Northwest Youth Services

Financial Statements with
Independent Auditor's Report

Year Ended December 31, 2017
(with Summarized Comparative Totals
for Year Ended December 31, 2016)

Larson Gross

Northwest Youth Services

Contents

Independent Auditor's Report

To the Board of Directors
Northwest Youth Services
Bellingham, WA

We have audited the accompanying financial statements of Northwest Youth Services as of December 31, 2017, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Northwest Youth Services as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
Report on Summarized Comparative Information
We have previously audited Northwest Youth Services' 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2018, on our consideration of Northwest Youth Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwest Youth Services' internal control over financial reporting and compliance.

Larson Gross PLLC

Bellingham, Washington
July 27, 2018

Northwest Youth Services

Statement of Financial Position

December 31, 2017

(With Summarized Comparative Totals for December 31, 2016)

Assets

	2017	2016
Current assets		
Cash	$ 517,918	$ 273,163
Grants receivable	225,252	151,081
Pledges receivable, net	111,750	235,527
Prepaid expenses	13,103	29,228
Total current assets	868,023	688,999
Long-term pledges receivable, net	15,000	63,100
Investment in assets held by Whatcom Community Foundation	15,101	13,829
Property and equipment, net	782,600	921,795
Total assets	$ 1,680,724	$ 1,687,723

Liabilities and Net Assets

	2017	2016
Current liabilities		
Accounts payable	$ 6,501	$ 6,194
Accrued expenses	94,468	81,006
Deferred grant revenue	-	5,328
Current portion of notes payable	6,900	12,000
Total current liabilities	107,869	104,528
Notes payable, net of current portion	371,178	377,877
Total liabilities	479,047	482,405
Net assets		
Unrestricted	957,429	681,655
Temporarily restricted	229,147	509,834
Permanently restricted	15,101	13,829
Total net assets	1,201,677	1,205,318
Total liabilities and net assets	$ 1,680,724	$ 1,687,723

Northwest Youth Services

Statement of Activities

Year Ended December 31, 2017

(With Summarized Comparative Totals for Year Ended December 31, 2016)

	2017				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**2016 Total**
Revenue and other support					
Contributions - individuals, businesses, and organizations	$ 317,162	$ 170,090	$ -	$ 487,252	$ 439,031
Contributions - campaign	209,953	59,057	-	269,010	223,282
In-kind contributions	118,672	-	-	118,672	64,773
Grants and contracts	1,828,323	-	-	1,828,323	1,541,970
Events and fundraising	148,521	-	-	148,521	111,645
Gain on sale of property	139,686	-	-	139,686	-
Program service fees	14,145	-	-	14,145	3,578
Other	10,710	-	1,272	11,982	9,508
Assets released from restrictions	509,834	(509,834)	-	-	-
Total revenue and other support	3,297,006	(280,687)	1,272	3,017,591	2,393,787
Functional expenses					
Program services	2,473,453	-	-	2,473,453	1,891,429
Management and general	347,750	-	-	347,750	265,353
Fundraising	200,029	-	-	200,029	144,693
Total functional expenses	3,021,232	-	-	3,021,232	2,301,475
Change in net assets	275,774	(280,687)	1,272	(3,641)	92,312
Net assets - beginning of year	681,655	509,834	13,829	1,205,318	1,113,006
Net assets - end of year	$ 957,429	$ 229,147	$ 15,101	$ 1,201,677	$ 1,205,318

Northwest Youth Services

Statement of Functional Expenses

Year Ended December 31, 2017

(With Summarized Comparative Totals for Year Ended December 31, 2016)

	2017				
	Program Services	Management and General	Fundraising	Total	2016 Total
Wages, payroll taxes and benefits	$ 1,404,316	$ 205,231	$ 94,658	$ 1,704,205	$ 1,644,950
Programmatic contribution made	430,000	-	-	430,000	-
Client	354,727	-	-	354,727	295,510
In-kinds	38,638	14,576	65,458	118,672	64,773
Depreciation	45,308	11,327	-	56,635	57,901
Professional fees	25,660	26,521	683	52,864	26,666
Supplies	31,414	10,262	1,521	43,197	30,005
Stipends, summer youth	30,868	-	9,083	39,951	10,075
Equipment and repairs	29,133	9,934	419	39,486	29,931
Occupancy	12,603	24,895	501	37,999	19,782
Conferences and training	10,921	11,884	541	23,346	26,401
Fundraising	4,664	-	17,250	21,914	20,348
Telephone	17,569	1,566	104	19,239	17,724
Insurance	13,369	5,737	-	19,106	13,507
Interest	-	15,177	-	15,177	14,880
Travel	14,272	522	388	15,182	8,983
Miscellaneous	9,991	10,118	9,423	29,532	20,039
	$ 2,473,453	$ 347,750	$ 200,029	$ 3,021,232	$ 2,301,475

