSETS: | | |
| Grant - Program services | 10,000 | - |
| Released to unrestricted assets - Grant funds | - | (200,000) |
| Net Change in Temporarily Restricted Assets | 10,000 | (200,000) |
| Total Change in Net Assets | 222,108 | (211,747) |
| Net Assets, Beginning of Year | 1,620,322 | 1,832,069 |
| Net Assets, End of Year | \$ 1,842,430 | \$ 1,620,322 |

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

WESTERN YOUTH SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017

| | 2017 | | | | |
|--|---------------------------|-----------------------------------|----------------------|---------------------|-------------------------|
| | Programs | | | Total | |
| | Orange County Agencies | City & Community Organizations | Program Expense | | Management & General |
| Total | Expense | Expense | Expense | Total Expense | |
| STATEMENT OF EXPENSES | | | | | |
| Salaries and wages | \$ 8,087,550 | \$ 2,061,704 | \$ 10,149,254 | \$ 1,296,230 | \$ 11,445,484 |
| Payroll taxes | 641,601 | 177,480 | 819,081 | 99,066 | 918,147 |
| Employee benefits | 885,960 | 191,236 | 1,077,196 | 171,702 | 1,248,898 |
| Contract services | 524,972 | 37,440 | 562,412 | 212,698 | 775,110 |
| Total personnel services | 10,140,083 | 2,467,860 | 12,607,943 | 1,779,696 | 14,387,639 |
| Fundraising expenses | - | - | - | 2,608 | 2,608 |
| Professional and outside services | 4,040 | 6,807 | 10,847 | 36,955 | 47,802 |
| Supplies and other office expense | 46,082 | 12,315 | 58,397 | 25,820 | 84,217 |
| Telephone and utilities | 135,792 | 6,381 | 142,173 | 30,103 | 172,276 |
| Facilities and equipment rental | 924,998 | 18,265 | 943,263 | 114,739 | 1,058,002 |
| Program supplies | 73,902 | 4,083 | 77,985 | 1,842 | 79,827 |
| Recruitment, development, training, outreach | 117,226 | 2,521 | 119,747 | 154,377 | 274,124 |
| Repairs & maintenance - computer systems | 187,868 | 8,853 | 196,721 | 44,861 | 241,582 |
| Travel | 67,171 | 20,234 | 87,405 | 22,364 | 109,769 |
| Dues, subscriptions and licenses | 6,383 | 634 | 7,017 | 24,940 | 31,957 |
| Insurance | 43,842 | 9,200 | 53,042 | 4,760 | 57,802 |
| Interest | 666 | 94 | 760 | 8,113 | 8,873 |
| Bad debt | - | 5,425 | 5,425 | - | 5,425 |
| Miscellaneous | 398 | 2,023 | 2,421 | 2,481 | 4,902 |
| Total expenses before depreciation | 11,748,451 | 2,564,695 | 14,313,146 | 2,253,659 | 16,566,805 |
| Depreciation | - | - | - | 85,011 | 85,011 |
| Total expenses | <u>\$ 11,748,451</u> | <u>\$ 2,564,695</u> | <u>\$ 14,313,146</u> | <u>\$ 2,338,670</u> | <u>\$ 16,651,816</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, 2016

