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July 28, 2014

United Way of King County

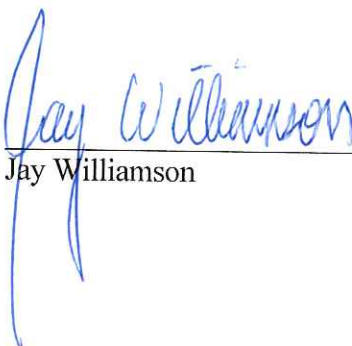
To Whom It May Concern:

This letter confirms that the Vashon Youth and Family Services Audit of the Financial Statements for the year ended December 31, 2013, was reviewed by our board of directors and accepted as final on Monday, July 28<sup>th</sup>, 2014.

If there are any questions or concerns regarding the audit, please let us know.

Thank you for your attention.

Sincerely,

  
Jay Williamson

\_\_\_\_\_  
President  
Board Position



Vashon Youth and Family Services

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Audit of the Financial Statements  
for the Years Ended December 31, 2013 and 2012

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Jo Ann Kelly  
Certified Public Accountant  
Seattle, Washington

Table of Contents

	<u>Page</u>
<b>Independent Auditor's Report</b>	1
<b>Financial Statements</b>	
Statement of Financial Position December 31, 2013 and 2012	2
Statement of Activities Years Ended December 31, 2013 and 2012	3
Statement of Functional Expenses Year Ended December 31, 2013	4
Year Ended December 31, 2012	5
Statement of Cash Flows Years Ended December 31, 2013 and 2012	6
Notes to Financial Statements	7
<b>Supplementary Schedule</b>	
Schedule of Grants and Fees Years Ended December 31, 2013 and 2012	13

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Jo Ann Kelly, CPA  
PO Box 836  
North Bend, WA 98045-0836

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Independent Auditor's Report

To the Board of Directors  
Vashon Youth and Family Services  
Vashon, Washington

I have audited the accompanying financial statements of Vashon Youth and Family Services (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013 and 2012, 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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vashon Youth and Family Services as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

My audit was conducted for the purpose of forming an opinion on the basic financial statements of Vashon Youth and Family Services taken as a whole. The accompanying Schedule of Grants and Fees 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 my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Jo Ann Kelly, CPA*  
North Bend, Washington  
July 21, 2014

Vashon Youth and Family Services  
Statement of Financial Position  
December 31, 2013 and 2012

Assets

	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents	\$ 45,319	\$ 158,342
Investments	—	519
Accounts Receivable		
Grants and contracts	67,660	74,135
Client fees	9,167	13,852
Other	—	4,924
Prepaid Expense	3,715	1,087
Unconditional Promises to Give	38,950	52,150
Cash Restricted for Property Acquisition	24,514	8,014
Property and Equipment - net	<u>653,848</u>	<u>669,406</u>
Total Assets	<u>\$ 843,173</u>	<u>\$ 982,429</u>

Liabilities and Net Assets

Accounts Payable	\$ 29,512	\$ 25,096
Accrued Vacation	34,100	30,787
Due To Other Organizations	6,102	12,262
Refundable Tuition	1,150	—
Current portion long-term debt	<u>19,606</u>	<u>—</u>
Total Liabilities	<u>90,470</u>	<u>68,145</u>
Long-term Debt	<u>219,386</u>	<u>210,000</u>
Commitments and Contingencies	<u>—</u>	<u>—</u>
Net Assets		
Unrestricted	467,383	591,970
Temporarily restricted	<u>65,934</u>	<u>112,314</u>
Total Net Assets	<u>533,317</u>	<u>704,284</u>
Total Liabilities and Net Assets	<u>\$ 843,173</u>	<u>\$ 982,429</u>

See notes to financial statements.