Northwest Youth Services

Statement of Cash Flows

Year Ended December 31, 2017

(With Summarized Comparative Totals for Year Ended December 31, 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets	$ (3,641)	$ 92,312
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Net appreciation in investment in assets held by		
Whatcom Community Foundation	(1,272)	(1,436)
Depreciation	56,635	57,901
Non-cash portion of programmatic contribution made	227,000	-
Gain on sale of land	(144,440)	-
(Increase) decrease in assets		
Grants receivable	(74,171)	236
Pledges receivable	171,877	(81,389)
Prepaid expenses and other assets	16,125	(5,850)
Increase (decrease) in liabilities		
Accounts payable	307	3,094
Accrued expenses	13,462	(905)
Deferred grant revenue	(5,328)	-
Net cash provided by operating activities	256,554	63,963
Cash flows from financing activities		
Repayment of line-of-credit	-	(250)
Repayment of notes payable	(11,799)	(46,877)
Net cash used by financing activities	(11,799)	(47,127)
Net increase in cash	244,755	16,836
Cash - beginning of year	273,163	256,327
Cash - end of year	$ 517,918	$ 273,163
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 15,177	$ 14,880

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

Note 1 – Summary of Significant Accounting Policies

Organization – Northwest Youth Services (the Organization) is a Washington State nonprofit entity founded in 1976. The Organization's mission is to collaborate with at-risk, runaway, and homeless youth to foster self-reliance. Housing programs, vocational opportunities, and outreach services are provided by the Organization in order to further their mission.

Basis of accounting – The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; accordingly, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

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

Unrestricted net assets – Net asset that are not subject to externally imposed restrictions.

Temporarily restricted net assets – Net assets subject to externally imposed stipulations that will be met either by actions of the Organization or the passage of time.

Permanently restricted net assets – Net assets subject to externally imposed stipulations that they be maintained in perpetuity.

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 or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. Contributions that are restricted by donors are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the contributions are recognized.

Cash – Cash consists of cash held in bank accounts for statement of cash flow purposes. The Organization maintains its cash in bank accounts that may exceed federal insured limits at times during the year. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Grants receivable – Grants receivable are recorded at their net realizable value. Net realizable value is equal to the gross amount of receivables less an estimated allowance for doubtful accounts. Management of the Organization bases its estimates of doubtful accounts on several factors. These factors include the Organization's prior experience collecting grants receivable, the aging of the grants receivable at year-end, and management's appraisal of current economic conditions. Based on the above factors, management considers all grants receivable to be fully collectible and, therefore, has not made any allowance for uncollectibility.

Of the Organization's total grants receivable at December 31, 2017 and 2016, 76% and 76% were due from three and four government agencies, respectively.

Note 1 – Summary of Significant Accounting Policies – (Continued)

Pledges receivable – Pledges receivable represent unconditional promises to give and are stated at their net realizable value. Conditional pledges are recognized when the conditions on which they depend are substantially met. Pledges extending beyond one year are initially recorded at fair value, and in arriving at fair value, management has discounted these contributions using donor-specific discount rates. Amortization of the fair value discounts is included in contribution revenue. In addition, pledges are recorded net of an allowance for uncollectible pledges. The allowance for uncollectible pledges is determined by management and management determined that no such allowance was required as of December 31, 2017, as all pledges are expected to be fully collectible.

Of the Organization's total pledges receivable at December 31, 2017 and 2016, 79% and 76% were due from three and four donors, respectively.

