

**YOUTH EASTSIDE SERVICES
(A Nonprofit Organization)**

Financial Statements

For the Years Ended December 31, 2015 and 2014

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Independent Auditor's Report

**To the Board of Trustees
Youth Eastside Services
Bellevue, Washington**

We have audited the accompanying financial statements of Youth Eastside Services (the Agency), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 risks of material misstatement 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 the entity'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 accounting 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of program services expenses presented on page 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Clark Nuber P.S.

Certified Public Accountants
May 24, 2016

YOUTH EASTSIDE SERVICES

Statements of Financial Position December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents (Note 3)	\$ 257,618	\$ 203,371
Receivables from governmental agencies and others, net	336,767	431,360
Pledges receivable	67,763	54,544
Prepaid expenses	149,349	172,600
Investments (Note 4)	3,768,704	3,850,346
Investment in CrossPath, LLC (Note 5)	77,203	54,181
Campaign grants and pledges receivable, net		11,000
Property, furniture, and equipment at cost, net (Note 7)	5,650,933	5,936,549
Facilities contribution receivable (Note 6)	918,785	984,710
Cash restricted for endowment (Note 3)	107,411	107,411
Total Assets	<u>\$ 11,334,533</u>	<u>\$ 11,806,072</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 34,587	\$ 11,493
Accrued liabilities	99,272	75,708
Deferred rent	17,606	13,451
Lease incentive liability	41,618	46,988
Total Liabilities	193,083	147,640
Net Assets (Note 2):		
Unrestricted	7,069,433	7,455,535
Temporarily restricted	3,964,606	4,095,486
Permanently restricted	107,411	107,411
Total Net Assets	<u>11,141,450</u>	<u>11,658,432</u>
Total Liabilities and Net Assets	<u>\$ 11,334,533</u>	<u>\$ 11,806,072</u>

See accompanying notes.

YOUTH EASTSIDE SERVICES

**Statements of Activities
For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Change in Unrestricted Net Assets		
Public Support:		
United Way of King County	\$ 124,284	\$ 135,717
Cash contributions and pledges	560,612	448,919
Special events	703,957	615,972
In-kind donations	<u>299,284</u>	<u>249,028</u>
Total Public Support	1,688,137	1,449,636
Revenue:		
Fees and grants from governmental agencies	1,961,634	2,170,154
Other revenue-		
Program service fees	394,832	386,972
Gain on CrossPath, LLC	23,022	36,810
Investment income and other	<u>20,382</u>	<u>217,152</u>
Total Revenue	2,399,870	2,811,088
Net Assets Released From Restrictions:		
Satisfaction of program restrictions	91,107	91,107
Satisfaction of facilities and program expansion restrictions	65,925	65,534
Satisfaction of time restrictions	<u>49,887</u>	<u>52,470</u>
Total Net Assets Released From Restrictions	206,919	209,111
Total Support, Revenue and Reclassifications	4,294,926	4,469,835
Expenses:		
Program services-		
Youth and family counseling	1,793,052	1,690,719
Outreach/prevention/community education	828,519	803,060
Substance abuse services	<u>980,939</u>	<u>897,340</u>
Total program services	3,602,510	3,391,119
Supporting services-		
Management and general	534,496	549,894
Fundraising	<u>544,022</u>	<u>458,912</u>
Total supporting services	<u>1,078,518</u>	<u>1,008,806</u>
Total Expenses	4,681,028	4,399,925
Change in Unrestricted Net Assets	(386,102)	69,910

See accompanying notes.

YOUTH EASTSIDE SERVICES

**Statements of Activities (Continued)
For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Change in Temporarily Restricted Net Assets:		
Contributions	76,039	44,000
Net assets released from restrictions	<u>(206,919)</u>	<u>(209,111)</u>
Total Change in Temporarily Restricted Net Assets	<u>(130,880)</u>	<u>(165,111)</u>
Change in Net Assets	(516,982)	(95,201)
Net assets, beginning of year	<u>11,658,432</u>	<u>11,753,633</u>
Net Assets, End of Year	<u>\$ 11,141,450</u>	<u>\$ 11,658,432</u>

See accompanying notes.

