

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

Financial Statements

For the Years Ended December 31, 2018 and 2017

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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, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 2, the Agency adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

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 14, 2019

YOUTH EASTSIDE SERVICES

**Statements of Financial Position
December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents (Note 3)	\$ 788,985	\$ 592,297
Receivables from governmental agencies and others, net	506,767	386,398
Pledges receivable	492,895	79,962
Prepaid expenses	193,481	170,359
Investments (Note 4)	3,552,150	3,626,376
Investment in CrossPath, LLC (Note 5)	81,927	63,772
Property, furniture and equipment, net (Note 7)	4,979,602	5,112,099
Facilities contribution receivable (Note 6)	1,194,309	785,682
Cash restricted by donors for endowment (Note 3)	109,129	108,880
Total Assets	<u>\$ 11,899,245</u>	<u>\$ 10,925,825</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 45,729	\$ 11,857
Accrued liabilities	217,923	148,807
Deferred rent	18,536	19,602
Lease incentive liability	25,508	30,878
Total Liabilities	307,696	211,144
Net Assets (Note 2):		
Without donor restrictions	9,765,324	9,716,087
With donor restrictions	1,826,225	998,594
Total Net Assets	<u>11,591,549</u>	<u>10,714,681</u>
Total Liabilities and Net Assets	<u>\$ 11,899,245</u>	<u>\$ 10,925,825</u>

See accompanying notes.

YOUTH EASTSIDE SERVICES

**Statements of Activities
For the Years Ended December 31, 2018 and 2017**

	2018	2017
Change in Net Assets Without Donor Restrictions		
Public Support:		
United Way of King County	\$ 136,402	\$ 106,135
Cash contributions and pledges	462,645	736,902
Special events	772,451	669,205
In-kind donations	683,430	202,847
Total Public Support	2,054,928	1,715,089
Revenue:		
Fees and grants from governmental agencies	3,239,833	2,768,406
Other revenue-		
Program service fees	631,644	514,346
Gain (loss) on CrossPath, LLC	18,155	(2,449)
Investment return and other	(38,553)	314,307
Total Revenue	3,851,079	3,594,610
Net Assets Released From Donor Restrictions:		
Satisfaction of facilities and program expansion restrictions	31,897	66,767
Satisfaction of time restrictions	103,245	107,131
Total Net Assets Released From Donor Restrictions	135,142	173,898
Total Support, Revenue and Reclassifications	6,041,149	5,483,597
Expenses:		
Program services-		
Youth and family mental health counseling	2,570,463	2,099,003
Outreach/prevention/community education	474,934	663,606
Substance use and co-occurring disorder services	1,510,838	1,326,707
Total program services	4,556,235	4,089,316
Supporting services-		
Management and general	658,298	639,110
Fundraising	777,379	685,730
Total supporting services	1,435,677	1,324,840
Total Expenses	5,991,912	5,414,156
Change in Net Assets Without Donor Restrictions	49,237	69,441

See accompanying notes.

YOUTH EASTSIDE SERVICES

**Statements of Activities (Continued)
For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Change in Net Assets With Donor Restrictions:		
Contributions	962,524	97,197
Interest on endowments	249	245
Net assets released from donor restrictions	<u>(135,142)</u>	<u>(173,898)</u>
Total Change in Net Assets With Donor Restrictions	<u>827,631</u>	<u>(76,456)</u>
Change in Net Assets	876,868	(7,015)
Net assets, beginning of year	<u>10,714,681</u>	<u>10,721,696</u>
Net Assets, End of Year	<u>\$ 11,591,549</u>	<u>\$ 10,714,681</u>

See accompanying notes.

