

WESTERN YOUTH SERVICES
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2018 AND 2017

BATES COUGHTRY REISS LLP
Certified Public Accountants

WESTERN YOUTH SERVICES

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
NOTES TO FINANCIAL STATEMENTS	8 - 15
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	16 - 17

**Bates
Coughtry
Reiss
LLP**

Serving Growing
Companies Since 1967

INDEPENDENT AUDITORS' REPORT

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

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, 2018 and 2017 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, 2018 and 2017 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 22, 2019 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 "Bates" followed by a stylized name or initials.

Brea, California
January 22, 2019

WESTERN YOUTH SERVICES
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash	\$ 807,200	\$ 819,345
Accounts receivable	1,886,250	2,039,696
Prepaid expenses	44,791	24,140
Total current assets	2,738,241	2,883,181
FIXED ASSETS , at cost, net of accumulated depreciation of \$472,774 and \$373,669	426,629	448,900
OTHER ASSETS		
Deposits	143,686	139,686
 Total assets	 \$ 3,308,556	 \$ 3,471,767

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 181,624	\$ 127,135
Accrued payroll and payroll taxes	464,348	573,518
Accrued vacation and benefits	511,812	478,237
Other liabilities and accruals	53,003	174,444
Total current liabilities	1,210,787	1,353,334
OTHER LIABILITIES & COMMITMENTS		
Tenant lease Improvements allowance, net of accumulated amortization of \$37,551 and \$ -0-	225,308	276,003
Total liabilities	1,436,095	1,629,337
NET ASSETS		
Unrestricted	1,812,373	1,832,430
Temporarily restricted	60,088	10,000
Total net assets	1,872,461	1,842,430
 Total liabilities and net assets	 \$ 3,308,556	 \$ 3,471,767

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

WESTERN YOUTH SERVICES
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2018 and 2017

	2018	2017
UNRESTRICTED REVENUES AND SUPPORT:		
Service contracts - County Agencies	\$ 13,661,696	\$ 13,266,703
Service contracts - Schools, Community and Other Programs	3,415,185	3,493,721
Contributions and Fundraising	11,402	22,107
Other income	10,000	81,393
	17,098,283	16,863,924
Assets released from temporarily restricted:		
Satisfaction of current use requirement	49,912	-
Total revenues and support	17,148,195	16,863,924
FUNCTIONAL EXPENSES		
Program services	14,718,676	14,313,146
Management and general	2,449,576	2,338,670
Total expenses	17,168,252	16,651,816
Net Change in Unrestricted Assets	(20,057)	212,108
TEMPORARILY RESTRICTED ASSETS:		
Grant - Program services	100,000	10,000
Released to unrestricted assets - grant funds	(49,912)	-
Net Change in Temporarily Restricted Assets	50,088	10,000
Total Change in Net Assets	30,031	222,108
Net Assets, Beginning of Year	1,842,430	1,620,322
Net Assets, End of Year	\$ 1,872,461	\$ 1,842,430

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

WESTERN YOUTH SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018

	2018				
	Programs		Total	Management & General	Total Expense
	Orange County Agencies	City & Community Organizations	Program Expense		
STATEMENT OF EXPENSES					
Salaries and wages	\$ 8,513,750	\$ 2,006,724	\$ 10,520,474	\$ 1,431,502	\$ 11,951,976
Payroll taxes	637,292	164,100	801,392	106,678	908,070
Employee benefits	726,420	170,435	896,855	137,222	1,034,077
Contract services	520,363	12,000	532,363	75,933	608,296
Total personnel services	10,397,825	2,353,259	12,751,084	1,751,335	14,502,419
Professional and outside services	46,539	18,052	64,591	57,845	122,436
Supplies and other office expense	84,873	3,562	88,435	29,400	117,835
Telephone and utilities	193,943	8,321	202,264	25,419	227,683
Facilities and equipment rental	1,074,038	6,211	1,080,249	168,582	1,248,831
Program supplies	171,651	841	172,492	1,022	173,514
Recruitment, development, training, outreach	56,025	8,604	64,629	208,043	272,672
Repairs & maintenance - computer systems	147,717	7,418	155,135	82,093	237,228
Travel	64,906	25,029	89,935	18,208	108,143
Dues, subscriptions and licenses	4,791	2,514	7,305	19,592	26,897
Insurance	34,901	6,984	41,885	15,860	57,745
Interest	-	-	-	517	517
Miscellaneous	-	672	672	10,107	10,779
Total expenses before depreciation	12,277,209	2,441,467	14,718,676	2,388,022	17,106,698
Depreciation, net of \$37,551 tenant lease allowance	-	-	-	61,554	61,554
 Total expenses	 <u>\$ 12,277,209</u>	 <u>\$ 2,441,467</u>	 <u>\$ 14,718,676</u>	 <u>\$ 2,449,576</u>	 <u>\$ 17,168,252</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, 2017

