

**WESTERN YOUTH SERVICES**  
**INDEPENDENT AUDITORS' REPORT**  
**JUNE 30, 2019 AND 2018**

**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, 2019 and 2018 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, 2019 and 2018 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 February 20, 2020 on our consideration of Western Youth Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Western Youth Services' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Bates & Reynolds LLP". The signature is written in a cursive, flowing style.

Brea, California  
February 20, 2020

WESTERN YOUTH SERVICES  
STATEMENTS OF FINANCIAL POSITION  
As of June 30, 2019 and 2018

**ASSETS**

	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 990,040	\$ 807,200
Accounts receivable	1,848,365	1,886,250
Prepaid expenses	<u>17,690</u>	<u>44,791</u>
Total current assets	2,856,095	2,738,241
<b>FIXED ASSETS</b> , at cost, net of accumulated depreciation of \$479,309 and \$472,774	347,735	426,629
<b>OTHER ASSETS</b>		
Deposits - asset purchases	65,693	-
Deposits - refundable	<u>143,686</u>	<u>143,686</u>
Total assets	<u>\$ 3,413,209</u>	<u>\$ 3,308,556</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 218,197	\$ 181,624
Accrued payroll and payroll taxes	475,801	464,348
Accrued vacation and benefits	554,034	511,812
Grant payable	206,705	-
Other liabilities and accruals	<u>180,129</u>	<u>53,003</u>
Total current liabilities	1,634,866	1,210,787
<b>OTHER LIABILITIES &amp; COMMITMENTS</b>		
Tenant lease Improvements allowance, net of accumulated amortization of \$72,102 and \$37,551	<u>187,757</u>	<u>225,308</u>
Total liabilities	<u>1,822,623</u>	<u>1,436,095</u>
<b>NET ASSETS</b>		
Unrestricted	1,590,586	1,812,373
Temporarily restricted	<u>-</u>	<u>60,088</u>
Total net assets	<u>1,590,586</u>	<u>1,872,461</u>
Total liabilities and net assets	<u>\$ 3,413,209</u>	<u>\$ 3,308,556</u>

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

WESTERN YOUTH SERVICES  
STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2019 and 2018

	2019	2018
<b>UNRESTRICTED REVENUES AND SUPPORT:</b>		
Service contracts - County Agencies	\$ 12,876,617	\$ 13,661,696
Service contracts - Schools, Community and Other Programs	3,206,454	3,415,185
Contributions and Fundraising	17,250	11,402
Other income	-	10,000
	16,100,321	17,098,283
Assets released from temporarily restricted:		
Grant funds payable to lead coalition agency	60,088	49,912
Total revenues and support	16,160,409	17,148,195
<b>FUNCTIONAL EXPENSES</b>		
Program services	14,237,156	14,718,676
Management and general	2,145,040	2,449,576
Total expenses	16,382,196	17,168,252
<b>Net Change in Unrestricted Assets</b>	(221,787)	(20,057)
<b>TEMPORARILY RESTRICTED ASSETS:</b>		
Grant - Program services	-	100,000
Released to unrestricted assets - grant funds	(60,088)	(49,912)
<b>Net Change in Temporarily Restricted Assets</b>	(60,088)	50,088
<b>Total Change in Net Assets</b>	(281,875)	30,031
<b>Net Assets, Beginning of Year</b>	1,872,461	1,842,430
<b>Net Assets, End of Year</b>	\$ 1,590,586	\$ 1,872,461

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

WESTERN YOUTH SERVICES  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2019

	2019			
	Programs			Total Program Expense
	Orange County Agencies	City & Community Organizations	Management & General	
	\$	\$	\$	\$
<b>STATEMENT OF EXPENSES</b>				
Salaries and wages	7,103,595	2,556,815	1,486,264	11,146,674
Payroll taxes	563,008	175,352	105,558	843,918
Employee benefits	664,775	462,887	167,094	1,294,756
Contract services	399,779	85,054	27,597	512,430
Total personnel services	<u>8,731,157</u>	<u>3,280,108</u>	<u>1,786,513</u>	<u>13,797,778</u>
Professional and outside services	3,690	11,851	26,890	42,431
Supplies and other office expense	43,658	9,224	14,983	67,865
Telephone and utilities	182,073	37,810	16,687	236,570
Facilities and equipment rental	951,537	206,283	103,319	1,261,139
Program supplies	72,282	32,679	158	105,119
Recruitment, development, training, outreach	52,897	5,773	41,582	100,252
Repairs & maintenance - computer systems	286,913	30,792	71,487	389,192
Travel	38,556	23,710	15,874	78,140
Dues, subscriptions and licenses	83,270	34,584	-	117,854
Insurance	45,309	12,912	4,995	63,216
Grant	-	60,088	-	60,088
Total expenses before depreciation	<u>10,491,342</u>	<u>3,745,814</u>	<u>2,082,488</u>	<u>16,319,644</u>
Depreciation, net of \$37,551 tenant lease allowance	-	-	62,552	62,552
Total expenses	<u>\$ 10,491,342</u>	<u>\$ 3,745,814</u>	<u>\$ 2,145,040</u>	<u>\$ 16,382,196</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, 2018