Vashon Youth and Family Services  
Statement of Activities  
Years Ended December 31, 2013 and 2012

	Unrestricted	Temporarily Restricted	2013 Total	Unrestricted	Temporarily Restricted	2012 Total
<b>Revenue and Other Support</b>						
Contributions	\$167,698	\$39,234	\$206,932	\$117,641	\$64,428	\$182,069
Donated goods and services	130,555	—	130,555	92,677	—	92,677
Grants and fees	726,882	—	726,882	767,108	—	767,108
Interest income	187	—	187	406	—	406
Program service fees	241,535	—	241,535	225,890	—	225,890
Other Income	331	—	331	2,649	—	2,649
Rent	13,710	—	13,710	11,296	—	11,296
Net assets released from restrictions						
Satisfaction of usage restrictions	85,614	(85,614)	—	66,377	(66,377)	—
<b>Total Revenue and Other Support</b>	<u>1,366,512</u>	<u>(46,380)</u>	<u>1,320,132</u>	<u>1,284,044</u>	<u>(1,949)</u>	<u>1,282,095</u>
<b>Expenses</b>						
<b>Program Services</b>						
Counseling	590,058	—	590,058	511,267	—	511,267
Family Support	244,089	—	244,089	191,091	—	191,091
Basic Needs	100,611	—	100,611	103,085	—	103,085
Child Care	226,952	—	226,952	166,944	—	166,944
Drug Coalition	90,120	—	90,120	141,190	—	141,190
<b>Total Program Services</b>	<u>1,251,830</u>	<u>—</u>	<u>1,251,830</u>	<u>1,113,577</u>	<u>—</u>	<u>1,113,577</u>
<b>Support Services</b>						
Management and general	170,882	—	170,882	147,228	—	147,228
Fund-raising	50,432	—	50,432	34,806	—	34,806
<b>Total Expenses</b>	<u>1,473,144</u>	<u>—</u>	<u>1,473,144</u>	<u>1,295,611</u>	<u>—</u>	<u>1,295,611</u>
<b>Change in Net Assets From Operations</b>	<u>(106,632)</u>	<u>(46,380)</u>	<u>(153,012)</u>	<u>(11,567)</u>	<u>(1,949)</u>	<u>(13,516)</u>
<b>Other Changes</b>						
Net asset released from restriction-noncollectible	—	—	—	8,000	(8,000)	—
Write off- noncollectible	—	—	—	(8,000)	—	(8,000)
CD Program Repayment	(17,955)	—	(17,955)	—	—	—
<b>Total Change In Net Assets</b>	<u>(124,587)</u>	<u>(46,380)</u>	<u>(170,967)</u>	<u>(11,567)</u>	<u>(9,949)</u>	<u>(21,516)</u>
<b>Net Assets, Beginning of Year</b>	<u>591,970</u>	<u>112,314</u>	<u>704,284</u>	<u>603,537</u>	<u>122,263</u>	<u>725,800</u>
<b>Net Assets, End of Year</b>	<u>\$467,383</u>	<u>\$65,934</u>	<u>\$533,317</u>	<u>\$591,970</u>	<u>\$112,314</u>	<u>\$704,284</u>

See notes to financial statements

Vashon Youth and Family Services  
Statement of Functional Expenses  
Year Ended December 31, 2013  
(With Comparative Totals for 2012)

