

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

Financial Statements

For the Years Ended December 31, 2017 and 2016

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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, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **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 15, 2018

## YOUTH EASTSIDE SERVICES

### Statements of Financial Position December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 593,766	\$ 515,333
Receivables from governmental agencies and others, net	386,398	481,207
Pledges receivable	79,962	38,925
Prepaid expenses	170,359	131,935
Investments (Note 4)	3,626,376	3,355,575
Investment in CrossPath, LLC (Note 5)	63,772	66,221
Property, furniture and equipment, net (Note 7)	5,112,099	5,385,133
Facilities contribution receivable (Note 6)	785,682	852,450
Cash restricted for endowment (Note 3)	107,411	107,411
<b>Total Assets</b>	<b><u>\$ 10,925,825</u></b>	<b><u>\$ 10,934,190</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 11,857	\$ 24,950
Accrued liabilities	148,807	131,559
Deferred rent	19,602	19,737
Lease incentive liability	30,878	36,248
<b>Total Liabilities</b>	<b>211,144</b>	<b>212,494</b>
<b>Net Assets (Note 2):</b>		
Unrestricted	6,929,744	6,768,951
Temporarily restricted	3,677,526	3,845,334
Permanently restricted	107,411	107,411
<b>Total Net Assets</b>	<b><u>10,714,681</u></b>	<b><u>10,721,696</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 10,925,825</u></b>	<b><u>\$ 10,934,190</u></b>

See accompanying notes.

**YOUTH EASTSIDE SERVICES**

**Statements of Activities  
For the Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Change in Unrestricted Net Assets</b>		
<b>Public Support:</b>		
United Way of King County	\$ 106,135	\$ 123,109
Cash contributions and pledges	736,902	598,080
Special events	669,205	642,973
In-kind donations	<u>202,847</u>	<u>191,707</u>
<b>Total Public Support</b>	<b>1,715,089</b>	<b>1,555,869</b>
<b>Revenue:</b>		
Fees and grants from governmental agencies	2,768,406	2,432,011
Other revenue-		
Program service fees	514,346	362,676
(Loss) gain on CrossPath, LLC	(2,449)	14,018
Investment income and other	<u>314,552</u>	<u>187,822</u>
<b>Total Revenue</b>	<b>3,594,855</b>	<b>2,996,527</b>
<b>Net Assets Released From Restrictions:</b>		
Satisfaction of program restrictions	91,107	91,107
Satisfaction of facilities and program expansion restrictions	66,767	66,335
Satisfaction of time restrictions	<u>107,131</u>	<u>75,279</u>
<b>Total Net Assets Released From Restrictions</b>	<b>265,005</b>	<b>232,721</b>
<b>Total Support, Revenue and Reclassifications</b>	<b>5,574,949</b>	<b>4,785,117</b>
<b>Expenses:</b>		
Program services-		
Youth and family counseling	2,099,003	1,922,254
Outreach/prevention/community education	663,606	720,108
Substance abuse services	<u>1,326,707</u>	<u>1,209,756</u>
Total program services	4,089,316	3,852,118
Supporting services-		
Management and general	639,110	602,182
Fundraising	<u>685,730</u>	<u>631,299</u>
Total supporting services	<u>1,324,840</u>	<u>1,233,481</u>
<b>Total Expenses</b>	<b>5,414,156</b>	<b>5,085,599</b>
<b>Change in Unrestricted Net Assets</b>	<b>160,793</b>	<b>(300,482)</b>

See accompanying notes.

**YOUTH EASTSIDE SERVICES**

**Statements of Activities (Continued)  
For the Years Ended December 31, 2017 and 2016**

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	<u>2017</u>	<u>2016</u>
<b>Change in Temporarily Restricted Net Assets:</b>		
Contributions	97,197	113,449
Net assets released from restrictions	<u>(265,005)</u>	<u>(232,721)</u>
<b>Total Change in Temporarily Restricted Net Assets</b>	<b><u>(167,808)</u></b>	<b><u>(119,272)</u></b>
<b>Change in Net Assets</b>	<b>(7,015)</b>	<b>(419,754)</b>
Net assets, beginning of year	<u>10,721,696</u>	<u>11,141,450</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 10,714,681</u></b>	<b><u>\$ 10,721,696</u></b>

See accompanying notes.