2018

	Programs			Total Program Expense	Management & General	Total Expense
	Orange County Agencies	City & Community Organizations				
<b>STATEMENT OF EXPENSES</b>						
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	\$ 12,277,209	\$ 2,441,467	\$ 14,718,676	\$ 2,449,576	\$ 17,168,252	

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

WESTERN YOUTH SERVICES  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2019 and 2018  
Increase (Decrease) in Cash and Cash Equivalents

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (281,875)	\$ 30,031
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	100,103	99,105
Amortization credit - tenant lease allowance	(37,551)	(37,551)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	37,885	153,446
(Increase) decrease in prepaid expenses	27,101	(20,651)
(Increase) decrease in deposits	-	(4,000)
Increase (decrease) in accounts payable	36,573	54,489
Increase (decrease) in accrued payroll and payroll taxes	11,453	(109,170)
Increase (decrease) in accrued vacation and benefits	42,222	33,575
Increase (decrease) in grant payable	206,705	-
Increase (decrease) in other liabilities and accruals	61,433	(121,442)
Increase (decrease) in accrued rent expense allowance	-	(13,143)
Total adjustments	485,924	34,658
Net cash (used) or provided by operating activities	204,049	64,689
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for capital expenditures	(21,209)	(76,834)
Net cash (used) by investing activities	(21,209)	(76,834)
<b>CASH FLOWS FROM FINANCING ACTIVITIES (None)</b>	-	-
Net (Decrease) or Increase in Cash and Cash Equivalents	182,840	(12,145)
Cash and Cash Equivalents at Beginning of Year	807,200	819,345
Cash and Cash Equivalents at End of Year	\$ 990,040	\$ 807,200

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

**WESTERN YOUTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**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, 2019 AND 2018**

**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, 2019 the following filed tax returns remain open for the years ended June 30: 2018, 2017, 2016 and the additional year 2015 for California.

The Federal and California tax returns for the year ended June 30, 2019 have respective approved extended filing due dates of May 15, 2020.

**Subsequent Events:**

The Organization's management has evaluated subsequent events through February 20, 2020, the date the financial statements were available to be issued. A subsequent event occurred in October 2019 as described in note 9 regarding a \$206,705 pass-through grant.

See independent auditors' report.

**WESTERN YOUTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 2 – CASH & CASH RESERVED**

The following is a schedule of the cash accounts as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
General, Payroll and Savings	\$ 973,386	\$ 804,650
Benefits Admin. Checking	16,404	2,301
Petty Cash	<u>250</u>	<u>249</u>
Cash and Cash Equivalents Available	<u>\$ 990,040</u>	<u>\$ 807,200</u>

**NOTE 3 – ACCOUNTS RECEIVABLE**

	<u>2019</u>	<u>2018</u>
Accounts Receivable, net	<u>\$ 1,848,365</u>	<u>\$ 1,886,250</u>
Total	<u>\$ 1,848,365</u>	<u>\$ 1,886,250</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 at June 30, 2019 and at June 30, 2018 was \$-0-.

See independent auditors' report.

**WESTERN YOUTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 4 – FIXED ASSETS**

	<u>Computer &amp; Office Equipment</u>	<u>Furniture &amp; Fixtures</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<b>Year 2018</b>				
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>
<b>Year 2019</b>				
Cost at beginning of year	\$ 405,044	\$ 169,269	\$ 325,090	\$ 899,403
Additions	12,820	8,389	-	21,209
Retirements	<u>-</u>	<u>(80,063)</u>	<u>(13,505)</u>	<u>(93,568)</u>
Cost at June 30, 2019	<u>417,864</u>	<u>97,595</u>	<u>311,585</u>	<u>827,044</u>
Accumulated Depreciation	<u>(322,955)</u>	<u>(63,235)</u>	<u>(93,119)</u>	<u>(479,309)</u>
Net Book Value at June 30, 2019	<u>\$ 94,909</u>	<u>\$ 34,360</u>	<u>\$ 218,466</u>	<u>\$ 347,735</u>

The aggregate depreciation expense for the year ended June 30, 2019 was \$100,103 and there was a (\$37,551) amortized tenant improvement allowance for a net depreciation expense of \$62,552. The depreciation expense for June 30, 2018 was \$99,105 and there was a (\$37,551) amortized tenant improvement allowance for a net depreciation expense of \$61,554.

The Organization retired assets during the year ended June 30, 2019 that were no longer in service and which had already been fully depreciated by \$93,568 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, 2019 AND 2018**

**NOTE 5 – ACCRUED OTHER LIABILITIES**

The following is a schedule of the other liability accounts as of June 30, 2019 and 2018:

	2019	2018
Credit card charges and other accrued	\$ 180,129	\$ 53,003
	\$ 180,129	\$ 53,003

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

During the fiscal year 2019 the Organization had available a line of credit agreement with Pacific Western Bank, formerly California United Bank for \$952,000 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, 2020. Management intends to renew the line of credit agreement. As of June 30, 2019, the outstanding loan balance was \$ -0-.