YOUTH EASTSIDE SERVICES

Statement of Functional Expenses For the Year Ended December 31, 2018

	Program Services	Supporting Services			2018 Total
		Management and General	Fundraising	Total Supporting	
Professional staff salaries	\$ 2,611,279	\$ 344,933	\$ 435,776	\$ 780,709	\$ 3,391,988
Donated services	158,873	7,800		7,800	166,673
Employee benefits	476,125	69,305	34,730	104,035	580,160
Payroll taxes	210,842	28,776	34,959	63,735	274,577
Total Salaries, Donated Services and Related Expenses	3,457,119	450,814	505,465	956,279	4,413,398
Professional services	355,199	114,142	39,057	153,199	508,398
Occupancy	134,565	25,769	13,979	39,748	174,313
Special events - food and event center			152,693	152,693	152,693
Communications	40,790	6,308	3,496	9,804	50,594
Trainings, conferences and meetings	34,833	2,222	2,586	4,808	39,641
Supplies	32,330	3,009	3,826	6,835	39,165
Bad debt	36,050				36,050
Minor equipment and maintenance	22,210	4,717	3,465	8,182	30,392
Printing and publications	7,654	958	15,516	16,474	24,128
Miscellaneous	3,425	12,560	3,524	16,084	19,509
Licenses and fees	16,828	472	593	1,065	17,893
Professional liability insurance	11,931	1,565	1,270	2,835	14,766
Youth activities and events	13,408				13,408
Agency dues	7,263	3,451	1,439	4,890	12,153
Transportation	11,155	425	273	698	11,853
Advertising	839	17	7,253	7,270	8,109
Postage	4,628	394	2,259	2,653	7,281
Laboratory fees	3,869				3,869
Total Expenses Before Contributed Facilities, Depreciation and Amortization	4,194,096	626,823	756,694	1,383,517	5,577,613
Contributed facilities (Note 6)	102,610	4,600	920	5,520	108,130
Depreciation and amortization (Note 7)	259,529	26,875	19,765	46,640	306,169
	\$ 4,556,235	\$ 658,298	\$ 777,379	\$ 1,435,677	\$ 5,991,912

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 Supporting	
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
Total Salaries, Donated Services and Related Expenses	3,185,465	426,219	460,214	886,433	4,071,898
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
Supplies	26,806	2,626	3,351	5,977	32,783
Minor equipment and maintenance	22,294	4,967	3,245	8,212	30,506
Trainings, conferences and meetings	18,221	1,844	2,187	4,031	22,252
Licenses and fees	17,615	776	719	1,495	19,110
Miscellaneous	480	16,884	1,472	18,356	18,836
Professional liability insurance	12,182	1,599	1,297	2,896	15,078
Transportation	13,557	398	293	691	14,248
Printing and publications	3,880	755	8,704	9,459	13,339
Youth activities and events	9,809				9,809
Postage	4,606	389	2,223	2,612	7,218
Advertising	1,708	46	4,191	4,237	5,945
Agency dues	301	2,607	1,741	4,348	4,649
Laboratory fees	2,688				2,688
Total Expenses Before Contributed Facilities, Depreciation and Amortization	3,742,263	609,224	666,939	1,276,163	5,018,426
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
	\$ 4,089,316	\$ 639,110	\$ 685,730	\$ 1,324,840	\$ 5,414,156

See accompanying notes.

YOUTH EASTSIDE SERVICES

**Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 876,868	\$ (7,015)
Adjustments to reconcile change in net assets to cash provided by operating activities-		
Depreciation and amortization	306,169	291,828
Net investment loss (gain)	164,617	(223,473)
Net (gain) loss in CrossPath, LLC	(18,155)	2,449
(Increase) Decrease in operating assets:		
Receivables from governmental agencies and others	(120,369)	94,809
Pledges receivable	(412,933)	(41,037)
Prepaid expenses	(23,122)	(38,424)
Facilities contribution receivable	(408,627)	66,768
Increase (Decrease) in operating liabilities:		
Accounts payable and accrued liabilities	102,988	4,155
Deferred rent and lease incentive liabilities	(6,436)	(5,505)
Total adjustments	<u>(415,868)</u>	<u>151,570</u>
Net Cash Provided by Operating Activities	461,000	144,555
Cash Flows From Investing Activities:		
Purchase of investments	(677,147)	(2,343,519)
Proceeds from sale of investments	586,756	2,296,191
Acquisition of property, furniture and equipment	<u>(173,672)</u>	<u>(18,794)</u>
Net Cash Used in Investing Activities	(264,063)	(66,122)
Net Change in Cash and Cash Equivalents	196,937	78,433
Cash and cash equivalents, beginning of year	<u>701,177</u>	<u>622,744</u>
Cash and Cash Equivalents, End of Year	<u>\$ 898,114</u>	<u>\$ 701,177</u>
Cash as Presented on the Statements of Financial Position:		
Cash and cash equivalents	\$ 788,985	\$ 592,297
Cash restricted by donors for endowment	<u>109,129</u>	<u>108,880</u>
Total Cash	<u>\$ 898,114</u>	<u>\$ 701,177</u>

See accompanying notes.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 1 - Organization Purposes and Programs

Youth Eastside Services (the Agency) is a Washington not-for-profit corporation and is a multi-service behavioral health agency providing educational, treatment, counseling, and prevention services to children, youth and their families in East King County. Founded in Bellevue in 1968, the Agency provides services in three facilities in Bellevue, Kirkland and Redmond, as well as 50 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.”