**YOUTH EASTSIDE SERVICES**

**Statement of Functional Expenses  
For the Year Ended December 31, 2017**

	Program Services	Supporting Services			2017 Total
		Management and General	Fundraising	Total	
Professional staff salaries	\$ 2,446,052	\$ 319,701	\$ 385,106	\$ 704,807	\$ 3,150,859
Donated services	152,834	12,878		12,878	165,712
Employee benefits	395,228	68,903	45,772	114,675	509,903
Payroll taxes	191,351	24,737	29,336	54,073	245,424
<b>Total Salaries, Donated Services and Related Expenses</b>	<b>3,185,465</b>	<b>426,219</b>	<b>460,214</b>	<b>886,433</b>	<b>4,071,898</b>
Professional services	243,110	116,357	48,809	165,166	408,276
Occupancy	141,257	26,843	14,973	41,816	183,073
Special events - food and event center			109,405	109,405	109,405
Communications	38,284	6,914	4,115	11,029	49,313
Trainings, conferences and meetings	18,221	1,844	2,187	4,031	22,252
Minor equipment and maintenance	22,294	4,967	3,245	8,212	30,506
Supplies	26,806	2,626	3,351	5,977	32,783
Printing and publications	3,880	755	8,704	9,459	13,339
Youth activities and events	9,809				9,809
Professional liability insurance	12,182	1,599	1,297	2,896	15,078
Transportation	13,557	398	293	691	14,248
Miscellaneous	480	16,884	1,472	18,356	18,836
Licenses and fees	17,615	776	719	1,495	19,110
Advertising	1,708	46	4,191	4,237	5,945
Postage	4,606	389	2,223	2,612	7,218
Laboratory fees	2,688				2,688
Agency dues	301	2,607	1,741	4,348	4,649
<b>Total Expenses Before Contributed Facilities, Bad Debt and Depreciation and Amortization</b>	<b>3,742,263</b>	<b>609,224</b>	<b>666,939</b>	<b>1,276,163</b>	<b>5,018,426</b>
Contributed facilities (Note 6)	98,382	4,600	920	5,520	103,902
Depreciation and amortization (Note 7)	248,671	25,286	17,871	43,157	291,828
	<b>\$ 4,089,316</b>	<b>\$ 639,110</b>	<b>\$ 685,730</b>	<b>\$ 1,324,840</b>	<b>\$ 5,414,156</b>

See accompanying notes.



## YOUTH EASTSIDE SERVICES

### Statement of Functional Expenses For the Year Ended December 31, 2016

	Program Services	Supporting Services			2016 Total
		Management and General	Fundraising	Total	
Professional staff salaries	\$ 2,331,470	\$ 314,063	\$ 364,952	\$ 679,015	\$ 3,010,485
Donated services	141,285	12,855		12,855	154,140
Employee benefits	341,112	64,548	45,497	110,045	451,157
Payroll taxes	186,197	24,452	28,401	52,853	239,050
<b>Total Salaries, Donated Services and Related Expenses</b>	<b>3,000,064</b>	<b>415,918</b>	<b>438,850</b>	<b>854,768</b>	<b>3,854,832</b>
Professional services	159,423	104,478	39,721	144,199	303,622
Occupancy	122,623	20,046	10,595	30,641	153,264
Special events - food and event center			89,669	89,669	89,669
Communications	40,090	8,444	3,393	11,837	51,927
Trainings, conferences and meetings	41,433	1,799	2,871	4,670	46,103
Minor equipment and maintenance	22,151	3,299	3,516	6,815	28,966
Supplies	23,329	3,084	2,249	5,333	28,662
Printing and publications	10,014	1,023	8,209	9,232	19,246
Youth activities and events	16,378				16,378
Professional liability insurance	11,931	1,565	1,270	2,835	14,766
Transportation	13,066	342	150	492	13,558
Miscellaneous	3,177	6,480	1,495	7,975	11,152
Licenses and fees	10,661	336	9	345	11,006
Advertising	1,151	17	8,218	8,235	9,386
Postage	5,060	938	1,200	2,138	7,198
Laboratory fees	3,450				3,450
Agency dues	323	2,019	697	2,716	3,039
<b>Total Expenses Before Contributed Facilities, Bad Debt and Depreciation and Amortization</b>	<b>3,484,324</b>	<b>569,788</b>	<b>612,112</b>	<b>1,181,900</b>	<b>4,666,224</b>
Contributed facilities (Note 6)	98,382	4,600	920	5,520	103,902
Depreciation and amortization (Note 7)	269,412	27,794	18,267	46,061	315,473
	<b>\$ 3,852,118</b>	<b>\$ 602,182</b>	<b>\$ 631,299</b>	<b>\$ 1,233,481</b>	<b>\$ 5,085,599</b>