| | 2016 | | | | |
|--|---------------------------|-----------------------------------|----------------------|-------------------------|--------------------------|
| | Programs | | | Total | |
| | Orange County Agencies | City & Community Organizations | Program Expense | Management & General | |
| STATEMENT OF EXPENSES | | | | | Total Expense |
| Salaries and wages | \$ 7,299,418 | \$ 1,830,432 | \$ 9,129,850 | \$ 1,092,178 | \$ 10,222,028 |
| Payroll taxes | 583,955 | 161,322 | 745,277 | 75,904 | 821,181 |
| Employee benefits | 702,300 | 167,620 | 869,920 | 135,841 | 1,005,761 |
| Contract services | 362,781 | 94,864 | 457,645 | 69,854 | 527,499 |
| Total personnel services | 8,948,454 | 2,254,238 | 11,202,692 | 1,373,777 | 12,576,469 |
| Fundraising expenses | - | - | - | 15,435 | 15,435 |
| Professional and outside services | 58,356 | 44,898 | 103,254 | 22,741 | 125,995 |
| Supplies and other office expense | 35,445 | 5,358 | 40,803 | 25,948 | 66,751 |
| Telephone and utilities | 136,723 | 10,171 | 146,894 | 13,067 | 159,961 |
| Facilities and equipment rental | 973,794 | 14,809 | 988,603 | 92,091 | 1,080,694 |
| Program supplies | 42,847 | 7,516 | 50,363 | 1,370 | 51,733 |
| Recruitment, development, training, outreach | 50,381 | 10,798 | 61,179 | 159,772 | 220,951 |
| Repairs & maintenance - computer systems | 360,557 | 38,572 | 399,129 | 81,555 | 480,684 |
| Travel | 51,826 | 19,036 | 70,862 | 14,900 | 85,762 |
| Dues, subscriptions and licenses | 6,602 | 4,570 | 11,172 | 8,041 | 19,213 |
| Insurance | 41,029 | 13,123 | 54,152 | 4,125 | 58,277 |
| Interest | - | - | - | 3,274 | 3,274 |
| Miscellaneous | 2,565 | 1,200 | 3,765 | 10,043 | 13,808 |
| Total expenses before depreciation | 10,708,578 | 2,424,289 | 13,132,867 | 1,826,139 | 14,959,006 |
| Depreciation | - | - | - | 76,579 | 76,579 |
| Total expenses | <u>\$ 10,708,578</u> | <u>\$ 2,424,289</u> | <u>\$ 13,132,867</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
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016
Increase (Decrease) in Cash and Cash Equivalents

| | 2017 | 2016 |
|--|------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 222,108 | \$ (211,747) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation expense | 85,011 | 76,579 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (147,193) | (593,879) |
| (Increase) decrease in prepaid expenses | (22,870) | 1,064 |
| (Increase) decrease in deposits | (4,549) | (4,000) |
| Increase (decrease) in accounts payable | (51,240) | 117,518 |
| Increase (decrease) in accrued payroll and payroll taxes | 71,656 | 75,431 |
| Increase (decrease) in accrued vacation and benefits | 22,905 | 21,582 |
| Increase (decrease) in other liabilities and accruals | 42,345 | (167,962) |
| Increase (decrease) in accrued rent allowance | 13,143 | (2,832) |
| Total adjustments | 9,208 | (476,499) |
| Net cash (used) or provided by operating activities | 231,316 | (688,246) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for capital expenditures | (176,872) | (116,981) |
| Net cash (used) by investing activities | (176,872) | (116,981) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Tenant leasehold improvements allowance | 262,860 | - |
| Net cash provided/(used) by financing activities | 262,860 | - |
| Net (Decrease) or Increase in Cash and Cash Equivalents | 317,304 | (805,227) |
| Cash and Cash Equivalents at Beginning of Year | 502,041 | 1,307,268 |
| Cash and Cash Equivalents at End of Year | \$ 819,345 | \$ 502,041 |

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

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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, 2017 AND 2016**

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 or if multiple purchased items in aggregate exceed \$5,000. Donated property placed into service is also capitalized if the estimated fair market value is in excess of \$5,000. 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, 2017 the following filed tax returns remain open for the years ended June 30: 2016, 2015, 2014 and the additional year 2013 for California.

The Federal and California tax returns for the year ended June 30, 2017 have respective extended filing due dates of February 15, 2018.

