

Los Angeles Youth Network
(a California public benefit charitable corporation)

Financial Statements and Independent Auditors' Report

June 30, 2017 and 2016



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INDEPENDENT AUDITORS' REPORT

Board of Directors and Management
Los Angeles Youth Network

Report on the Financial Statements

We have audited the accompanying statements of financial position of Los Angeles Youth Network (a California public benefit charitable corporation) (the "Organization") as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 of 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Los Angeles Youth Network as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (Continued)

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards 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 other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2017 on our consideration of Los Angeles Youth Network's internal control over financial reporting and 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 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 Los Angeles Youth Network's over financial reporting and compliance.

MJF & Associates, APC

Los Angeles, California
December 5, 2017

LOS ANGELES YOUTH NETWORK
Statements of Financial Position
As of June 30, 2017 and 2016

ASSETS	June 30, 2017	June 30, 2016
CURRENT ASSETS:		
Cash	\$ 1,055,484	\$ 1,048,903
Accounts receivable, grants	522,542	420,596
Pledges receivables	-	33,176
Prepaid expenses and other assets	21,250	1,345
Total Current Assets	1,599,276	1,504,020
DEPOSITS	35,530	35,030
PROPERTY AND EQUIPMENT, NET	3,113,792	3,055,363
TOTAL ASSETS	\$ 4,748,598	\$ 4,594,413
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Mortgage notes and capital lease payables, current portion	\$ 34,863	\$ 37,923
Accounts payable	264,435	182,445
Accrued compensation and vacation	208,403	187,046
Accrued Liabilities	34,077	70,369
Agency payable to HHYP (Note 2)	115,690	132,304
Accrued interest payable	2,944	3,009
Total Current Liabilities	660,412	613,096
CAPITAL LEASE PAYABLE, long term portion	-	1,800
NOTES PAYABLE	1,298,883	1,321,728
MORTGAGE NOTES PAYABLE, conditional repayment	4,970	24,270
MORTGAGE NOTES PAYABLE, long term portion	323,322	333,001
Total Liabilities	2,287,587	2,293,895
NET ASSETS:		
Temporarily restricted (Note 2)	235,583	157,842
Unrestricted (Note 2)	2,225,428	2,142,676
Total Net Assets	2,461,011	2,300,518
TOTAL LIABILITIES AND NET ASSETS	\$ 4,748,598	\$ 4,594,413

LOS ANGELES YOUTH NETWORK
Statements of Financial Activities and Changes in Net Assets
For The Years Ended June 30, 2017 and 2016

	June 30, 2017	June 30, 2016
UNRESTRICTED SUPPORT		
Federal awards and other government grants	\$ 3,075,514	\$ 3,208,047
Private foundation grants (Note 2)	1,179,698	628,450
Local government contracts	29,059	196,172.00
Individual contributions	181,129	103,491
Fundraising events	167,646	-
In-kind contributions	19,300	19,300
Program fees	3,402	9,613
Total unrestricted support	4,655,748	4,165,073
Change in temporarily restricted net assets:		
Satisfaction of program restrictions (Note 2)	192,524	1,446,002
Increase in temporarily restricted net assets (Note 2)	(270,265)	(1,516,344)
Net change in temporarily restricted net assets	(77,741)	(70,342)
Total revenues	4,578,007	4,094,731
EXPENSES:		
Programs:		
Emergency Shelter	2,197,789	2,236,628
Group Home	1,158,750	1,006,311
Transitional Living	667,385	533,570
Total programs	4,023,924	3,776,509
General and administrative	165,279	147,826
Fundraising	306,052	337,005
Total expenses	4,495,255	4,261,340
Change in unrestricted net assets	\$ 82,752	\$ (166,609)
Change in temporarily restricted net assets		
Net assets released from restrictions (Note 2)	(192,524)	(1,446,002)
Increase in temporarily restricted net assets (Note 2)	270,265	1,516,344
Net (decrease) increase in temporarily restricted net assets	77,741	70,342
Change in net assets	\$ 160,493	\$ (96,267)
Net assets at beginning of year	2,300,518	2,396,785
Net assets at end of year (Note 2)	\$ 2,461,011	\$ 2,300,518