YOUTH EASTSIDE SERVICES

Statement of Functional Expenses For the Year Ended December 31, 2015

	Program Services	Supporting Services			2015 Total
		Management and General	Fundraising	Total	
Professional staff salaries	\$ 2,038,867	\$ 271,843	\$ 334,704	\$ 606,547	\$ 2,645,414
Donated services	250,411	10,896		10,896	261,307
Employee benefits	300,967	56,872	26,968	83,840	384,807
Payroll taxes	173,876	22,715	27,203	49,918	223,794
Total Salaries, Donated Services and Related Expenses	2,764,121	362,326	388,875	751,201	3,515,322
Professional services	108,178	98,859	30,243	129,102	237,280
Occupancy	132,758	12,254	4,082	16,336	149,094
Special events - food and event center			61,192	61,192	61,192
Youth activities and events	16,576				16,576
Communications	51,219	5,338	3,710	9,048	60,267
Minor equipment and maintenance	26,220	2,031	1,611	3,642	29,862
Trainings, conferences and meetings	28,249	4,884	2,565	7,449	35,698
Printing and publications	8,096	826	6,075	6,901	14,997
Supplies	25,560	1,811	4,035	5,846	31,406
Miscellaneous	3,648	7,738	1,287	9,025	12,673
Professional liability insurance	33,414	1,453	1,453	2,906	36,320
Transportation	17,621	490	238	728	18,349
Licenses and fees	12,062	50	20	70	12,132
Postage	4,596	798	1,927	2,725	7,321
Advertising	1,566	53	160	213	1,779
Laboratory fees	3,535				3,535
Agency dues	1,235	3,467	185	3,652	4,887
Total Expenses Before Contributed Facilities, Bad Debt and Depreciation and Amortization	3,238,654	502,378	507,658	1,010,036	4,248,690
Contributed facilities (Note 6)	75,802	4,600	920	5,520	81,322
Contributed facilities- CrossPath, LLC (Note 6)	22,580				22,580
Bad debt			17,315	17,315	17,315
Depreciation and amortization (Note 7)	265,474	27,518	18,129	45,647	311,121
Total Expenses	\$ 3,602,510	\$ 534,496	\$ 544,022	\$ 1,078,518	\$ 4,681,028

See accompanying notes.

YOUTH EASTSIDE SERVICES

Statement of Functional Expenses For the Year Ended December 31, 2014

	Program Services	Supporting Services			2014 Total
		Management and General	Fundraising	Total	
Professional staff salaries	\$ 1,963,029	\$ 289,914	\$ 193,016	\$ 482,930	\$ 2,445,959
Donated services	209,475	1,184		1,184	210,659
Employee benefits	247,419	55,752	23,902	79,654	327,073
Payroll taxes	168,785	22,660	17,630	40,290	209,075
Total Salaries, Donated Services and Related Expenses	2,588,708	369,510	234,548	604,058	3,192,766
Professional services	138,746	113,935	43,800	157,735	296,481
Occupancy	126,815	12,177	3,569	15,746	142,561
Special events - food and event center			73,200	73,200	73,200
Youth activities and events	9,675		550	550	10,225
Communications	42,715	5,485	3,472	8,957	51,672
Minor equipment and maintenance	20,469	1,888	955	2,843	23,312
Trainings, conferences and meetings	11,377	2,450	1,820	4,270	15,647
Printing and publications	4,896	541	16,954	17,495	22,391
Supplies	22,019	974	4,982	5,956	27,975
Miscellaneous	13,634	5,287	862	6,149	19,783
Professional liability insurance	23,447	1,019	1,019	2,038	25,485
Transportation	12,767	283	93	376	13,143
Licenses and fees	10,557	89	101	190	10,747
Postage	5,766	1,047	2,880	3,927	9,693
Advertising	3,964	1,654	2,972	4,626	8,590
Laboratory fees	4,138				4,138
Agency dues	447	2,693	315	3,008	3,455
Total Expenses Before Contributed Facilities, Bad Debt and Depreciation and Amortization	3,040,140	519,032	392,092	911,124	3,951,264
Contributed facilities (Note 6)	75,802	4,600	920	5,520	81,322
Contributed facilities- CrossPath, LLC (Note 6)	22,580				22,580
Bad debt			48,034	48,034	48,034
Depreciation and amortization (Note 7)	252,597	26,262	17,866	44,128	296,725
Total Expenses	\$ 3,391,119	\$ 549,894	\$ 458,912	\$ 1,008,806	\$ 4,399,925

See accompanying notes.