Subsequent Events:

The Organization's management has evaluated subsequent events through January 16, 2018 the date the financial statements were available to be issued.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 2 – CASH & CASH RESERVED

The following is a schedule of the cash accounts as of June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------------|-------------------|-------------------|
| General, Payroll and Savings | \$ 801,796 | \$ 495,438 |
| Benefits Admin. Checking | 17,299 | 6,353 |
| Petty Cash | <u>250</u> | <u>250</u> |
| Cash and Cash Equivalents Available | <u>\$ 819,345</u> | <u>\$ 502,041</u> |

NOTE 3 – ACCOUNTS RECEIVABLE

| | <u>2017</u> | <u>2016</u> |
|--------------------------|---------------------|---------------------|
| Accounts Receivable, net | \$ 1,961,903 | \$ 1,884,276 |
| Pledge Receivable | - | 200 |
| Other Receivables | <u>77,793</u> | <u>8,027</u> |
| Total | <u>\$ 2,039,696</u> | <u>\$ 1,892,503</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, the allowance for doubtful accounts was \$5,425 at June 30, 2017 and \$-0- at June 30, 2016.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 4 – FIXED ASSETS

| | <u>Computer & Office Equipment</u> | <u>Furniture & Fixtures</u> | <u>Leasehold Improvements</u> | <u>Total</u> |
|------------------------------------|--|-------------------------------------|-----------------------------------|-------------------|
| Year 2016 | | | | |
| 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> |
| Year 2017 | | | | |
| Cost at beginning of year | \$ 767,583 | \$ 256,087 | \$ 28,001 | \$ 1,051,671 |
| Additions | 4,976 | 18,953 | 284,373 | 308,302 |
| Retirements | <u>(420,886)</u> | <u>(113,619)</u> | <u>(2,899)</u> | <u>(537,404)</u> |
| Cost at June 30, 2017 | <u>351,673</u> | <u>161,421</u> | <u>309,475</u> | <u>822,569</u> |
| Accumulated Depreciation | <u>(222,319)</u> | <u>(131,168)</u> | <u>(20,182)</u> | <u>(373,669)</u> |
| Net Book Value at June 30, 2017 | <u>\$ 129,354</u> | <u>\$ 30,253</u> | <u>\$ 289,293</u> | <u>\$ 448,900</u> |

The Organization retired assets during the year ended June 30, 2017 that were no longer in service and which had already been fully depreciated in prior years.

The aggregate depreciation expense was as follows for the year ended June 30: 2017 - \$85,011 and 2016 - \$76,579.

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, 2017 AND 2016**

NOTE 5 – OTHER LIABILITIES AND ACCRUALS

The following is a schedule of the other liability accounts as of June 30, 2017 and 2016:

| | 2017 | 2016 |
|---------------------------------------|------------|--------|
| Payable - leasehold improvements | \$ 131,430 | \$ - |
| Credit card charges and miscellaneous | 43,014 | 669 |
| | \$ 174,444 | \$ 669 |

NOTE 6 – LINE OF CREDIT, LETTERS OF CREDIT AND CREDIT CARDS

During the fiscal year 2017 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, 2017, the outstanding loan balance was \$ -0-. The Organization's Management is currently negotiating with the Bank for a renewed line of credit.

In the previous fiscal year 2016, the Organization had a \$800,000 line of credit agreement with California United Bank. At June 30, 2016, the outstanding loan balance was \$ -0-.

During the end of fiscal year 2017 the Organization entered into a new lease for office space. Terms of the agreement required that the Organization secure their rent obligation with standby letters of credit from California United Bank for an initial amount of \$194,000 expiring July 31, 2018. The Landlord may exercise such letters of credit in the event of rent payment defaults. On the condition that no event of rent payment default occurs the available letters of credit amount will be reduced annually on each August 1st as follows: 2018 - \$173,845; 2019 - \$151,580; 2020 - \$126,984; 2021 - \$99,811; 2022 - \$69,794 and year 2023 - \$36,633. As of June 30, 2017 there is no outstanding letter of credit debt.

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, 2017 and 2016 there were outstanding aggregate balances of \$40,271 and \$52,976, respectively, which were recorded in other accruals or in accounts payables.

NOTE 7 – TENANT LEASE IMPROVEMENT AND RENT ALLOWANCE

In May 2017 the Organization accepted an early lease termination incentive offer of \$546,782 that was made by the Landlord of an office facility located in Santa Ana, California. The agreement included \$503,913 for expense reimbursements and a \$42,869 relocation incentive fee. The expense reimbursements included a \$262,860 tenant leasehold improvement allowance for the leasehold improvement expenditures made at the replacement office location. The office move and date of occupancy was completed before June 30, 2017. The tenant leasehold improvement allowance is being amortized over the same seven year period as the corresponding capitalized leasehold improvements.