	PROGRAM SERVICES						SUPPORTING SERVICES				TOTAL		
	Counseling	Family Support	Basic Needs	Child Care	Drug Coalition	Total Program Services	Management and General	Fund-Raising	Total Supporting Services	2013		2012	
										2013	2012	2013	2012
Salaries	\$352,733	\$162,934	\$32,677	\$168,588	\$42,479	\$759,411	\$105,810	\$28,023	\$133,833	\$893,244	\$775,333		
Salaries in-kind	112,615	0	0	14,840	0	\$127,455	0	0	0	127,455	91,177		
Payroll taxes/benefits	34,595	15,306	3,096	15,993	4,142	\$73,132	12,311	2,710	15,021	88,153	74,852		
	499,943	178,240	35,773	199,421	46,621	959,998	118,121	30,733	148,854	1,108,852	941,362		
Advertising and publicity	2,717	1,244	0	1,194	506	5,661	130	1,539	1,669	7,330	11,157		
Conferences and training	1,907	4,984	90	693	7,100	14,774	49	0	49	14,823	16,094		
Direct support -clients	8,933	482	59,894	0	0	69,309	0	0	0	69,309	45,954		
Equipment maintenance and small purchases	2,420	2,762	239	1,199	546	7,166	2,487	279	2,766	9,932	7,921		
Insurance	2,882	1,805	914	725	855	7,181	3,936	50	3,986	11,167	11,291		
Licenses and fees	4,980	46	0	1,113	-300	5,839	5,576	1,353	6,929	12,768	11,625		
Mileage and ferry	12,439	458	110	521	546	14,074	822	52	874	14,948	12,480		
Miscellaneous expense	754	143	0	236	0	1,133	551	84	635	1,768	2,567		
Office supplies and expense	4,801	3,093	435	1,004	365	9,698	6,130	727	6,857	16,555	15,486		
Technology	681	247	27	189	42	1,186	494	22	516	1,702	1,226		
Occupancy	11,154	13,809	1,605	88	1,182	27,838	12,973	398	13,371	41,209	43,929		
Professional services	17,991	12,682	0	0	18,293	48,966	11,730	10,635	22,365	71,331	89,216		
Program support	6,572	11,471	44	18,442	12,514	49,043	601	3,340	3,941	52,984	47,612		
Taxes	0	2,062	0	0	0	2,062	3,103	0	3,103	5,165	616		
Telephone	4,601	4,391	432	1,830	660	11,914	1,614	960	2,574	14,488	13,799		
	582,775	237,919	99,563	226,655	88,930	1,235,842	168,317	50,172	218,489	1,454,331	1,272,335		
Depreciation	7,283	6,170	1,048	297	1,190	15,988	2,565	260	2,825	18,813	23,276		
Total Expenses	\$590,058	\$244,089	\$100,611	\$226,952	\$90,120	\$1,251,830	\$170,882	\$50,432	\$221,314	\$1,473,144	\$1,295,611		

See notes to financial statements

Vashon Youth and Family Services  
Statement of Functional Expenses  
Year Ended December 31, 2012  
(With Comparative Totals for 2011)

	PROGRAM SERVICES					SUPPORTING SERVICES					TOTAL
	Counseling	Family Support	Basic Needs	Child Care	Drug Coalition	Total Program Services	Management and General	Fund-Raising	Total Supporting Services	2012	
Salaries	\$313,202	\$116,732	\$52,502	\$112,141	\$72,915	\$667,492	\$93,447	\$14,394	\$107,841	\$775,333	\$689,284
Salaries in-kind	81,895	0	0	9,282	0	\$91,177	0	0	0	91,177	56,554
Payroll taxes/benefits	30,166	11,182	4,949	10,861	7,083	\$64,241	9,145	1,466	10,611	74,852	70,014
	425,263	127,914	57,451	132,284	79,998	822,910	102,592	15,860	118,452	941,362	815,852
Advertising and publicity	2,449	1,302	0	1,225	2,263	7,239	2,753	1,165	3,918	11,157	902
Conferences and training	1,829	7,209	75	2,500	4,406	16,019	75	0	75	16,094	17,314
Direct support -clients	6,526	0	39,011	108	0	45,645	0	309	309	45,954	36,831
Equipment maintenance	1,572	1,981	366	1,209	1,203	6,331	1,490	100	1,590	7,921	12,696
and small purchases	3,277	1,963	1,011	816	1,156	8,223	3,018	50	3,068	11,291	12,718
Insurance	2,663	258	0	1,363	758	5,042	5,828	755	6,583	11,625	7,217
Licenses and fees	9,724	320	394	684	563	11,685	683	112	795	12,480	10,172
Mileage and ferry	987	266	78	275	11	1,617	950	0	950	2,567	3,562
Miscellaneous expense	4,387	2,167	520	1,805	1,417	10,296	1,147	4,043	5,190	15,486	11,997
Office supplies and expense	34	24	0	0	372	430	796	0	796	1,226	2,576
Technology	12,754	13,977	1,867	71	2,321	30,990	12,476	463	12,939	43,929	45,454
Occupancy	19,858	8,971	0	756	41,084	70,669	10,853	7,694	18,547	89,216	79,089
Professional services	6,102	12,899	213	22,159	2,850	44,223	967	2,422	3,389	47,612	57,456
Program support	0	1,096	0	0	0	1,096	-480	0	-480	616	3,390
Taxes	3,887	3,858	634	1,554	965	10,898	1,431	1,470	2,901	13,799	10,749
Telephone	501,312	184,205	101,620	166,809	139,367	1,093,313	144,579	34,443	179,022	1,272,335	1,127,975
Depreciation	9,955	6,886	1,465	135	1,823	20,264	2,649	363	3,012	23,276	21,076
Total Expenses	\$511,267	\$191,091	\$103,085	\$166,944	\$141,190	\$1,113,577	\$147,228	\$34,806	\$182,034	\$1,295,611	\$1,149,051