YOUTH EASTSIDE SERVICES

Statements of Cash Flows For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (516,982)	\$ (95,201)
Adjustments to reconcile change in net assets to cash provided by operating activities-		
Depreciation and amortization	311,121	296,725
Write-off of uncollectible pledges	17,315	48,034
Net investment loss (gain)	80,526	(115,321)
Net gain in CrossPath, LLC	(23,022)	(36,810)
Loss on disposal of assets		773
Decrease (Increase) in operating assets:		
Receivables from governmental agencies and others	94,593	(43,725)
Pledges receivable	(19,534)	30,404
Prepaid expenses	23,251	(12,201)
Facilities contribution receivable	65,925	65,534
Increase (Decrease) in operating liabilities:		
Accounts payable and accrued liabilities	40,088	(75,616)
Deferred rent and lease incentive liabilities	(1,215)	367
Total adjustments	<u>589,048</u>	<u>158,164</u>
Net Cash Provided by Operating Activities	72,066	62,963
Cash Flows From Investing Activities:		
Purchase of investments	(1,349,148)	(760,194)
Proceeds from sale of investments	1,350,264	709,635
Acquisition of property, furniture, and equipment	<u>(18,935)</u>	<u>(131,134)</u>
Net Cash Used in Investing Activities	(17,819)	(181,693)
Cash Flows From Financing Activities:		
Cash received for investment in facilities and program enhancement		<u>3,750</u>
Net Cash Provided by Financing Activities		3,750
Net change in cash and cash equivalents	54,247	(114,980)
Cash and cash equivalents, beginning of year	<u>203,371</u>	<u>318,351</u>
Cash and Cash Equivalents, End of Year	<u>\$ 257,618</u>	<u>\$ 203,371</u>
Supplemental Schedule of Noncash Activities:		
Noncash additions to property, furniture, and equipment	\$ 6,570	\$ -

See accompanying notes.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 1 - Organization Purposes and Programs

Youth Eastside Services (the Agency) is a Washington not-for-profit corporation and is a multi-service agency providing educational, treatment, and prevention services to youth and their parents on the Eastside of King County. Founded in Bellevue in 1968, the Agency provides services in three facilities in Bellevue, Kirkland and Redmond, as well as 40 other community sites including teen centers, schools and community centers.

The Agency's mission statement is as follows:

“Youth Eastside Services is a lifeline for kids and families coping with challenges such as emotional distress, substance abuse, and violence. Through intervention, outreach and prevention, the Agency builds confidence and responsibility, strengthens family relationships, and advocates for a safer community that cares for its youth.”

The funding sources and programs of the Agency are:

Funding Sources - The Agency receives operating funds from United Way, government agencies, two Eastside school districts and four Eastside cities. In addition, the Agency receives proceeds from special fundraising events, cash contributions and program service fees. Funds originating from the federal and state level are received by the Agency in local government contracts.

The primary services of the Agency are:

Youth and Family Counseling - Through individual, family and group counseling, the Agency works to improve the relationship between youth and their families, to help youth be healthy, confident and self-reliant, to reduce problems within the family, and improve family relationships. Common issues addressed include:

- Behavioral difficulties;
- School-related problems such as peer conflict or academic stress;
- Parent-child conflicts and other family relationship issues including blending families;
- Grief and loss including divorce adjustment;
- Self-esteem issues;
- Depression and/or anxiety;
- Suicidal thoughts;
- Self-harm;
- Physical or sexual abuse and trauma;
- Substance abuse; and
- Sexual orientation or gender identification.