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 Mental Health 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 use and co-occurring disorders; and
- Sexual orientation or gender identification.

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

- New parents;
- Latino students at risk of dropping out of school;
- 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;
- Youth suffering with severe depression and anxiety;
- Youth with self-harming behaviors and suicidal thoughts; and
- Youth in need of psychiatric services.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 1 - Continued

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:

Homelessness Prevention - Program works to prevent imminent homelessness by providing case management, referrals, resources, and supportive services.

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, Einstein 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.

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

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

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

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:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - 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.

Revenues are reported as increases in net assets without restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor 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 contributions with donor restrictions that are received and expended in the same accounting period as activity of net assets without donor restrictions.

Adoption of New Accounting Pronouncement - For the year ended December 31, 2018, the Agency adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service. The guidance also enhances disclosure for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 is presented below:

Net Asset Classifications	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented-			
Unrestricted	\$ 6,929,744	\$ -	\$ 6,929,744
Temporarily restricted		3,677,526	3,677,526
Permanently restricted		107,411	107,411
Net assets as previously presented	6,929,744	3,784,937	10,714,681
Reclassifications to implement ASU 2016-14-			
Capital gifts for construction	2,786,343	(2,786,343)	
Net Assets, as Reclassified, at December 31, 2017	\$ 9,716,087	\$ 998,594	\$ 10,714,681

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 2 - Continued

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, 2018 and 2017, the allowances for contractual adjustments and doubtful accounts totaled \$353,384 and \$330,126, respectively.

Pledges Receivable - Pledges receivable represent outstanding unconditional commitments to support operations. At December 31, 2018, amounts due to be collected within one year was \$192,895; amounts due to be collected within one to five years was \$300,000. Balances at December 31, 2017 were 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 donor restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. In accordance with U.S. GAAP, the Agency releases cash restricted for purchase of long-lived assets when the purchased asset is placed into service.

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

Contributions - All contributions are considered to be without donor restrictions, 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.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 2 - Continued

Volunteers - A substantial amount of services are provided through the utilization of over 100 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 \$166,673 and \$165,712 for the years ended December 31, 2018 and 2017, respectively.

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

	<u>2018</u>	<u>2017</u>
Donated services	\$ 166,673	\$ 165,712
Facilities	<u>516,757</u>	<u>37,135</u>
	<u><u>\$ 683,430</u></u>	<u><u>\$ 202,847</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. 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 financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. The Organization first identifies any expenses that are directly attributable to a department, and then allocates those costs that benefit multiple programs. Those expenses include salaries, depreciation, minor equipment and maintenance, office supplies, printing, and communications. Salary expense is assigned based upon expected time spent supporting programs. Depreciation, occupancy costs, minor equipment and maintenance, and communications are allocated on a square footage basis. Office supplies and printing are allocated based upon the count of full-time equivalent employees by department.

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.

Subsequent Events - The Agency has evaluated subsequent events through May 14, 2019, the date on which the financial statements were available to be issued.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 3 - Cash and Cash Equivalents

Cash and cash equivalents at December 31 include the following:

	<u>2018</u>	<u>2017</u>
Cash	\$ 787,807	\$ 579,225
Government money market	<u>1,178</u>	<u>13,072</u>
	<u><u>\$ 788,985</u></u>	<u><u>\$ 592,297</u></u>

In addition, at December 31, 2018 and 2017, respectively, \$109,129 and \$108,880 of cash was held for endowments and is included in cash restricted by donors for endowment on the statements of financial position (Note 10).

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.

Corporate Bonds - Valued using bid valuations from similar instruments in actively quoted markets.

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.

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Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 4 - Continued

Fair value of assets and liabilities measured on a recurring basis were as follows at December 31:

	<u>2018</u>	<u>2017</u>
Investments at fair value-		
Money market funds (Level 1)	\$ 42,142	\$ 49,497
Corporate bonds (Level 2)	355,282	442,310
Mutual funds (Level 1):		
Fixed income	1,568,710	1,458,534
US equity	145,530	210,441
International equity	91,231	166,482
Exchanged traded funds	624,687	488,125
Equity securities (Level 1):		
Information technology	88,494	125,817
Health care	86,773	86,465
Communication services	73,072	
Consumer discretionary	52,086	80,362
Financials	53,006	76,363
Energy	32,366	36,969
Consumer staples	27,568	48,357
Industrials	39,233	79,115
Materials	10,486	11,435
Utilities	11,484	16,104
	<u>3,302,150</u>	<u>3,376,376</u>
Total investments at fair value		
	3,302,150	3,376,376
Investments at cost-		
Certificates of deposit	250,000	250,000
	<u>250,000</u>	<u>250,000</u>
Total investments at cost		
	250,000	250,000
	<u>250,000</u>	<u>250,000</u>
Total Investments	<u>\$ 3,552,150</u>	<u>\$ 3,626,376</u>

