

Northwest Youth Services

Financial Statements with
Independent Auditor's Report

Year Ended December 31, 2018
(with Summarized Comparative Totals
for Year Ended December 31, 2017)

Larson Gross 

Northwest Youth Services

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Independent Auditor's Report

To the Board of Directors
Northwest Youth Services
Bellingham, WA

Report on the Financial Statements

We have audited the accompanying financial statements of Northwest Youth Services, which comprise the statement of financial position as of December 31, 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2018, Northwest Youth Services adopted Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, "*Not-for-Profits Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities.*" The update addresses the complexity and understandability of net assets restrictions, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

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, 2018, 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' 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 25, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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 25, 2019, 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 25, 2019

Northwest Youth Services

Statement of Financial Position

December 31, 2018

(With Summarized Comparative Totals for December 31, 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash	\$ 687,004	\$ 517,918
Grants receivable	241,209	225,252
Pledges receivable, net	187,395	111,750
Prepaid expenses	<u>33,474</u>	<u>13,103</u>
Total current assets	1,149,082	868,023
Long-term pledges receivable, net	115,000	15,000
Property and equipment, net	731,146	782,600
Investment in assets held by Whatcom Community Foundation	<u>13,594</u>	<u>15,101</u>
Total assets	<u>\$ 2,008,822</u>	<u>\$ 1,680,724</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 17,258	\$ 6,501
Accrued expenses	216,729	94,468
Current portion of notes payable	<u>7,300</u>	<u>6,900</u>
Total current liabilities	241,287	107,869
Notes payable, net of current portion	<u>361,489</u>	<u>371,178</u>
Total liabilities	602,776	479,047
Net assets		
Without donor restrictions		
Undesignated	162,084	552,907
Board-designated	220,567	-
Net investment in property and equipment	<u>362,357</u>	<u>404,522</u>
Total without donor restrictions	745,008	957,429
With donor restrictions	<u>661,038</u>	<u>244,248</u>
Total net assets	<u>1,406,046</u>	<u>1,201,677</u>
Total liabilities and net assets	<u>\$ 2,008,822</u>	<u>\$ 1,680,724</u>

Northwest Youth Services

Statements of Activities

Year Ended December 31, 2018

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

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and support				
Grants and contributions - individuals, businesses, and organizations	\$ 660,901	\$ 343,017	\$ 1,003,918	\$ 609,261
Contributions – campaign	-	187,803	187,803	269,010
In-kind contributions	99,038	-	99,038	118,672
Government grants and contracts	2,173,546	-	2,173,546	1,706,314
Events and fundraising	121,148	-	121,148	126,607
Gain on sale of property	-	-	-	139,686
Program service fees	382	-	382	14,145
Other	1,983	(1,507)	476	11,982
Assets released from restrictions	<u>112,523</u>	<u>(112,523)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>3,169,521</u>	<u>416,790</u>	<u>3,586,311</u>	<u>2,995,677</u>
Functional expenses				
Program services	2,266,913	-	2,266,913	2,468,789
Management and general	880,035	-	880,035	347,750
Fundraising	<u>234,994</u>	<u>-</u>	<u>234,994</u>	<u>182,779</u>
Total functional expenses	<u>3,381,942</u>	<u>-</u>	<u>3,381,942</u>	<u>2,999,318</u>
Change in net assets	(212,421)	416,790	204,369	(3,641)
Net assets – beginning of year	<u>957,429</u>	<u>244,248</u>	<u>1,201,677</u>	<u>1,205,318</u>
Net assets – end of year	<u>\$ 745,008</u>	<u>\$ 661,038</u>	<u>\$ 1,406,046</u>	<u>\$ 1,201,677</u>

Northwest Youth Services

Statement of Functional Expenses

Year Ended December 31, 2018

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

	2018			2017	
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
Salaries and wages	\$ 1,332,074	\$ 487,834	\$ 143,184	\$ 1,963,092	\$ 1,460,787
Payroll taxes	112,744	61,426	14,952	189,122	139,105
Employee benefits	<u>105,113</u>	<u>42,849</u>	<u>9,795</u>	<u>157,757</u>	<u>104,313</u>
Total payroll related	1,549,931	592,109	167,931	2,309,971	1,704,205
Client lease	321,880	-	-	321,880	302,943
Professional fees	40,596	114,025	355	154,976	52,864
Occupancy	35,047	76,540	-	111,587	37,999
In-kinds	40,636	10,000	48,402	99,038	118,672
Client assistance – other	90,449	-	-	90,449	51,784
Depreciation	45,526	11,382	-	56,908	56,635
Equipment and repairs	37,739	11,254	2,910	51,903	39,486
Miscellaneous	10,751	11,495	13,076	35,322	29,532
Conferences and training	23,060	6,067	1,451	30,578	23,346
Supplies	18,414	5,328	761	24,503	43,197
Telephone	19,291	4,696	-	23,987	19,239
Travel	20,478	592	108	21,178	15,182
Insurance	246	19,222	-	19,468	19,106
Interest	-	17,325	-	17,325	15,177
Stipends, summer youth	12,869	-	-	12,869	39,951
Programmatic grant expense contribution made	-	-	-	-	<u>430,000</u>
	<u>\$ 2,266,913</u>	<u>\$ 880,035</u>	<u>\$ 234,994</u>	<u>\$ 3,381,942</u>	<u>\$ 2,999,318</u>