See accompanying notes.

**YOUTH EASTSIDE SERVICES**

**Statements of Cash Flows  
For the Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (7,015)	\$ (419,754)
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities-		
Depreciation and amortization	291,828	315,473
Net investment gain	(223,473)	(85,282)
Net loss (gain) in CrossPath, LLC	2,449	(14,018)
(Increase) Decrease in operating assets:		
Receivables from governmental agencies and others	94,809	(144,440)
Pledges receivable	(41,037)	28,838
Prepaid expenses	(38,424)	17,414
Facilities contribution receivable	66,768	66,335
Increase (Decrease) in operating liabilities:		
Accounts payable and accrued liabilities	4,155	22,650
Deferred rent and lease incentive liabilities	(5,505)	(3,239)
Total adjustments	<u>151,570</u>	<u>203,731</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>144,555</b>	<b>(216,023)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of investments	(2,343,519)	(925,389)
Proceeds from sale of investments	2,296,191	1,423,800
Distribution from CrossPath, LLC		25,000
Acquisition of property, furniture and equipment	<u>(18,794)</u>	<u>(49,673)</u>
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(66,122)</b>	<b>473,738</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>78,433</b>	<b>257,715</b>
Cash and cash equivalents, beginning of year	<u>515,333</u>	<u>257,618</u>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ <u>593,766</u></b>	<b>\$ <u>515,333</u></b>

See accompanying notes.

## YOUTH EASTSIDE SERVICES

### Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

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#### 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, 2017 and 2016

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#### 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.

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.

## YOUTH EASTSIDE SERVICES

### Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

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#### Note 1 - Continued

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 are the unrestricted net assets at December 31:

	<u>2017</u>	<u>2016</u>
Undesignated unrestricted	\$ 6,401,682	\$ 6,263,405
Board designated-		
Strategic initiatives	400,000	400,000
Major building repairs and replacement	<u>128,062</u>	<u>105,546</u>
	<u><u>\$ 6,929,744</u></u>	<u><u>\$ 6,768,951</u></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. Temporarily restricted net assets at December 31 are restricted for the following purposes:

	<u>2017</u>	<u>2016</u>
Program restrictions	\$ 2,786,343	\$ 2,877,450
Facilities and program expansion	787,153	853,675
Time restrictions	<u>104,030</u>	<u>114,209</u>
	<u><u>\$ 3,677,526</u></u>	<u><u>\$ 3,845,334</u></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, 2017 and 2016, from which the earnings can be used for any purpose.

## YOUTH EASTSIDE SERVICES

### Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

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#### 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, 2017 and 2016, the allowances for contractual adjustments and doubtful accounts totaled \$330,126 and \$240,584, respectively.

**Pledges Receivable** - Pledges receivable represent outstanding unconditional commitments to support operations. Balances at December 31, 2017 and 2016 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, 2017 and 2016

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#### 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 \$165,712 and \$154,140 for the years ended December 31, 2017 and 2016, respectively.