See notes to financial statements



Vashon Youth and Family Services  
Statement of Cash Flows  
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$(170,967)	\$ (21,516)
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities		
Depreciation	18,813	23,276
Cash Provided (Used) By Changes in Operating Assets and Liabilities		
Accounts receivable	16,084	23,928
Prepaid expense & refundable deposit	(2,628)	(344)
Accounts payable	4,417	(3,538)
Accrued liabilities	3,314	1,752
Deposits and due others	(5,011)	(28,769)
Contribution of investment assets	519	(519)
Contributions restricted for long-term investment	<u>(3,300)</u>	<u>(500)</u>
Net Cash Provided (Used) by Operating Activities	<u>(138,759)</u>	<u>(6,230)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of Equipment	<u>(3,256)</u>	<u>(2,403)</u>
<b>Cash Flows from Financing Activities</b>		
Repayment of long-term borrowing	—	(40,000)
Proceeds of long-term borrowing	28,992	—
Collection of contributions restricted for long-term investment	<u>—</u>	<u>11,652</u>
Net Cash Provided (Used) by Financing Activities	<u>28,992</u>	<u>(28,348)</u>
Net Change in Cash and Cash Equivalents	(113,023)	(36,981)
Cash and Cash Equivalents, Beginning of Year	<u>158,342</u>	<u>195,323</u>
Cash and Cash Equivalents, End of Year	<u>\$ 45,319</u>	<u>\$158,342</u>
 Supplemental Disclosure Of Cash Flow Information		
Cash paid during the year for interest	\$8,400	

See notes to financial statements.

Vashon Youth and Family Services  
Notes to Financial Statements

***Note 1 - Purpose of the Organization***

Vashon Youth and Family Services was incorporated under the provisions of the Washington Nonprofit Corporation Act on July 21, 1977. The Organization strives to empower Island families to raise thriving, resilient children and youth by fostering a community of emotionally healthy, resourceful families and individuals. Vashon Youth and Family Services accomplishes this by identifying needs, developing positive opportunities for youth and families, and facilitating support services for them.

Further, the organization is to carry out any other educational or charitable purpose within the meaning of Section 501c(3) of the Internal Revenue Code.

The Organization receives primary funding through a variety of sources (see Schedule of Grants and Fees). King County, through the Department of Community and Human Services funds counseling, community projects, life skills, and substance abuse prevention. United Way funding helps to support general and specific Organization purposes. The US Department of Health and Human Services provides funding for the Drug Free Communities Support Program. Additionally, Vashon Youth and Family Services works with other nonprofits and public and private organizations to support specific programs.

***Note 2 - Summary of Significant Accounting Policies***

**Basis of Accounting** - The accompanying financial statements have been prepared on the accrual basis of accounting which recognizes income in the period earned and expenses when incurred which is in accordance with U.S. generally accepted accounting principles.

**Basis of Presentation** - Net assets and 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 - Includes all resources over which the Board of Directors has discretionary control in carrying out the operations of the Organization.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

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.

Vashon Youth and Family Services  
Notes to Financial Statements

**Note 2 - Summary of Significant Accounting Policies (continued)**

Expirations of temporary restrictions on the 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 Organization's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class activity.

**Functional Allocation of Expenses** - The Organization allocates its expenses on a functional basis among its various programs, including fund-raising activities and support services. Costs that can be identified with a specific program are allocated directly according to their natural expenditure classification. Other expenses that are common to several programs are allocated to a program by predetermined percentages. These percentages are primarily calculated based on staff time spent in the various programs.