Investment in assets held by Whatcom Community Foundation – The Organization holds an interest in the future return on investments held by Whatcom Community Foundation (WCF). In accordance with generally accepted accounting principles, the Organization presents its investment balance as permanently restricted net assets. Distributions from the fund are paid to the Organization as requested by the Organization and approved by the WCF. Distributions are calculated by WCF as a discretionary percentage of the fair market value of the fund held by WCF. The balance of the fund held by WCF totaled $15,101 and $13,829 as of December 31, 2017 and 2016, respectively.

Property and equipment – The Organization capitalizes all property and equipment acquisitions in excess of $2,500. Property and equipment are recorded at cost. Additions, improvements, or expenditures which add to productive capacity or extend the life of an asset are capitalized. Expenditures for repairs and maintenance are charged to operations as incurred. Depreciation is recorded using the straight-line method over estimated useful lives of the assets, which range from 5 to 39 years.

Contributions – The Organization recognizes donor contributions upon the earlier of receipt or when unconditionally promised. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

The Organization received 30% and 27% of its individual, business, and organization contributions from two donors during the years ended December 31, 2017 and 2016, respectively. The Organization began a campaign during 2016 (see Note 2) and received 37% and 96% of its campaign contributions from two and five donors during the years ended December 31, 2017 and 2016, respectively.

Donated goods and services – Donations of supplies, equipment, and other goods are recorded at fair value on the date of receipt. Donated services are recognized if services received (a) create or enhance nonfinancial assets or (b) require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not donated. Many volunteers have donated significant amounts of time to the Organization's activities. The services of these volunteers are not recorded in the accompanying financial statements as they do not meet the criteria for recognition under Accounting Standard Codification (ASC) 958-605-25-16, *Not-for-Profit Entities – Recognition of Contributed Services*.

Note 1 – Summary of Significant Accounting Policies – (Continued)

Grants and contracts – The Organization receives support from various federal, state, and local government agencies. Grant receipts are subject to restrictions on the use of funds placed by the grantor. The Organization administers these funds in accordance with grantor guidelines. Grant revenue under cost reimbursement arrangements is recognized as expenses are incurred. Amounts incurred but not yet reimbursed are reported as grants receivable. Amounts received, but not yet incurred are reported as deferred grant revenue.

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on the functional basis in the accompanying statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Federal income tax –The Organization is a nonprofit entity exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision of income tax is necessary. The tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative financial information –The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Reclassifications – Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

Subsequent events – In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 27, 2018, the date the financial statements were available to be issued.

Note 2 – Pledges Receivable

During 2016, the Organization commenced a campaign to raise funds for a collaboration project with The Opportunity Council (the Council), a nonprofit organization. The collaboration project is referred to as "22 North". The Organization sold land located at 1022 North State Street in October 2017. Concurrent with the land sale, the Organization made a programmatic contribution totaling $430,000 to partially finance the construction of a building on the land. 22 North is expected to be finalized in 2018 and result in the Organization leasing and offering 20 studio apartments to young adults experiencing homelessness, and offer the wrap-around support needed to help these young adults meet their goals. Once completed, the planned collaboration will also allow the Organization to lease office space in the new building from the Council to provide services related to its exempt purpose.

Note 2 – Pledges Receivable – (Continued)

Pledges receivable consist of the following at December 31:

	2017	2016
Campaign pledges receivable outstanding	$ 91,750	$ 156,200
Other pledges receivable outstanding	35,000	145,000
Less: Unamortized discount to fair value (at 2.61%)	-	(2,573)
Total pledges receivable, net	126,750	298,627
Less: Current portion of pledges receivable	(111,750)	(235,527)
Noncurrent portion of pledges receivable	$ 15,000	$ 63,100

Future expected payments on pledges receivable for the years ending December 31 are as follows:

2017	$ 111,750
2018	15,000
	$ 126,750

Note 3 – Property and Equipment

Property and equipment consists of the following at December 31:

	2017	2016
Leasehold improvements	$ 644,127	$ 644,127
Buildings	468,000	468,000
Land	109,440	192,000
Equipment	32,068	32,068
Vehicles	25,663	25,663
Computer software	19,994	19,994
	1,299,292	1,381,852
Less accumulated depreciation	(516,692)	(460,057)
	$ 782,600	$ 921,795

Depreciation expense totaled $56,635 and $57,901 for the years ended December 31, 2017 and 2016, respectively.