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 gain for the year ended December 31, 2018, was \$18,155 (\$2,449 loss in 2017). No distributions were received during the years ended December 31, 2018 and 2017. The CrossPath, LLC investment balance at December 31, 2018 and 2017, was \$81,927 and \$63,772, respectively. Amounts due from CrossPath, LLC to the Agency were \$8,821 and \$14,242 at December 31, 2018 and 2017, respectively.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

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 net assets with donor restrictions in 2000 by approximately \$592,000. The facility contribution is being released from donor 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. During the year ended December 31, 2018, the lease term was extended for an additional ten years. The value of the contribution through the term of the agreement, recorded at its estimated present value, increased facilities contribution receivable and net assets with donor restrictions in 2018 by approximately \$480,000. The facility contribution is being released from donor 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 for 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 net assets with donor restrictions in 2009 by approximately \$222,000. The facility contribution is being released from donor restriction over the life of the lease.

Note 7 - Property, Furniture and Equipment

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

	<u>2018</u>	<u>2017</u>
Buildings and improvements - Bellevue and Kirkland	\$ 6,633,252	\$ 6,585,423
Furniture and equipment	297,813	265,604
Software	187,001	187,001
Land improvements	26,645	26,645
Electronic health records system (EHR)	543,011	523,811
	<u>7,687,722</u>	<u>7,588,484</u>
Less accumulated depreciation	<u>(2,731,234)</u>	<u>(2,499,499)</u>
	4,956,488	5,088,985
Land - Kirkland	<u>23,114</u>	<u>23,114</u>
	<u><u>\$ 4,979,602</u></u>	<u><u>\$ 5,112,099</u></u>

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 7 - Continued

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

	<u>2018</u>	<u>2017</u>
Building, leasehold and land improvements	\$ 168,449	\$ 168,856
Furniture, equipment and software	<u>137,720</u>	<u>122,972</u>
	<u><u>\$ 306,169</u></u>	<u><u>\$ 291,828</u></u>

Note 8 - Net Assets Without Donor Restrictions

The Agency's net assets without donor restrictions were as follows at December 31:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 9,313,837	\$ 9,188,025
Designated by the Board for strategic initiatives	300,000	400,000
Designated by the Board for repairs and maintenance	<u>151,487</u>	<u>128,062</u>
	<u><u>\$ 9,765,324</u></u>	<u><u>\$ 9,716,087</u></u>

Note 9 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	<u>2018</u>	<u>2017</u>
Subject to the passage of time or expenditure for specified purpose-		
For periods after December 31, 2018	\$ 522,787	\$ 104,032
Contributed facilities/land for future use	<u>1,194,309</u>	<u>785,682</u>
Total subject to the passage of time or expenditure for specified purpose	1,717,096	889,714
Endowment funds-		
Original gifts (corpus)	107,411	107,411
Accumulated earnings	<u>1,718</u>	<u>1,469</u>
Total endowment funds	<u>109,129</u>	<u>108,880</u>
Total Net Assets With Donor Restrictions	<u><u>\$ 1,826,225</u></u>	<u><u>\$ 998,594</u></u>

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 10 - 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 net assets with donor restrictions - corpus (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.

The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions – accumulated earnings 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:

	Accumulated Earnings	Corpus	Total
Endowment net assets, December 31, 2016	\$ 1,224	\$ 107,411	\$ 108,635
Endowment investment return	245		245
Endowment Net Assets, December 31, 2017	1,469	107,411	108,880
Endowment investment return	249		249
Endowment Net Assets, December 31, 2018	\$ 1,718	\$ 107,411	\$ 109,129

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, 2018 and 2017.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 10 - Continued

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 11 - 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,

2019	\$	32,882
2020		33,868
2021		34,885
2022		35,931
2023		<u>27,550</u>
	\$	<u>165,116</u>

Total rental expense for all facility leases was \$36,351 and \$31,203 for the years ended December 31, 2018 and 2017, respectively.