Northwest Youth Services

Statement of Cash Flows

Year Ended December 31, 2018

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

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 204,369	\$ (3,641)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net depreciation (appreciation) in investment in assets held by Whatcom Community Foundation	1,507	(1,272)
Depreciation	56,908	56,635
Non-cash portion of programmatic contribution made	-	227,000
Gain on sale of land	-	(144,440)
(Increase) decrease in assets		
Grants receivable	(15,957)	(74,171)
Pledges receivable	(175,645)	171,877
Prepaid expenses and other assets	(20,371)	16,125
Increase (decrease) in liabilities		
Accounts payable	10,757	307
Accrued expenses	122,261	13,462
Deferred grant revenue	-	(5,328)
	<u>183,829</u>	<u>256,554</u>
Cash flows from financing activities		
Repayment of notes payable	(9,289)	(11,799)
	<u>(9,289)</u>	<u>(11,799)</u>
Net increase in cash	169,086	244,755
Cash – beginning of year	<u>517,918</u>	<u>273,163</u>
Cash – end of year	<u>\$ 687,004</u>	<u>\$ 517,918</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 17,325</u>	<u>\$ 15,177</u>

Notes to Financial Statements

December 31, 2018 and 2017

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:

Net assets without donor restrictions – Net assets on which there are no donor-imposed restrictions for use or on which donor-imposed restrictions have expired.

Net assets with donor restrictions – Net assets that have been restricted by the donor for specific purposes or are time restricted, including contributions that have been restricted by the donor that stipulate the resources be maintained in perpetuity, but permit the Organization to use or expend part or all of the income derived from the donated assets for either specific or unspecified purposes.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (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 net assets without donor restrictions 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 uncollectible grants.

Of the Organization’s total grants receivable at December 31, 2018 and 2017, 63% and 76% were due from two and three government agencies, respectively.

Notes to Financial Statements

December 31, 2018 and 2017

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, 2018, as all pledges are expected to be fully collectible.

Of the Organization's total pledges receivable at December 31, 2018 and 2017, 83% and 79% were due from two and three donors, 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.

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 \$13,594 and \$15,101 as of December 31, 2018 and 2017, respectively.

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% of its individual, business, and organization contributions from one and two donors during the years ended December 31, 2018 and 2017, respectively. The Organization began a campaign during 2016 (see Note 2) and received 66% and 37% of its campaign contributions from four and two donors during the years ended December 31, 2018 and 2017, 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*.

Notes to Financial Statements

December 31, 2018 and 2017

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.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, the expenses require allocation on a reasonable basis that is consistently applied. Salaries, employee taxes and employee benefits are allocated based on time and effort. All other expenses are based on estimates of usage utilizing square footage, mileage and other metrics.

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.

New accounting pronouncement – In August of 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *“Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities.”* The amendments provided by this update address the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU is effective for fiscal years beginning after December 15, 2017 and was applied retrospectively to all periods presented.

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, 2017, 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 25, 2019, the date the financial statements were available to be issued.

Northwest Youth Services

Notes to Financial Statements

December 31, 2018 and 2017

Note 2 – Availability and Liquidity

The following represents the Organization’s financial assets available for general expenditure during the next year as of December 31, 2018:

Financial assets at year end	
Cash	\$ 687,004
Grants receivable	241,209
Pledges receivable	<u>302,395</u>
Total financial assets	1,230,608
Less amounts not available for general expenditure within one year	
Non current portion of pledges receivable	(115,000)
Donor-restricted net assets – 22 North Campaign	(225,733)
Donor-restricted net assets held in perpetuity	<u>(13,954)</u>
	<u>(354,687)</u>
Financial assets available to meet general expenditures over the next twelve months	\$ <u>875,921</u>

The Organization has certain board-designated and donor-restricted assets limited to use, which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. The Organization has other assets limited to use for donor-restricted purposes. Additionally, certain investment assets held by Whatcom Community Foundation are restricted in perpetuity. These assets limited to use are not available for general expenditure within the next year.

As part of the Organization’s liquidity management plan, cash in excess of daily requirements may be split equally between paying down long-term debt and building three months of annual budget reserves maintained in short-term investments.

Note 3 – 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 was finalized in 2018 and resulted 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. The planned collaboration also allowed the Organization to lease office space in the new building from the Council to provide services related to its exempt purpose.

Northwest Youth Services

Notes to Financial Statements

December 31, 2018 and 2017

Note 3 – Pledges Receivable – (Continued)

Pledges receivable consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Campaign pledges receivable outstanding	\$ 16,375	\$ 91,750
Other pledges receivable outstanding	286,020	35,000
Total pledges receivable, net	302,395	126,750
Less: Current portion of pledges receivable	(187,395)	(111,750)
Noncurrent portion of pledges receivable	<u>\$ 115,000</u>	<u>\$ 15,000</u>

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

2019	\$ 187,395
2020	115,000
	<u>\$ 302,395</u>

Note 4 – Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 644,127	\$ 644,127
Buildings	468,000	468,000
Land	109,440	109,440
Equipment	37,522	32,068
Vehicles	25,663	25,663
Computer software	19,994	19,994
	1,304,746	1,299,292
Less accumulated depreciation	(573,600)	(516,692)
	<u>\$ 731,146</u>	<u>\$ 782,600</u>

Depreciation expense totaled \$56,908 and \$56,635 for the years ended December 31, 2018 and 2017, respectively.