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

	<u>2017</u>	<u>2016</u>
Donated services	\$ 165,712	\$ 154,140
Facilities	<u>37,135</u>	<u>37,567</u>
	<u><b>\$ 202,847</b></u>	<u><b>\$ 191,707</b></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. At times, 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, 2017 and 2016

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#### Note 2 - Continued

**Subsequent Events** - The Agency has evaluated subsequent events through May 15, 2018, 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>2017</u>	<u>2016</u>
Cash	\$ 580,694	\$ 500,510
Government money market	<u>13,072</u>	<u>14,823</u>
	<u><b>\$ 593,766</b></u>	<u><b>\$ 515,333</b></u>

In addition, at December 31, 2017 and 2016, \$107,411 of cash was held for endowments and is included in cash restricted for endowment on the statements of financial position (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 the 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, 2017 and 2016

#### 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>2017</u>	<u>2016</u>
Investments at fair value (Level 1)-		
Money market funds	\$ 49,497	\$ 86,052
Mutual funds:		
Fixed income	442,310	1,821,428
Blend	1,668,975	345,928
International	166,482	281,282
Exchanged traded funds	488,125	
REITS		65,487
Equity securities:		
Information technology	125,817	102,385
Health care	86,465	53,551
Consumer discretionary	80,362	64,616
Financials	76,363	86,164
Energy	36,969	22,386
Consumer staples	48,357	57,037
Industrials	79,115	68,695
Materials	11,435	21,173
Telecommunication services		10,142
Utilities	16,104	19,249
Total investments at fair value	<u>3,376,376</u>	<u>3,105,575</u>
Investments at cost-		
Certificates of deposit	<u>250,000</u>	<u>250,000</u>
Total investments at cost	<u>250,000</u>	<u>250,000</u>
<b>Total Investments</b>	<b>3,626,376</b>	<b>3,355,575</b>
Investments valued using the equity method-		
CrossPath, LLC (Note 5)	<u>63,772</u>	<u>66,221</u>
	<b><u>\$ 3,690,148</u></b>	<b><u>\$ 3,421,796</u></b>

## YOUTH EASTSIDE SERVICES

### Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

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#### Note 4 - Continued

Net realized and unrealized gain recognized for the year ended December 31, 2017, amounted to \$223,473 (\$85,282 in 2016). Dividends and interest recognized for the year ended December 31, 2017, amounted to \$79,533 (\$77,735 in 2016). 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 loss for the year ended December 31, 2017, was \$2,449 (\$14,018 gain in 2016). The Agency received \$25,000 of distributions from the investment during the year ended December 31, 2016. No distributions were received during the year ended December 31, 2017. The CrossPath, LLC investment balance at December 31, 2017 and 2016, was \$63,772 and \$66,221, respectively. Amounts due from CrossPath, LLC to the Agency were \$14,242 and \$6,795 at December 31, 2017 and 2016, 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 (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, 2017 and 2016

#### Note 7 - Property, Furniture and Equipment

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

	<u>2017</u>	<u>2016</u>
Buildings and improvements - Bellevue and Kirkland	\$ 6,585,423	\$ 6,574,224
Furniture and equipment	265,604	258,008
Software	187,001	187,001
Land improvements	26,645	26,645
Electronic health records system (EHR)	<u>523,811</u>	<u>523,811</u>
	7,588,484	7,569,689
Less accumulated depreciation	<u>(2,499,499)</u>	<u>(2,207,670)</u>
	5,088,985	5,362,019
Land - Kirkland	<u>23,114</u>	<u>23,114</u>
	<u><b>\$ 5,112,099</b></u>	<u><b>\$ 5,385,133</b></u>

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

	<u>2017</u>	<u>2016</u>
Building, leasehold and land improvements	\$ 168,597	\$ 168,599
Furniture, equipment and software	<u>122,972</u>	<u>146,874</u>
	<u><b>\$ 291,569</b></u>	<u><b>\$ 315,473</b></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, 2017 and 2016

#### 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>
Endowment net assets, December 31, 2015	\$ -	\$ 1,224	\$ 107,411	\$ 108,635
<b>Endowment Net Assets, December 31, 2016</b>		<b>1,224</b>	<b>107,411</b>	<b>108,635</b>
Endowment investment return- Interest and dividends		<u>245</u>		<u>245</u>
<b>Endowment Net Assets, December 31, 2017</b>	<u>\$ -</u>	<u>\$ 1,469</u>	<u>\$ 107,411</u>	<u>\$ 108,880</u>

**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, 2017 and 2016.

**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.

## YOUTH EASTSIDE SERVICES

### Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

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#### 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,

2018	\$	31,925
2019		32,882
2020		33,868
2021		34,885
2022		35,931
Thereafter		<u>27,550</u>
	\$	<u><u>197,041</u></u>

Total rental expense for all facility leases was \$31,203 and \$36,429 for the years ended December 31, 2017 and 2016, respectively.