**Accounts and Grants Receivable** - Accounts receivable are stated at an amount management expects to collect from outstanding balances for fees and grant amounts earned but not yet received as of the financial statement date. The Organization writes off individual accounts receivable when they are determined to be uncollectible. Management has evaluated outstanding balances and considers there to be no material uncollectible accounts at December 31, 2013 or 2012.

**Accrued Vacation Liability** - Full-time employees working more than 1,040 hours annually are eligible for compensated vacation time. Eligible employees accrue vacation leave on a monthly basis, beginning on their hire date. The annual accrual amount, which varies based on hours worked and length of service, is established at 12 to 20 days. Carryover of a maximum accrual of 240 hours is allowed, with any amount over the maximum forfeited. Upon termination of employment a maximum of 120 hours will be paid out.

**Property and Equipment** - Fixed assets are capitalized at cost, with depreciation provided for on the straight-line method over the estimated useful lives of three to eight years. Buildings and improvements are generally depreciated over useful lives of 30 to 40 years. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The Organization capitalizes all expenditures for equipment in excess of \$1,000. Maintenance and repairs which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Depreciation is charged to the activity benefitting from the use of the property or equipment.

**Federal Income Tax** - The Organization has obtained tax exempt status under Section 501c(3) of the Internal Revenue Code and, accordingly, no provision for federal income taxes has been made.

**Uncertainty In Income Taxes** - Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization are more-likely-than not to be sustained upon examination.

Vashon Youth and Family Services  
Notes to Financial Statements

**Note 2 - Summary of Significant Accounting Policies (continued)**

The Organization files information returns in the federal U.S. jurisdiction. Federal returns for the previous 3 years remain subject to possible examination by the Internal Revenue Service.

**Promises to Give** - Contributions are recognized when the donor makes a promise to give to the Agency that is, in substance, unconditional.

**Donated Assets and Services** - Noncash donations are recorded as contributions at their estimated fair value at the date of the donation. Donated services are recognized as contributions if the services: (a) create or enhance nonfinancial assets; or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased.

In-kind contributions are recorded as revenue and expenses at fair market value as of December 31, as follows:

	2013	2012
Salaries	\$127,455	\$92,677
Supplies	3,100	---
Total	\$130,555	\$92,677

In-kind salary expense is recorded based on direct service hours from interns utilized in counseling programs. Additionally, many individuals volunteer their time and perform a variety of tasks to assist in the Organization's program services. These contributed services do not meet recognition criteria under current accounting standards and, accordingly, are not reflected in the accompanying financial statements.

**Donated Property** - Donations of property are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**Estimates** - Preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates included in the financial statements include allowances on accounts receivable and unconditional promises to give, and useful lives of depreciable assets.

Vashon Youth and Family Services  
Notes to Financial Statements

***Note 2 - Summary of Significant Accounting Policies (continued)***

**Cash and Cash Equivalents** - For purposes of the Statement of Cash Flows, the Organization considers all highly liquid purchased debt instruments with a maturity of three months or less to be cash equivalents. Cash represents operating cash held in bank accounts in financial institutions. Restricted cash represents monies held pursuant to certain debt covenants and restricted purposes specified by donors.

***Note 3 - Restricted Net Assets***

Restrictions on net assets relate to contributions restricted as to program use by the donor. The Organization had no permanently restricted net assets.

Temporarily restricted net assets at December 31 are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Counseling Programs	\$ 8,000	\$ —
Property Acquisition and Maintenance	51,914	59,914
Vashon Health Center	1,020	13,220
Basic Needs	5,000	3,395
Early Learning and Parenting Programs	<u>—</u>	<u>35,785</u>
	<u>\$ 65,934</u>	<u>\$ 112,314</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors:

	<u>2013</u>	<u>2012</u>
Prevention Program	\$ —	\$ 3,093
Early Learning and Parenting Programs	35,785	—
Vashon Health Center	38,035	9,922
Basic Needs	3,394	1,606
Property Acquisition and Maintenance	<u>8,400</u>	<u>51,756</u>
	<u>\$85,614</u>	<u>\$66,377</u>

***Note 4 - Promises to Give***

The Organization had conducted a fund-raising campaign related to the purchase of a building, which was completed May 11, 2011, primarily providing space for programs related to early childhood development. The promises to give are restricted to the payment of costs associated with the purchase and maintenance of the building.