	2017				
	Programs		Total	Management & General	Total Expense
	Orange County Agencies	City & Community Organizations	Program 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
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017
Increase (Decrease) in Cash and Cash Equivalents

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 30,031	\$ 222,108
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	99,105	85,011
Amortization credit - tenant lease allowance	(37,551)	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	153,446	(147,193)
(Increase) decrease in prepaid expenses	(20,651)	(22,870)
(Increase) decrease in deposits	(4,000)	(4,549)
Increase (decrease) in other receivable	-	-
Increase (decrease) in accounts payable	54,489	(51,240)
Increase (decrease) in accrued payroll and payroll taxes	(109,170)	71,656
Increase (decrease) in accrued vacation and benefits	33,575	22,905
Increase (decrease) in other liabilities and accruals	(121,442)	42,345
Increase (decrease) in accrued rent expense allowance	(13,143)	13,143
Total adjustments	34,658	9,208
Net cash (used) or provided by operating activities	64,689	231,316
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for capital expenditures	(76,834)	(176,872)
Net cash (used) by investing activities	(76,834)	(176,872)
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	(12,145)	317,304
Cash and Cash Equivalents at Beginning of Year	819,345	502,041
Cash and Cash Equivalents at End of Year	\$ 807,200	\$ 819,345

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

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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, 2018 AND 2017**

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, 2018 the following filed tax returns remain open for the years ended June 30: 2017, 2016, 2015 and the additional year 2014 for California.

The Federal and California tax returns for the year ended June 30, 2018 have respective approved extended filing due dates of May 15, 2019.

Subsequent Events:

The Organization's management has evaluated subsequent events through January 22, 2019 the date the financial statements were available to be issued.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2 – CASH & CASH RESERVED

The following is a schedule of the cash accounts as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
General, Payroll and Savings	\$ 804,650	\$ 801,796
Benefits Admin. Checking	2,301	17,299
Petty Cash	<u>249</u>	<u>250</u>
Cash and Cash Equivalents Available	<u>\$ 807,200</u>	<u>\$ 819,345</u>

NOTE 3 – ACCOUNTS RECEIVABLE

	<u>2018</u>	<u>2017</u>
Accounts Receivable, net	\$ 1,886,250	\$ 1,961,903
Other Receivables	<u>-</u>	<u>77,793</u>
Total	<u>\$ 1,886,250</u>	<u>\$ 2,039,696</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 \$-0- at June 30, 2018 and \$5,425 at June 30, 2017.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4 – FIXED ASSETS

	<u>Computer & Office Equipment</u>	<u>Furniture & Fixtures</u>	<u>Leasehold Improvements</u>	<u>Total</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>
Year 2018				
Cost at beginning of year	\$ 351,673	\$ 161,421	\$ 309,475	\$ 822,569
Additions	53,371	7,848	15,615	76,834
Retirements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cost at June 30, 2018	<u>405,044</u>	<u>169,269</u>	<u>325,090</u>	<u>899,403</u>
Accumulated Depreciation	<u>(274,035)</u>	<u>(136,597)</u>	<u>(62,142)</u>	<u>(472,774)</u>
Net Book Value at June 30, 2018	<u>\$ 131,009</u>	<u>\$ 32,672</u>	<u>\$ 262,948</u>	<u>\$ 426,629</u>

The aggregate depreciation expense for the year ended June 30, 2018 was \$99,105 and there was a (\$37,551) amortized tenant improvement allowance. The depreciation expense for June 30, 2017 was \$85,011 and there was no tenant improvement allowance.