Operating Leases - The Agency leases five photocopiers under agreements expiring through December 2023. The agreements call for monthly payments totaling \$560. Rental expense was \$9,709 and \$9,244 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017

Note 12 - 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 \$73,884 and \$66,063 in 2018 and 2017, 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 \$8,105 and \$7,864 in 2018 and 2017, respectively.

Note 13 - Concentrations

Support and revenue includes \$3,239,833 and \$2,768,406 of government grants and contracts for 2018 and 2017, respectively. This represents 47% and 50% of total operating public support and revenue, respectively.

Note 14 - Special Events

During the year ended December 31, 2018, the Agency had fundraising events that grossed revenues of \$772,451 (\$669,205 in 2017) and had expenses of \$152,693 (\$109,405 in 2017). Expenses are included in special event expenses on the statements of functional expenses for both years ended December 31, 2018 and 2017. The Agency also had \$61,952 released from net assets with donor restrictions to net assets without donor restrictions during the year ended December 31, 2018, relating to 2018 fundraising events.

Note 15 - 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, 2018 and 2017, the Agency had \$111,139 and \$109,044, 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, 2018; therefore, no accrual for liabilities has been made.

Note 16 - 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.

YOUTH EASTSIDE SERVICES

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 17 - 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.

Note 18 - Liquidity and Availability of Financial Assets

As part of the Agency's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Agency maintains a management investment account that had a balance of approximately \$3.297 million and \$3.371 million at December 31, 2018 and 2017, respectively. The governing body has adopted financial guidelines for operating cash, days of cash available, and a minimum investment balance of \$1.25 million, exclusive of board designated cash. The operating reserve balance is included in the cash and cash equivalents and investments balances on the statements of financial position.

Financial assets available within one year of the statements of financial position date for general expenditure were as follows at December 31:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 788,985	\$ 592,297
Receivables from governmental agencies and others, net	506,767	386,398
Pledges receivable	492,895	79,962
Investments	3,552,150	3,626,376
Less pledges receivable to be collected in more than 12 months	(300,000)	
Less investments designated by the board	<u>(451,487)</u>	<u>(528,062)</u>
Financial Assets Available to Meet General Expenditures Within Twelve Months	<u>\$ 4,589,310</u>	<u>\$ 4,156,971</u>

SUPPLEMENTARY INFORMATION

YOUTH EASTSIDE SERVICES

**Schedule of Program Services Expenses
For the Year Ended December 31, 2018
(With Comparative Totals for December 31, 2017)**

	Youth and Family Mental Health Counseling	Outreach/ Prevention/ Community Education	Substance Use and Co-Occurring Disorder Services	Program Services Expenses	
				2018	2017
Professional staff salaries	\$ 1,286,313	\$ 302,351	\$ 1,022,615	\$ 2,611,279	\$ 2,446,052
Donated services	147,868	11,005		158,873	152,834
Employee benefits	287,010	47,343	141,772	476,125	395,228
Payroll taxes	102,236	25,803	82,803	210,842	191,351
Total Salaries, Donated Services and Related Expenses	1,823,427	386,502	1,247,190	3,457,119	3,185,465
Professional services	312,385	14,653	28,161	355,199	243,110
Occupancy	92,398	7,301	34,866	134,565	141,257
Communications	20,793	3,200	16,797	40,790	38,284
Trainings, conferences and meetings	17,338	1,458	16,037	34,833	18,221
Supplies	18,344	2,607	11,379	32,330	26,806
Bad debt	27,122		8,928	36,050	
Minor equipment and maintenance	16,190	1,878	4,142	22,210	22,294
Printing and publications	3,868	759	3,027	7,654	3,880
Miscellaneous	1,615	846	964	3,425	480
Licenses and fees	9,367	704	6,757	16,828	17,615
Professional liability insurance	5,995	2,097	3,839	11,931	12,182
Youth activities and events	2,437	6,224	4,747	13,408	9,809
Agency dues	3,693	917	2,653	7,263	301
Transportation	5,505	2,066	3,584	11,155	13,557
Advertising	353	9	477	839	1,708
Postage	2,607	404	1,617	4,628	4,606
Laboratory fees			3,869	3,869	2,688
Total Expenses Before Contributed Facilities and Depreciation and Amortization	2,363,437	431,625	1,399,034	4,194,096	3,742,263
Contributed facilities	46,705	13,800	42,105	102,610	98,382
Depreciation and amortization	160,321	29,509	69,699	259,529	248,671
Total Expenses	\$ 2,570,463	\$ 474,934	\$ 1,510,838	\$ 4,556,235	\$ 4,089,316

See independent auditor's report.