Note 5 – 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, 2018). There were no amounts outstanding at December 31, 2018 and 2017.

Northwest Youth Services

Notes to Financial Statements

December 31, 2018 and 2017

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, 2018 and 2017. 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.

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

	<u>2018</u>	<u>2017</u>
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 a deed of trust on property	\$ 315,657	\$ 324,946
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	<u>53,132</u>	<u>53,132</u>
	368,789	378,078
Amount due within one year	<u>(7,300)</u>	<u>(6,900)</u>
	<u>\$ 361,489</u>	<u>\$ 371,178</u>

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

2019	\$ 7,300
2020	7,800
2021	8,300
2022	8,900
2023	9,400
Thereafter	<u>327,089</u>
	<u>\$ 368,789</u>

Note 7 – Board-Designated Net Assets

Board designated net assets consist of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Main Office Repair/IT Infrastructure capital expenses	\$ 220,567	\$ -

Northwest Youth Services

Notes to Financial Statements

December 31, 2018 and 2017

Note 8 – Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Campaign – 22 North Project	\$ 249,233	\$ 59,057
Time restricted	200,000	-
Development Director position	67,702	147,080
Executive Director position	48,438	-
Positive Adolescent Development Program	30,000	-
Queer Youth Program	25,352	-
Held in perpetuity with Whatcom County Foundation	13,594	15,101
Street Outreach Program	10,000	18,000
Transitional Living Program	10,000	3,810
Whatcom Vocational Program	6,719	-
Other	-	1,200
	<u>\$ 661,038</u>	<u>\$ 244,248</u>

Note 9 – Government Grants and Contracts

Government grants and contracts revenue was received from the following government sources during the years ended December 31:

	<u>2018</u>	<u>2017</u>
Washington State Department of Commerce	\$ 506,490	\$ 424,638
U.S. Department of Health and Human Services	463,496	475,593
Whatcom County	404,126	349,730
U.S. Department of Housing and Urban Development	284,025	251,837
Substance Abuse and Mental Health Services Administration	271,062	-
City of Bellingham	136,371	130,592
Bellingham School District	61,398	39,403
Skagit County	46,578	34,521
	<u>\$ 2,173,546</u>	<u>\$ 1,706,314</u>

Note 10 – Operating Leases

The Organization entered into an operating lease for additional office space commencing March 2016. The term of the lease runs through October 2019. Monthly payments total \$4,000 over the term of the lease.

In November 2018, the Organization entered into a sublease agreement for office space as described in Note 3. Monthly payments total \$1,200 over the term of the lease. The expiration date is set for October 2020.

Northwest Youth Services

Notes to Financial Statements

December 31, 2018 and 2017

Note 10 – Operating Leases – (Continued)

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 \$115 to \$2,370 with the leases expiring between 2018 and 2020.

Rent expense under these leases totaled \$390,441 and \$308,829 for the years ended December 31, 2018 and 2017, respectively.

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

2019	\$	204,932
2020		37,137
2021		11,237
2022		4,769
2023		349
Thereafter		-
	\$	<u>258,424</u>

Note 11 – 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 \$17,536 and \$15,507 during the years ended December 31, 2018 and 2017, respectively.

Note 12 – Prospective Accounting Change

In May 2014, the 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 adopted using either a full retrospective or modified retrospective approach. Application is required for annual periods beginning after December 15, 2018.

Notes to Financial Statements

December 31, 2018 and 2017

Note 12 – Prospective Accounting Change – (Continued)

The Organization plans to adopt ASU 2014-09 effective January 1, 2019 using the modified retrospective method. Under this method, the new standard will be applied only to the most current period presented in the financial statements with the cumulative effect recognized as of the date of initial application. The Organization continues to evaluate the impact of the new accounting guidance on its financial statements and disclosures. The Organization's adoption of ASU 2014-09 is not anticipated to have a material impact on the results of operations or financial position; however, the Organization's assessment is not complete.

Note 13 – Recent Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, "Leases" which requires lessees to record most leases with terms greater than 12 months on their balance sheet by recognizing a liability to make lease payments and an asset representing their right to use the asset during the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election, by class of underlying asset, not to recognize the corresponding assets and lease liabilities. Lessee recognition, measurement, and presentation of expenses and cash flows will not change significantly from existing guidance and lessor accounting is largely unchanged. ASU 2016-02 also changes the definition of a lease and requires qualitative and quantitative disclosures that provide information about the amount, timing, and uncertainty of cash flows arising from leases. Application is required for annual periods beginning after December 15, 2019. The Organization continues to evaluate the impact of the new accounting guidance on its financial statements.