As of June 30, 2017 there was an additional rent expense allowance receivable of \$13,143 to cover the July 2017 rent increase incurred for completing the office relocation on or before June 25, 2017. The rent allowance will be credited to the next rent expense period.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 8 – COMMITMENTS

The Organization has several operating leases for office space that expire at various dates. Several leases contain extension options. There are also several noncancellable operating leases for office equipment. During the year ended June 30, 2017 the Organization moved their Santa Ana, California office location and entered into a seven year office lease agreement with a three-year extension option.

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

| | <u>2017 Operating Leases</u> | <u>2016 Operating Leases</u> |
|----------------------|----------------------------------|----------------------------------|
| Year ending June 30, | | |
| 2017 | \$ - | \$ 936,749 |
| 2018 | 968,648 | 370,817 |
| 2019 | 694,679 | 295,584 |
| 2020 | 531,401 | 108,137 |
| 2021 | 478,733 | 45,762 |
| 2022 | 427,992 | - |
| 2023 and thereafter | <u>514,600</u> | <u>-</u> |
| | <u>\$ 3,616,053</u> | <u>\$ 1,757,049</u> |

As of June 30, 2017 and 2016, the Organization had security deposits and other deposits totaling \$139,686 and \$135,137 that are refundable as each corresponding lease agreement expires.

NOTE 9 – NET ASSETS

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Unrestricted - general | \$ 1,832,430 | \$ 1,620,322 |
| Temporarily restricted - contract advance for program services | <u>10,000</u> | <u>-</u> |
| Total net assets | <u>\$ 1,842,430</u> | <u>\$ 1,620,322</u> |

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 10 – OTHER INCOME

As of June 30, 2017 and 2016 other income consists of the following:

| | <u>2017</u> | <u>2016</u> |
|-----------------------|------------------|---------------|
| Moving relocation fee | \$ 42,869 | \$ - |
| Miscellaneous income | 38,524 | 470 |
| | <u>\$ 81,393</u> | <u>\$ 470</u> |

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, 2017 and June 30, 2016.

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, 2017 and 2016 was \$133,694 and \$95,747 respectively. An employee's maximum contribution for any year is limited by applicable Internal Revenue Code provisions.

For the year ended June 30, 2017 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, 2018 unless an extension is filed.

NOTE 13 – STATEMENT OF CASH FLOWS

A. Supplemental disclosure of cash flow information:

| | <u>2017</u> | <u>2016</u> |
|----------|-------------|-------------|
| Interest | \$ 8,873 | \$ 3,274 |

B. Supplemental disclosure of noncash investing and financing activities:

Pursuant to a new office lease the Organization capitalized leasehold improvements of \$262,860 which had been completed by the year ended June 30, 2017. A short-term balance payable of \$131,430 was accrued and included in other liabilities.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 14 – MAJOR CUSTOMERS AND CONCENTRATIONS OF CREDIT RISK

For the years ended June 30, 2017 and 2016, the Organization received an aggregate of \$11,826,750 and \$11,581,800 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 2017 and 2016 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 and a counseling program. For the years ended June 30, 2017 and 2016, the Organization had aggregate (SSA) program revenues of \$552,571 and \$490,621, respectively.

The Organization also has various contracts for clinical services 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, 2017 the aggregate total of three checking accounts with California United Bank exceeded the FDIC limit by \$705,660 before outstanding items and as of June 2016 the uninsured amount was \$609,260.

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.

For the years ended June 30, 2017 and June 30, 2016 the Organization did not have billable services to or from Western Family Services.

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

See independent auditors' report.

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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

.....
Brian D. Bates
Steve Bertolucci
Robyn R. Bjorklund
Kathy Evans
Lori Henderson
Debra L. Howe
Shawn B. LaBurn
Louis H. Lopez
Yvonne E. Tuff
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, 2017, 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 January 16, 2018.

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 Coughlin Lewis LLP". The signature is written in a cursive, flowing style.

Brea, California
January 16, 2018