Unconditional promises to give at December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Capital Campaign	<u>\$ 38,950</u>	<u>\$ 52,150</u>
Receivable in less than one year	\$ 38,500	\$ 26,000
Receivable in one to five years	<u>450</u>	<u>26,150</u>
Total unconditional promises to give	<u>\$ 38,950</u>	<u>\$ 52,150</u>

Vashon Youth and Family Services  
Notes to Financial Statements

**Note 5 - Property and Equipment**

The major classes of depreciable assets as of December 31 consist of:

	<u>2013</u>	<u>2012</u>
Furniture and equipment	\$ 90,441	\$ 90,435
Building and improvements	500,896	500,896
Land	<u>346,500</u>	<u>346,500</u>
	937,837	937,831
Less accumulated depreciation	<u>283,989</u>	<u>268,425</u>
	<u>\$653,848</u>	<u>\$669,406</u>

**Note 6- Leased Property**

Under terms of an agreement with the Vashon Island School District, Vashon Youth and Family Services is authorized to use and occupy certain real property described as Vashon Island High School. The lease requires the Organization to use the facilities as a family and youth services program center for Vashon Youth and Family Services programming, a meeting and office facility, and a facility available for public use as allowed by King County.

The term of the agreement is approximately 21 years, expiring in December 2021, with an option to extend for 15 years. During the initial lease term, in lieu of rent, Vashon Youth and Family Services shall annually provide 500 hours of prevention/intervention services. Upon extension of the lease, Vashon Youth and Family Services shall pay rent at a negotiated fair market rate.

Vashon Youth and Family Services has erected two distinct buildings on the real property. Upon lease termination, Facility A shall be quit-claimed to Vashon Island School District; ownership of Facility B remains with Vashon Youth and Family Services. The lease agreement contains other terms and conditions in the event of recapture by the School District in accordance with RCW 28A.335.040 regarding the use of surplus school property.

The Organization entered into a noncancellable lease for a Ricoh copier, which is classified as an operating lease. The commencement of the lease was January 1, 2010 with an initial term of 62 months through February 28, 2015. Rent expense for the year ended December 31, 2013 and 2012 was approximately \$4,922 and \$4,380 respectively. The approximate remaining minimum annual lease payments are as follows:

2014	\$4,032
2015	<u>672</u>
	<u>\$ 4,704</u>

**Note 7- Chemical Dependency (CD) Program Repayment Debt**

CD program repayments reflected in these financial statements refer to a repayment obligation stemming from improperly documented billing submitted to King County and Title XIX for chemical dependency services delivered between March 1, 2012 and June 24, 2013. The repayment obligation is structured to occur during fiscal years 2014 and 2015, and is recorded as short-term and long-term liabilities.

Vashon Youth and Family Services  
Notes to Financial Statements

***Note 8 - Long-Term Debt***

Long-term debt consists of:

Promissory note in the amount of \$210,000 at 2013 and 2012. The note, dated May 9, 2011, bears an interest rate of 4%, for a period of 5 years. Required monthly payments are interest only until maturity. The note is collateralized by the capital campaign contributions and pledges and proceeds thereof. Proceeds of the note were used to acquire and remodel property located at the northeast corner of Vashon Hwy. SW and Gorsuch Rd. in Vashon, Washington.

Program repayment obligation with King County Mental Health, Chemical Abuse and Dependency Services Division County Community Services, unsecured with 0% interest \$11,000.

Program repayment obligation with Provider One, Title XIX, unsecured with 0% interest \$17,992

The following schedule of amounts due is based on the maturity dates per the debt agreements:

2014	\$ 19,606
2015	9,386
2016	<u>210,000</u>
	<u>\$238,992</u>

***Note 9 - Compliance and Contingencies***

Vashon Youth and Family Services received a substantial portion of its support from various governmental and charitable entities. Approximately 41% for 2013 and 34 % for 2012 of its annual budget is from two sources. A significant reduction in the level of this support, if it were to occur, might have an effect on its programs and activities. Additionally, certain grants have various program requirements, as set forth in the funding agreement. Failure to fulfill these conditions could result in the return of funds to the grantors

***Note 10 - Subsequent Event***

Management has evaluated subsequent events through July 21, 2014, the date the financial statements were available to be issued. No events have occurred which would have a material effect on the financial statements as of that date.