**Operating Leases** - The Agency leases four photocopiers under agreements expiring through August 2018. The agreements call for monthly payments totaling \$543. Rental expense was \$9,244 and \$11,548 for the years ended December 31, 2017 and 2016, 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.

#### 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 \$66,063 and \$59,817 in 2017 and 2016, 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.

## YOUTH EASTSIDE SERVICES

### Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

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#### Note 10 - Continued

**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 \$7,864 and \$7,490 in 2017 and 2016, respectively.

#### Note 11 - Concentrations

Support and revenue includes \$2,768,406 and \$2,432,011 of government grants and contracts for 2017 and 2016, respectively. This represents 50% and 51% of total operating public support and revenue, respectively.

#### Note 12 - Special Events

During the year ended December 31, 2017, the Agency had fundraising events that grossed revenues of \$669,205 (\$642,973 in 2016) and had expenses of \$109,405 (\$89,669 in 2016). Expenses are included in special event expenses on the statements of functional expenses for both years ended December 31, 2017 and 2016. The Agency also had \$74,000 released from temporarily restricted net assets to unrestricted net assets during the year ended December 31, 2017, relating to 2017 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, 2017 and 2016, the Agency had \$109,044 and \$79,708, 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, 2017; therefore, no accrual for liabilities has been made.

#### 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.

## **YOUTH EASTSIDE SERVICES**

### **Notes to Financial Statements For the Years Ended December 31, 2017 and 2016**

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#### **Note 15 - Continued**

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, 2017  
(With Comparative Totals for December 31, 2016)**

	Youth and Family Counseling	Outreach/ Prevention/ Community Education	Substance Abuse Services	Program Services Expenses	
				2017	2016
Professional staff salaries	\$ 1,064,516	\$ 455,417	\$ 926,119	\$ 2,446,052	\$ 2,331,470
Donated services	144,244	7,780	810	152,834	141,285
Employee benefits	224,043	68,066	103,119	395,228	341,112
Payroll taxes	83,319	35,286	72,746	191,351	186,197
<b>Total Salaries, Donated Services and Related Expenses</b>	<b>1,516,122</b>	<b>566,549</b>	<b>1,102,794</b>	<b>3,185,465</b>	<b>3,000,064</b>
Professional services	198,771	15,757	28,582	243,110	159,423
Occupancy	97,067	8,158	36,032	141,257	122,623
Communications	18,360	6,159	13,765	38,284	40,090
Trainings, conferences and meetings	11,457	1,105	5,659	18,221	41,433
Minor equipment and maintenance	16,623	1,805	3,866	22,294	22,151
Supplies	14,455	3,204	9,147	26,806	23,329
Printing and publications	2,075	323	1,482	3,880	10,014
Youth activities and events	2,544	6,596	669	9,809	16,378
Professional liability insurance	6,121	2,141	3,920	12,182	11,931
Transportation	3,628	6,667	3,262	13,557	13,066
Miscellaneous	120	240	120	480	3,177
Licenses and fees	10,355	2,195	5,065	17,615	10,661
Advertising	1,701	2	5	1,708	1,151
Postage	2,386	569	1,651	4,606	5,060
Laboratory fees			2,688	2,688	3,450
Agency dues	153	38	110	301	323
<b>Total Expenses Before Contributed Facilities and Depreciation and Amortization</b>	<b>1,901,938</b>	<b>621,508</b>	<b>1,218,817</b>	<b>3,742,263</b>	<b>3,484,324</b>
Contributed facilities	44,591	13,800	39,991	98,382	98,382
Depreciation and amortization	152,474	28,298	67,899	248,671	269,412
<b>Total Expenses</b>	<b>\$ 2,099,003</b>	<b>\$ 663,606</b>	<b>\$ 1,326,707</b>	<b>\$ 4,089,316</b>	<b>\$ 3,852,118</b>

See independent auditor's report.