The Agency also provides specialized counseling services for specific high-risk populations, which include:

- Teen parents;
- Victims of teen dating/domestic violence;
- Low-income youth and family services in a school-based setting;
- Information and referral services are also provided by the Agency 40 hours per week;
- Specialized therapeutic services for adolescent victims of sexual abuse and for the nonoffending parents; and
- Youth suffering with severe depression and anxiety.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 1 - Continued

Substance Abuse Services - The Agency is a state-certified Outpatient Chemical Dependency Treatment Program for youth, providing individual, family and group counseling focused on the treatment of chemical abuses and dependency. Certified Chemical Dependency Professionals are also on-site in secondary schools in the Lake Washington School District providing substance abuse counseling, education, and prevention services. The Agency's substance abuse services include:

- Assessment
- Treatment
- Group programs
- Parent support
- Information and referral
- Education & prevention
- Recovery support

Outreach / Prevention / Community Education - The Agency provides outreach prevention and education programs for youth and their family to address issues around drug use/abuse, youth emotional development and mental health, parenting skills, and more. Specific programs include:

Teen Dating/Domestic Violence - Work throughout the Eastside to educate youth, families, and adolescents about identifying and preventing teen domestic violence.

Latino HEAT/Latinos Unidos - Programs specifically targeted to reach at risk Latino youth. The program infuses the best practice interventions of mentoring, cultural pride and community service, as well as general case management services to empower youth to live a healthy, violence free life.

Family Net - Social work and family support at Rose Hill Elementary, Redmond Elementary, and John Muir Elementary in the Lake Washington School District.

Success Program - A mentoring program primarily serving the Bellevue School District aimed at preventing school dropouts and encouraging healthy development.

Teen Center Outreach - Counseling staff working with youth in Bellevue, Kirkland, and Redmond teen centers.

Crossroads Community Center - In cooperation with the Bellevue Parks and Community Services Department, the Agency operates drop-in services at the Crossroads Community Center providing counseling, crisis intervention as well as information and referral services to the youth and family participants at the Center.

BGLAD - Free weekly drop in support group for LGBTQ youth.

PEACE Anti-Bullying Program - Empowers and educates 5th grade students to be PEACE Ambassadors (Peers Educating and Coaching Empathy). These young leaders help establish a climate of compassion at their schools and provide education and resources for those in younger grades to decrease bullying and the need for adult intervention in bullying episodes in a school.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 1 - Continued

Healthy Start - An intensive home visiting outreach program for pregnant and parenting teens that provides parent education, support, information, and referral to parents up to age 21.

Parent Education, Support and Coaching - Coaching one or both parents (caregivers) of children/youth via phone or in person to help them navigate mental health, substance abuse and other social/emotional/development challenges they are facing with their children. In addition, topical seminars are provided to help educate and support parents on the most relevant topics/trends impacting children/youth in our community.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Agency and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. The following net assets were designated by the Agency at December 31:

	<u>2015</u>	<u>2014</u>
Strategic initiatives	\$ 500,000	\$ 500,000
Major building repairs and replacement	83,471	61,822
	<u>\$ 583,471</u>	<u>\$ 561,822</u>

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Agency and/or the passage of time. The temporarily restricted net assets at December 31 are restricted for the following purposes:

	<u>2015</u>	<u>2014</u>
Program restrictions	\$ 2,968,557	\$ 3,059,664
Facilities and program expansion	920,010	985,935
Time restrictions	76,039	49,887
	<u>\$ 3,964,606</u>	<u>\$ 4,095,486</u>

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Agency. Generally, the donors of these assets permit the Agency to use all or part of the income earned on related investments for general or specific purposes. The Agency had \$107,411 in permanently restricted net assets at both December 31, 2015 and 2014, from which the earnings can be used for any purpose.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 2 - Continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. It is the Agency's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class activity.

Cash and Cash Equivalents and Investments - The Agency generally considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Agency records certificates of deposits at cost plus accrued interest.

Receivables - Receivables are stated at the amount management expects to collect from outstanding balances. Receivables are primarily from governmental agencies and patient fee-for-service arrangements. Management provides for probable uncollectible amounts through a charge to the statements of activities and a credit to a valuation allowance account based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivables. At December 31, 2015 and 2014, the allowance for doubtful accounts was \$151,987 and \$81,711, respectively.

Pledges Receivable - Pledges receivable represent outstanding unconditional commitments to support operations. Balances at December 31, 2015 and 2014 are due within one year.