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

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, 2018 AND 2017**

NOTE 5 – OTHER LIABILITIES AND ACCRUALS

The following is a schedule of the other liability accounts as of June 30, 2018 and 2017:

	2018	2017
Payable - leasehold improvements	\$ -	\$ 131,430
Credit card charges and miscellaneous	53,003	43,014
	\$ 53,003	\$ 174,444

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

During the fiscal year 2018 the Organization had available a line of credit agreement with Pacific Western Bank, formerly California United Bank for \$800,000 that was collateralized by the Organization's assets. The agreement considers the standby letter of credit as undisbursed reserved principal from the line of credit. Interest was payable monthly a current variable rate of 6.25% with principal payable periodically or in full at maturity February 1, 2019. Management intends to renew the line of credit agreement. As of June 30, 2018, the outstanding loan balance was \$ -0-.

During the prior 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 Pacific Western Bank, formerly 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, 2018 there is no outstanding letter of credit debt.

In the previous fiscal year 2017, the Organization had a \$800,000 line of credit agreement with California United Bank. At June 30, 2017, the outstanding loan balance was \$ -0-.

The Organization has credit cards with American Express, 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, 2018 and 2017 there were outstanding aggregate balances of \$28,899 and \$40,271, respectively, which were recorded in accounts payables or in accrued other payables.

NOTE 7 – TENANT LEASE IMPROVEMENT ALLOWANCE

As of June 30, 2018 the Organization has a remaining tenant leasehold improvement allowance of \$225,308, net of \$37,551 for accumulated amortization. The annual allowance of \$37,551 is being applied as a credit against the annual depreciation expense for the corresponding capitalized leasehold improvements.

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 tenant leasehold improvement allowance will be amortized as a credit to depreciation expense over the same seven year period as the corresponding capitalized leasehold improvements.

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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.

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

	<u>2018</u> <u>Operating Leases</u>	<u>2017</u> <u>Operating Leases</u>
Year ending June 30,		
2018	\$ -	\$ 968,648
2019	773,844	694,679
2020	707,841	531,401
2021	692,384	478,733
2022	643,734	427,992
2023	302,248	514,600
2024 and thereafter	<u>250,485</u>	<u>-</u>
	<u>\$ 3,370,536</u>	<u>\$ 3,616,053</u>

As of June 30, 2018 and 2017, the Organization had security deposits and other deposits totaling \$143,685 and \$139,686 that are refundable as each corresponding lease agreement expires.

NOTE 9 – NET ASSETS

	<u>2018</u>	<u>2017</u>
Unrestricted - general	\$ 1,812,373	\$ 1,832,430
Temporarily restricted - grant for program services	<u>60,088</u>	<u>10,000</u>
Total net assets	<u>\$ 1,872,461</u>	<u>\$ 1,842,430</u>

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 10 – OTHER INCOME

As of June 30, 2018 and 2017 other income consists of the following:

	<u>2018</u>	<u>2017</u>
Moving relocation fee	\$ -	\$ 42,869
Miscellaneous income	10,000	38,524
	<u>\$ 10,000</u>	<u>\$ 81,393</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, 2018 and June 30, 2017.

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, 2018 and 2017 was \$135,370 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, 2018 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, 2019 unless an extension is filed.

NOTE 13 – STATEMENT OF CASH FLOWS

A. Supplemental disclosure of cash flow information:

	<u>2018</u>	<u>2017</u>
Interest	\$ 517	\$ 8,873

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

See independent auditors' report.

**WESTERN YOUTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 14 – MAJOR CUSTOMERS AND CONCENTRATIONS OF CREDIT RISK

For the years ended June 30, 2018 and 2017, the Organization received an aggregate of \$13,149,486 and \$12,714,132 respectively, in direct program revenue from two service contracts 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.

The Organization also has several service contracts from the County of Orange Social Services Agency (SSA) for City based Family Resource Center (FRC) programs and an "SSA" counseling program. For the years ended June 30, 2018 and 2017, the Organization had aggregate "SSA" program revenues of \$512,210 and \$552,571 respectively.

The Organization also has various contracts for clinical services with 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 Pacific Western Bank. The current standard Federal Deposit Insurance Corporation (FDIC) insured amount is \$250,000 per insured bank. As of June 30, 2018 the aggregate total of three checking accounts with Pacific Western Bank exceeded the FDIC limit by \$670,521 before outstanding items and as of June 2017 the uninsured amount was \$705,660.

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, 2018 and June 30, 2017 the Organization did not have billable services to or from Western Family Services.

See independent auditors' report.

**Bates
Coughtry
Reiss
LLP**

Serving Growing
Companies Since 1967

**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, 2018, 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 22, 2019.

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 weakness may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Peter C. Kelly". The signature is fluid and cursive, with a large initial "P" and "C".

Brea, California
January 22, 2019