Note 4 – Line-of-Credit

The Organization has a line-of-credit with a bank for up to $100,000. The line-of-credit is secured by assets of the Organization, and interest is payable monthly at the bank's prime rate plus 4% (resulting in a rate of 8.50% at December 31, 2017). There were no amounts outstanding at December 31, 2017 and 2016.

Note 5 – Operating Leases

The Organization entered into an operating lease for additional office space commencing March 2016. The term of the lease runs through October 2018. Monthly payments range from $1,100 to $4,000 over the term of the lease.

The Organization leases additional properties, on behalf of the youth it serves, in Whatcom and Skagit Counties under operating lease agreements, including some that are on a month-to-month basis. Monthly payments range from $675 to $1,900 with the leases expiring between 2018 and 2019.

Rent expense under these leases totaled $308,829 and $244,097 for the years ended December 31, 2017 and 2016, respectively.

Future minimum annual lease payments for the years ending December 31 are as follows:

2017	$ 261,400
2018	12,200
2019	12,200
2020	12,100
2021	10,900
Thereafter	4,400
	$ 313,200

Note 6 – Long-Term Debt

The Organization has a zero percent interest deferred loan from the City of Bellingham totaling $53,132 as of December 31, 2017 and 2016. The purpose of this loan was to fund the new addition on the building from which the Organization operates its services. The addition was completed in 2013. The loan requires the Organization to continue utilizing the building for the benefit of individuals meeting certain housing and urban development requirements and does not require repayment until such time as the Organization sells, transfers, or refinances the building or ceases to serve low or moderate income individuals. If the Organization were to move to a different facility and sell the building to another nonprofit agency, the loan could be assumed by that nonprofit agency.

Note 6 – Long-Term Debt – (Continued)

Long-term debt consists of the following at December 31:

	2017	2016
Note payable to Peoples Bank, payable $2,215 per month, including interest at 4.25% through November 2017 and 5.39% through November 2027, the date of maturity, secured by property and equipment	$ 324,946	$ 336,745
Note payable to the City of Bellingham, interest and payments deferred until the property is sold, transferred, or refinanced or no longer providing benefits to low or moderate income persons	53,132	53,132
	378,078	389,877
Amount due within one year	(6,900)	(12,000)
	$ 371,178	$ 377,877

Future annual principal payments on long-term debt for the years ending December 31 are as follows:

2018	$ 6,900
2019	7,300
2020	7,800
2021	8,300
2022	8,900
Thereafter	338,878
	$ 378,078

Note 7 – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31:

	2017	2016
Development Director position	$ 147,080	$ -
Campaign - 22 North Project	59,057	223,282
Street Outreach Program	18,000	14,906
Transitional Living Program	3,810	26,666
Time restricted	-	172,428
Positive Adolescent Development Program	-	45,361
Vocational Program	-	17,191
Queer Youth Program	-	10,000
Other	1,200	-
	$ 229,147	$ 509,834

Note 8 – Grants and Contracts

Grants and contracts revenue was received from the following sources during the years ended December 31:

	2017	2016
U.S. Department of Health and Human Services	$ 475,593	$ 564,528
Washington State Department of Commerce	424,638	167,008
Whatcom County	349,730	254,953
U.S. Department of Housing and Urban Development	251,837	257,277
City of Bellingham	130,592	131,643
United Way	88,615	80,700
Bellingham School District	39,403	-
Skagit County	34,521	32,942
Other nonprofit organizations	10,432	30,000
Other	22,962	22,919
	$ 1,828,323	$ 1,541,970

Note 9 – Pension Plan

The Organization has a SIMPLE IRA plan, which is a defined contribution retirement plan. Under this plan, the Organization will match employee voluntary contributions up to 3% of gross wages of eligible employees. Employees are eligible to participate and receive employer match contributions upon completion of one year of service. Employer match contributions totaled $15,507 and $15,126 during the years ended December 31, 2017 and 2016, respectively.

Note 10 – Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, "Revenue from Contracts with Customers", which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 and subsequent amendments outline a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Application is required for annual periods beginning after December 15, 2018. The Organization continues to evaluate the impact of the new accounting guidance on its financial statements.