Property, Furniture, and Equipment - Assets are recorded at cost or at the fair value assigned when received as gifts, net of accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	19 - 50 years
Furniture and equipment	3 - 10 years
Software	3 - 5 years
Leasehold building improvements	Shorter of useful life or term of lease

The Agency capitalizes expenditures greater than \$5,000 with a useful life beyond one year, and expenditures that materially increase the value or the useful life of existing assets. Ordinary maintenance and repairs are charged to operations as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the change in net assets.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. It is the Agency's policy to release cash restricted for purchase of long-lived assets over the life of the purchased asset, rather than at the time the asset is placed in service.

Fees and Grants From Governmental Agencies - Fees and grants from governmental agencies revenue is recognized when earned as services are provided primarily on a fee for service basis.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 2 - Continued

Contributions - All contributions are considered available for unrestricted and undesignated use, unless specifically restricted by the donor. Pledges are recorded as a pledge receivable when the Agency is notified of the pledge and allowances are provided for amounts estimated as uncollectible. Bequests are recorded as income at the time the Agency has an established right to the bequest and the proceeds are measurable.

Volunteers - A substantial amount of services are provided through the utilization of over 400 community volunteers. The Agency staff recruits, trains, supervises, and evaluates volunteers. Volunteers make significant contributions of time to carry out the programs and activities of the Agency. Those services that meet the criteria outlined by accounting principles generally accepted in the United States of America (U.S. GAAP) have been recorded as both revenue and expense at the fair value of the services performed. Those meeting the recognition criteria have a recorded value of \$261,307 and \$210,659 for the years ended December 31, 2015 and 2014, respectively.

In-Kind Contributions - The Agency's in-kind contributions consist of the following for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Donated services	\$ 261,307	\$ 210,659
Facilities	<u>37,977</u>	<u>38,369</u>
	<u><u>\$ 299,284</u></u>	<u><u>\$ 249,028</u></u>

Investment Income - Investment income is recognized when earned. Unrealized gains and losses on marketable securities are recognized as incurred.

Credit Risk - Financial instruments that potentially subject the Agency to concentration of credit risk consist principally of cash and investments. From time to time, the Agency has amounts on deposit with banks in excess of the federally insured amount.

Income Taxes - The Internal Revenue Service (IRS) has determined that the Agency is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Accordingly, no federal income taxes have been provided for in the accompanying financial statements.

Functional Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based on the benefits derived.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 2 - Continued

Subsequent Events - The Agency has evaluated subsequent events through May 24, 2016, the date on which the financial statements were available to be issued.

Note 3 - Cash and Cash Equivalents

Cash and cash equivalents at December 31 include the following:

	<u>2015</u>	<u>2014</u>
Cash	\$ 257,618	\$ 164,983
Government money market		<u>38,388</u>
	<u>\$ 257,618</u>	<u>\$ 203,371</u>

In addition, at December 31, 2015 and 2014, \$107,411 of cash was held for endowments and is included in cash restricted for endowment on the statements of financial position. See Note 8.

Note 4 - Investments and Fair Value Measurements

Valuation Techniques - Investments are reported at fair value based on quoted market prices, except for certificates of deposit which are reported at cost, and investment in CrossPath, LLC, which is valued using the equity method. Fair value is determined using a fair value hierarchy which prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets for identical assets and liabilities. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Money Market Funds - Valued at cost plus accrued interest, which approximates fair value.

Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the Agency at year-end.

Equity Securities - Valued at quoted market prices in active markets.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 4 - Continued

Fair value (using Level 1 inputs) of assets and liabilities measured on a recurring basis were as follows at December 31:

	<u>2015</u>	<u>2014</u>
Investments at fair value (Level 1)-		
Money market funds	\$ 59,266	\$ 157,208
Mutual funds:		
Fixed income	2,085,506	1,873,901
Blend	247,163	299,728
International	201,141	302,468
REITS	68,372	112,864
Equity securities:		
Information technology	141,517	115,184
Health care	89,046	96,644
Consumer discretionary	81,760	82,514
Financials	101,068	96,670
Energy	41,390	35,860
Consumer staples	51,393	74,636
Industrials	44,327	59,001
Materials	19,318	27,888
Telecommunication services	20,800	
Utilities	16,692	15,835
Total Investments at Fair Value	3,268,759	3,350,401
Investments at cost-		
Certificates of deposit	<u>499,945</u>	<u>499,945</u>
Total Investments at Cost	499,945	499,945
Total Investments	<u>3,768,704</u>	<u>3,850,346</u>
Investments valued using the equity method-		
CrossPath, LLC (See Note 5)	<u>77,203</u>	<u>54,181</u>
	<u>\$ 3,845,907</u>	<u>\$ 3,904,527</u>