In fiscal year 2017 the Organization entered into a seven-year 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. Two letters of credit have expired as of lease periods ended July 31: 2018 -\$194,000; 2019 - \$173,848. The Landlord may exercise the remaining five letters of credit in the event of rent payment defaults. On the condition that no event of rent payment default occurs the remaining available letters of credit amount will be reduced annually on each August 1st as follows: 2019 - \$151,580; 2020 - \$126,984; 2021 - \$99,811; 2022 - \$69,794 and year 2023 - \$36,633. As of June 30, 2019 there isn't any outstanding letter of credit debt.

In the previous fiscal year 2018, the Organization had a \$800,000 line of credit agreement with California United Bank. At June 30, 2018, 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, 2019 and 2018 there were outstanding aggregate balances of \$149,799 and \$28,899, respectively, which were recorded in other accrued liabilities and payables.

**NOTE 7 – TENANT LEASE IMPROVEMENT ALLOWANCE**

As of June 30, 2019, the Organization has a remaining tenant leasehold improvement allowance of \$187,757 net of \$78,102 for two years of 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.

The lease allowance originated in May 2017 when the Organization accepted an early lease termination incentive offer of \$546,782 that was made by a prior Landlord of an office facility located in Santa Ana, California. The agreement included \$503,913 for leasehold 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 until June 30, 2024 which corresponds with the lease period.

See independent auditors' report.

**WESTERN YOUTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**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>2019</u> <u>Operating Leases</u>	<u>2018</u> <u>Operating Leases</u>
Year ending June 30,		
2019	\$ -	\$ 773,844
2020	842,297	707,841
2021	810,411	692,384
2022	643,734	643,734
2023	302,248	302,248
2024	250,485	250,485
2025 and thereafter	<u>-</u>	<u>-</u>
	<u>\$ 2,849,175</u>	<u>\$ 3,370,536</u>

As of June 30, 2019 and 2018, the Organization had security deposits and other refundable deposits totaling \$143,686. Deposits are refundable as each corresponding lease agreement expires.

**NOTE 9 – NET ASSETS**

	<u>2019</u>	<u>2018</u>
Unrestricted - general purpose	\$ 1,590,586	\$ 1,812,373
Temporarily Restricted - grant designated	<u>-</u>	<u>60,088</u>
Total net assets	<u>\$ 1,590,586</u>	<u>\$ 1,872,461</u>

As of June 30, 2018, the Organization had remaining grant funds of \$60,088 and during the year ended June 30, 2019 received an additional net sum of \$146,617 for a total of \$206,705. The Organization completed the strategic planning phase of the community project with the grant Cohort. As of June 30, 2019, the remaining funds were recorded as a grant payable. In October 2019 the Organization passed through the remaining \$206,705 to another agency in the Cohort, which was designated with the implementation phase of the project.

See independent auditors' report.

**WESTERN YOUTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 10 – OTHER INCOME**

As of June 30, 2019 and 2018 other income consists of the following:

	2019	2018
Miscellaneous income	\$ -	\$ 10,000
	\$ -	\$ 10,000

**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, 2019 and June 30, 2018.

In certain situations, if the governmental agencies 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, 2019 and 2018 was \$125,978 and \$135,370 respectively. An employee's maximum contribution for any year is limited by applicable Internal Revenue Code provisions.

For the year ended June 30, 2019 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, 2020 unless an extension is filed.

**NOTE 13 – STATEMENT OF CASH FLOWS**

A. Supplemental disclosure of cash flow information:

	2019	2018
Interest	\$ -	\$ 517

B. Supplemental disclosure of noncash investing and financing activities:

As of June 30, 2019 the Organization had purchase orders in transit totaling \$65,693 for Computer Equipment which was paid with their American Express credit card. The pre-payments were recorded as a deposit since the assets were not placed into service until July 2019. The corresponding liability was accrued with the June 30, 2019 credit card payable liability.

See independent auditors' report.

**WESTERN YOUTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

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

For the years ended June 30, 2019 and 2018, the Organization received an aggregate of \$12,424,699 and \$13,149,486 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, 2019 and 2018, the Organization had aggregate "SSA" program revenues of \$451,918 and \$512,210 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, 2019 the aggregate total of three checking accounts with Pacific Western Bank exceeded the FDIC limit by \$917,0598 before outstanding items and as of June 2018 the uninsured amount was \$670,051.

**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, 2019 and June 30, 2018 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  
Yvonne E. Tuff  
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, 2019, 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 February 20, 2020.

### **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 "Brian J. Ross" followed by a stylized flourish.

Brea, California  
February 20, 2020