***Note 11 - Prior Year Summarized Information***

The financial statements included 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, 2011, from which the summarized information was derived.

Supplementary Schedule

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Vashon Youth and Family Services  
 Schedule of Grants and Fees  
 Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
King County		
Department of Community and Human Services		
Youth & Family Services	\$ 36,821	\$36,821
Mental Health Chemical Abuse Services	56,520	93,535
Alcohol & Drug Prevention Coalition	167,034	77,300
Vashon Housing Project	22,813	76,003
Community Development Block Grant		
Housing Stability Project	1,599	1,914
U.S. Department of Health and Human Services		
SAMHSA	55,860	113,953
Washington State Department of Social and Health Services		
Licensed Child Care	33,322	13,706
Superintendent of Public Instruction		
Child and Adult Care Food Program	3,197	2,455
United Way		
Community Funding	30,300	30,000
Navos		
Title XIX-Medicaid	304,652	282,630
Provider 1 -Title XIX	8,934	37,931
Other Contract Fees	<u>5,830</u>	<u>860</u>
Total Grants and Fees	<u>\$726,882</u>	<u>\$767,108</u>

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Vashon Youth and Family Services

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Independent Auditor's Report on Internal Control

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Year Ended December 31, 2013

Jo Ann Kelly  
Certified Public Accountant  
North Bend, Washington

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**Jo Ann Kelly, CPA**  
PO Box 836  
North Bend, WA 98045-0836  
Phone (206) 767-5403 Fax (206) 767-6430

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Independent Auditor's Report on Internal Control

To The Board of Directors and Management  
Vashon Youth and Family Services

In planning and performing my audit of the financial statements of Vashon Youth and Family Services as of and for the year ended December 31, 2013, in accordance with auditing standards in the United States of America, I considered Vashon Youth and Family Services internal control over financial reporting (internal control) as a basis to design audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected, on a timely basis. I did not identify any deficiencies in internal control that I consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the following deficiencies in Vashon Youth and Family Services' internal control to be significant deficiencies:

Review and Monitoring Procedures

Established monitoring and review procedures are identified in the existing written accounting manual. I noted several instances whereby documentation of the review of accounting schedules and reconciliations was not evident. In order to make financial statements generated through the accounting system as meaningful as possible, the Organization should document their review of schedules reconciling the general ledger accounts for cash and receivables to supporting documentation on a monthly basis. Specific supervisory level personnel should be designated to conduct these reviews and they would sign off on the reconciliation and/or schedule to indicate his or her review.

During my audit I reviewed and discussed with management loan agreements that contained

numerous restrictions relating to the Agency's assets and cash balances. I recommend that management establish a summarization of the most restrictive loan requirements. This list can be used to help ensure that the Agency remains in compliance with the applicable debt instruments. Financial covenants should be monitored on an ongoing basis as a means of avoiding possible violations and resolving any potential violations on a timely basis. To monitor the covenants, the schedule noted above, should include columns for each month, which would be initialed and dated to indicate that all covenants were reviewed for compliance on a timely basis. If an instance of noncompliance were to be identified, the noncompliance would be addressed by management, discussed with the lender, and an explanation of the action taken should be attached to the schedule.