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 4 - Continued

Net realized and unrealized loss (gains) recognized for the year ended December 31, 2015, amounted to a loss of \$80,526 (\$115,321 gain in 2014). Dividends and interest recognized for the year ended December 31, 2015, amounted to \$72,062 (\$77,481 in 2014). Realized and unrealized gains and losses and dividends and interest are included in investment income and other on the statements of activities.

Note 5 - Investment in CrossPath, LLC

As of March 1, 2010, the Agency and another not-for-profit corporation formed CrossPath, LLC in which the Agency has a 50% interest. CrossPath, LLC is a for-profit entity and provides counseling and related services to youth and their families. CrossPath, LLC was formed to improve the emotional stability and self sufficiency of youth and their families in the community and to address challenges such as emotional distress, substance abuse and violence. The Agency's initial investment in CrossPath, LLC was \$52,000. The Agency accounts for CrossPath, LLC using the equity method. The Agency's share of CrossPath, LLC's income for the year ended December 31, 2015, was \$23,022 (\$36,810 in 2014). The CrossPath, LLC investment balance at December 31, 2015 and 2014, was \$77,203 and \$54,181, respectively.

Note 6 - Facilities Contribution Receivable

The Agency received a contribution for the right to use the land for the Bellevue facility from the City of Bellevue (the City). In 2000, the Agency received a renewal and extension of its previous lease. Under the term of the lease, the Agency will lease the land from the City for a period of up to fifty years (at the Agency's option) at a rate of one dollar (\$1) per year. At the expiration of the lease, the title to the building and improvements will be transferred to the City. The fair value of the annual land lease is recorded as contributed facilities expense. The value of the contribution through the term of the agreement, recorded at its estimated present value, increased facilities contribution receivable and temporarily restricted net assets in 2000 by approximately \$592,000. The facility contribution is being released from restriction over the life of the lease.

In 2008, the Agency received a contribution for the right to use a building and parking lot from the City of Kirkland. Under the terms of the lease, the Agency will lease the facilities for a ten year period with an option to lease an additional ten years. In consideration for leasing the facilities the Agency will pay for any tenant improvements required for the Agency to occupy the space. The fair value of the annual lease is recorded as contributed facilities expense. The value of the contribution through the term of the agreement, recorded at its estimated present value, increased facilities contribution receivable and temporarily restricted net assets in 2008 by approximately \$324,000. The facility contribution is being released from restriction over the life of the lease.

In 2009, the Agency received a contribution for the right to use a building and parking lot from the City of Sammamish. The facility is used by CrossPath, LLC (see Note 5). Under the terms of the lease, the Agency will lease the facilities for a ten year period with an option to lease an additional ten years. In consideration for leasing the facilities the Agency will pay for any tenant improvements required for the Agency to occupy the space. The fair value of the annual lease is recorded as contributed facilities expense. The value of the contribution through the term of the agreement, recorded at its estimated present value, increased facilities contribution receivable and temporarily restricted net assets in 2009 by approximately \$222,000. The facility contribution is being released from restriction over the life of the lease.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 7 - Property, Furniture, and Equipment

Property, furniture, and equipment at December 31 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Buildings and improvements - Bellevue and Kirkland	\$ 6,538,936	\$ 6,537,775
Furniture and equipment	251,866	249,585
Software	178,759	169,836
Land improvements	26,645	26,645
Electronic health records system (EHR)	<u>523,811</u>	<u>510,671</u>
	7,520,017	7,494,512
Less accumulated depreciation	<u>(1,892,198)</u>	<u>(1,581,077)</u>
	5,627,819	5,913,435
Land - Kirkland	<u>23,114</u>	<u>23,114</u>
	<u><u>\$ 5,650,933</u></u>	<u><u>\$ 5,936,549</u></u>

Depreciation and amortization expense included in the accompanying financial statements consisted of:

	<u>2015</u>	<u>2014</u>
Building, leasehold and land improvements	\$ 168,596	\$ 168,596
Furniture, equipment and software	<u>142,525</u>	<u>128,129</u>
	<u><u>\$ 311,121</u></u>	<u><u>\$ 296,725</u></u>

Note 8 - Endowments

The Agency's endowment consists of donor-restricted funds established for staff training and general support of the Agency. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Trustees of the Agency has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this determination, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 8 - Continued

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Agency and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Agency; and
- The investment policies of the Agency.