#### Control Environment

During the course of the audit several conversations were held with management and finance personnel related to implementation of certain technical accounting pronouncements. Currently, due to the size of the organization and budget constraints, they are not in the position to hire additional personnel that would have the level of accounting knowledge and expertise that may be required. The recommendation is that the Agency consider obtaining this technical accounting guidance through collaboration with another accounting firm regarding the initial implementation of complex accounting standards. Additionally, controller services could possibly be obtained on a contract basis. As the Agency continues to grow the importance of a technically proficient controller becomes more important.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Jo Ann Kelly, CPA*

North Bend, Washington  
July 24, 2014

July 29, 2014

Kathleen Barry Johnson, *Executive Director*

To Whom It May Concern:

Regarding the Letter of Internal Control issued to the VYFS Board of Directors as a part of our 2013 audit, we discussed the highlighted issues during the course of the audit and have remedied them as follows:

- While we already maintain and follow a month-end check list that requires review of the documentation noted here, we have updated our process to ensure that the Executive Directors' initials appear on all documents following the review, and the acknowledged/reviewed documents are maintained for future audits.
- Restrictive loan requirements: We have create a schedule itemizing by month the balance due in the PSCCU account, which is the loan account at issue here. The account is fully capitalized. The only withdrawals will be made by the note holder, withdrawing an agreed-upon amount of interest each month, in keeping with the terms of the promissory note.
- Control environment: The discussion regarding controller capacity comes at a time when our bookkeeper is planning her retirement, signifying a time of transition for the agency. We will be investigating a contract relationship with local CPA firms, or the possibility of hiring a different staffing configurations to meet the increasingly sophisticated financial controls needs of the agency. In addition, we have agreed to with our retiring bookkeeper to plan for a period of cross-over training for the next hire, and that she will return after her retirement date to work as a contractor specifically to update the Accounting Manual.

We feel these steps are sufficient to remedy the deficiencies identified in the 2013 audit and will help to improve the fiscal operations of VYFS as a whole. I am happy to discuss our progress with you or answer any additional questions you may have.

Sincerely,



Kathleen Barry Johnson

Vashon Youth and Family Services  
PO Box 237  
Vashon, Washington 98070

July 21, 2014

Jo Ann Kelly, CPA  
PO Box 836  
North Bend, WA 98045-0836

We are providing this letter in connection with your audit of the statements of financial position of Vashon Youth and Family Services as of December 31, 2013 and 2012 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, in accordance with accounting principles generally accepted in the United States.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of July 21, 2014, the following representations made to you during your audit.

**Financial Statements**

The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all assets and liabilities under the organization's control.

We acknowledge our responsibility for 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.

We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

Significant assumptions we used in making accounting estimates, including those measure at fair value, are reasonable. No subsequent event has occurred that would require adjustment in the accounting estimates or disclosures included in the financial statements.

We have reviewed long-lived assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of assets might not be recoverable. No such impairment is believed to exist.

All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. The uncorrected misstatements is are;

In-kind contribution of goods: not recorded VashonKids	1,100
not recorded Special Events.	1,277
In-kind contribution of goods overvalued Office supplies (2,443)	
All entries for in-kind contribution would have a corresponding entry to expense, net effect on income	-\$0-
Prepaid insurance adjustment not recorded	1,100
Vacation payable under accrual	(1,770)
Cumulative effect-understatement	<u>\$ (670)</u>

#### Information Provided

We have provided you with:

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records and documentation.
- Additional information that you have requested from us for the purpose of the audit.
- Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence.
- Minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

We have no knowledge of any fraud or suspected fraud that affects the organization and involves; management; employees who have significant roles in internal control, or others where the fraud could have a material effect on the financial statements.

We have no knowledge of any allegations of fraud or suspected fraud affecting the organization's financial statements communicated by employees, former employees, grantors, regulators, or others.

We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements other than that made known to you and recorded in our financial statements. The noncompliance was related to programs conducted through King County MHCADSD and Provider One- Title XIX.

There are no known actual or possible litigation, claims, and assessment whose effects should be considered when preparing the financial statements, other than those presented.

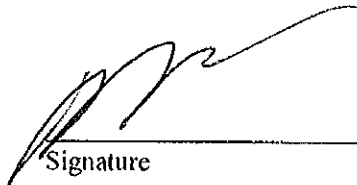
Jo Ann Kelly, CPA  
July 21, 2014  
Page 3

There are no known related parties or related party relationships and transactions of which we are aware.

We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.

Vashon Youth and Family Services is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. There are no known activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax. All required filings with tax authorities are up-to-date.

The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.

  
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Signature  
  
7-21-14  
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Title

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