As of December 31, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds, December 31, 2014	\$ -	\$ 1,224	\$ 107,411	\$ 108,635
Donor restricted endowment funds, December 31, 2015	\$ -	\$ 1,224	\$ 107,411	\$ 108,635

Changes to endowment net assets for the years ended December 31, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2013	\$ -	\$ 1,224	\$ 107,411	\$ 108,635
Endowment investment return- Interest and dividends	_____	_____	_____	_____
Endowment Net assets, December 31, 2014		1,224	107,411	108,635
Endowment investment return- Interest and dividends	_____	_____	_____	_____
Endowment Net Assets, December 31, 2015	<u>\$ -</u>	<u>\$ 1,224</u>	<u>\$ 107,411</u>	<u>\$ 108,635</u>

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 8 - Continued

Funds With Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or PMIFA requires the Agency to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2015 or 2014.

Spending Policy, Return Objectives and Risk Parameters - The Agency is currently drafting a spending policy, but has not formally adopted one yet. All funds are comingled and managed under the direction of the Finance Committee. The Board of Trustees has formally adopted a Conservative Growth investment policy. Under this policy, the Agency's long-term investment objective is to provide a blend of current income and modest portfolio appreciation, to earn an average annual real total return of at least five percent, net of management fees over rolling ten or fifteen year periods. Over shorter time periods (rolling five year period), the Agency will seek to outperform a composite of market indices reflecting the Agency's asset allocation policies and perform on par with other nontaxable institutional funds with broadly similar investment objectives and policies.

Note 9 - Lease and Other Commitments

Redmond Facility - Effective October 1, 2013, the Agency signed a long-term office lease at a new location in Redmond through September 2023. The lease is subject to escalating rent payments and provided an allowance for tenant improvements.

Minimum required lease payments are as follows:

For the Year Ending December 31,

2016	\$	30,092
2017		30,995
2018		31,925
2019		32,882
2020		33,868
Thereafter		<u>98,367</u>
	\$	<u><u>258,129</u></u>

Total rental expense for all facility leases was \$32,732 and \$34,368 for the years ended December 31, 2015 and 2014, respectively.

Operating Leases - The Organization leases four photocopiers under agreements expiring through August 2018. The agreements call for monthly payments totaling \$543. Rental expense was \$9,297 and \$7,512 for the years ended December 31, 2015 and 2014, respectively.

Service Contracts - During 2013, the Agency contracted with a company to install an electronic health record system (EHR). The contract includes annual payments of approximately \$47,000 through 2019 for support and maintenance.

During 2015, the Agency contracted with a company to provide internet service, which includes annual payments of approximately \$20,000 through 2020.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 9 - Continued

Construction Contract - During 2015, the Agency contracted with a company to perform construction of a storage room to be used as office space. Construction costs of approximately \$22,000 are expected to be incurred in January 2016.

Note 10 - Pension Plans

401(k) Plan - The Agency has a defined contribution retirement plan qualified under section 401(k) of the IRC. All employees who work 20 hours or more per week and are employed by the Agency on the last day of the year are eligible to participate after one year of service. The Agency's contributions are set by the plan to match no less than 2.5 percent of eligible employees' compensation. Total Agency contributions under this plan amounted to \$53,897 and \$29,473 in 2015 and 2014, respectively.

403(b) Plan - The Agency has a defined contribution retirement plan qualified under Section 403(b) of the IRC. This plan covers all employees who work 20 hours or more per week and have less than one year of service. The Agency does not match contributions to this plan.

457(b) Plan - The Agency has a defined contribution retirement plan qualified under Section 457(b) of the IRC. This plan covers the Agency's highly compensated employees. The Agency matches 100 percent of contributions made by the highly compensated employees to the 457(b) plan, up to IRC limits. Total Agency contributions under this plan amounted to \$7,093 and \$6,813 in 2015 and 2014, respectively.

Note 11 - Concentrations

Support and revenue includes \$1,961,634 and \$2,170,154 of government grants and contracts for 2015 and 2014, respectively. This represents 48% and 51% of total operating public support and revenue, respectively.

Note 12 - Special Events

During the year, the Agency had fundraising events that grossed revenues of \$703,957 (\$615,972 in 2014) and had expenses of \$61,192 (\$73,200 in 2014). Expenses are included in special event expenses on the statements of functional expenses for both years ended December 31, 2015 and 2014. The Agency also had \$44,000 released from temporarily restricted net assets to unrestricted net assets during the year ended December 31, 2015, relating to 2015 fundraising events.

Note 13 - Self Insurance

The Agency is a member of the 501(c) Agencies Trust (the Trust). The Trust facilitates the utilization by member agencies of the Reimbursement Financing Method of meeting obligations under State Unemployment Insurance Statutes. As of December 31, 2015 and 2014, the Agency had \$70,876 and \$73,529, respectively, on deposit, which is classified as prepaid expenses in the statements of financial position, with the Trust to fund these obligations. Any potential claims that may exist cannot be reasonably estimated at December 31, 2015; therefore, no accrual for liabilities has been made.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 14 - Malpractice Insurance

Therapists and counselors, while acting within their duties as employees of the Agency, are insured by the Agency's professional liability insurance under an occurrence basis policy.

Note 15 - Contingencies

From time to time, the Agency is subject to litigation and regulatory investigations arising in the ordinary course of business. The Agency does not believe that any such pending claims, proceedings or litigation either alone or in the aggregate, will have a material effect on the Agency's financial position or results of operations.

The health care industry is subjected to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Agency is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretations as well as regulatory actions known or unasserted at this time.

SUPPLEMENTARY INFORMATION

YOUTH EASTSIDE SERVICES

**Schedule of Program Services Expenses
For the Year Ended December 31, 2015
(With Comparative Totals for December 31, 2014)**

	Youth and Family Counseling	Outreach/ Prevention/ Community Education	Substance Abuse Services	Program Services Expenses	
				2015	2014
Professional staff salaries	\$ 925,648	\$ 489,671	\$ 623,548	\$ 2,038,867	\$ 1,963,029
Donated services	197,244	49,097	4,070	250,411	209,475
Employee benefits	137,463	82,303	81,201	300,967	247,419
Payroll taxes	79,342	41,039	53,495	173,876	168,785
Total Salaries, Donated Services and Related Expenses	1,339,697	662,110	762,314	2,764,121	2,588,708
Professional services	81,930	13,687	12,561	108,178	138,746
Occupancy	63,026	30,339	39,393	132,758	126,815
Youth activities and events	2,581	6,546	7,449	16,576	9,675
Communications	25,050	10,249	15,920	51,219	42,715
Minor equipment and maintenance	11,235	9,092	5,893	26,220	20,469
Trainings, conferences and meetings	15,330	6,574	6,345	28,249	11,377
Printing and publications	3,754	2,563	1,779	8,096	4,896
Supplies	13,533	5,886	6,141	25,560	22,019
Miscellaneous	2,038	928	682	3,648	13,634
Professional liability insurance	13,075	13,075	7,264	33,414	23,447
Transportation	4,785	9,724	3,112	17,621	12,767
Licenses and fees	5,054	419	6,589	12,062	10,557
Postage	2,182	525	1,889	4,596	5,766
Advertising	1,040	308	218	1,566	3,964
Laboratory fees			3,535	3,535	4,138
Agency dues	427	615	193	1,235	447
Total Expenses Before Contributed Facilities and Depreciation and Amortization	1,584,737	772,640	881,277	3,238,654	3,040,140
Contributed facilities	33,301	13,800	28,701	75,802	75,802
Contributed facilities - CrossPath, LLC	11,290		11,290	22,580	22,580
Depreciation and amortization	163,724	42,079	59,671	265,474	252,597
Total Expenses	\$ 1,793,052	\$ 828,519	\$ 980,939	\$ 3,602,510	\$ 3,391,119

See independent auditor's report.