LOS ANGELES YOUTH NETWORK
Statements of Cash Flow
For The Years Ended June 30, 2017 and 2016

	June 30, 2017	June 30, 2016
Cash flows from operating activities:		
Increase (decrease) in net assets (Note 2)	\$ 160,493	\$ (96,267)
<i>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:</i>		
Depreciation	54,895	51,593
Amortization of conditional repayment loan	(19,300)	(19,300)
<i>(Increase) decrease in:</i>		
Accounts receivable	(101,946)	245,876
Pledges receivable	33,176	70,977
Prepaid expenses and other assets	(19,905)	10,807
Deposits	(500)	(19,205)
Accounts payable	81,990	107,400
Agency payables (Note 2)	(16,614)	22,016
Accrued compensation and vacation	21,357	25,075
Accrued liabilities	(36,292)	47,285
Unearned revenue	-	(10,079)
Accrued interest	(65)	(4,711)
Net cash provided by (used in) operating activities	157,289	431,467
Cash flows from investing activities:		
Purchases of property plant and equipment	(113,324)	(49,399)
Net cash (used in) provided by investing activities	(113,324)	(49,399)
Cash flows from financing activities:		
Loan from Bank	-	1,350,000.00
Payments on finance lease	(6,394)	(5,505)
Payments on mortgages	(30,990)	(1,364,518)
Net cash used in financing activities	(37,384)	(20,023)
Net increase in cash	\$ 6,581	\$ 362,045
Beginning cash balance	\$ 1,048,903	\$ 686,858
Ending cash balance	\$ 1,055,484	\$ 1,048,903
Supplemental cash flow information:		
Interest paid during the year	\$ 78,864	\$ 78,534

LOS ANGELES YOUTH NETWORK
Statements of Functional Expenses
For The Years Ended June 30, 2017 and 2016

Year Ended June 30, 2017	Program Services Expenses			Total Program Services	Management and Administrative Expenses	Fundraising Expenses	Total Expenses
	Transitional Living	Emergency Shelter	Group Home				
Salaries and benefits	\$ 431,826	\$ 1,670,657	\$ 886,655	\$ 2,989,138	\$ 93,763	\$ 221,631	\$ 3,304,532
Auto	4,801	25,567	11,177	41,545	1,734	-	43,279
Bad Debts	-	-	-	-	-	5,653	5,653
Consultants	5,365	16,712	19,306	41,383	2,847	12,349	56,579
Depreciation	-	40,141	14,754	54,895	-	-	54,895
Direct youth expenses	36,863	58,334	58,068	153,265	-	-	153,265
Equipment rental	1,312	9,747	3,601	14,660	-	-	14,660
Food	18,300	117,555	48,012	183,867	377	1,728	185,972
Insurance	6,583	25,451	13,496	45,530	1,424	3,401	50,355
Maintenance	18,168	56,522	31,073	105,763	1,070	8,342	115,175
Mortgage interest	-	60,902	17,962	78,864	-	-	78,864
Office and other	12,819	32,412	18,479	63,710	11,416	19,511	94,637
Professional fees	-	5,000	-	5,000	42,315	-	47,315
Rent	108,104	28,440	15,112	151,656	7,056	22,736	181,448
Seminars and travel	3,393	750	750	4,893	924	162	5,979
Telephone and utilities	19,851	49,599	20,305	89,755	2,353	10,539	102,647
Total Expenses	\$ 667,385	\$ 2,197,789	\$ 1,158,750	\$ 4,023,924	\$ 165,279	\$ 306,052	\$ 4,495,255

Year Ended June 30, 2016	Program Services Expenses			Total Program Services	Management and Administrative Expenses	Fundraising Expenses	Total Expenses
	Transitional Living	Emergency Shelter	Group Home				
Salaries and benefits	\$ 338,086	\$ 1,644,549	\$ 747,626	\$ 2,730,261	\$ 77,058	\$ 261,280	\$ 3,068,599
Auto	4,886	37,907	10,544	53,337	704	134	54,175
Consultants (Note 2)	4,312	22,585	7,213	34,110	4,280	7,903	46,293
Depreciation	-	41,047	10,546	51,593	-	-	51,593
Direct youth expenses	17,991	60,781	41,151	119,923	-	-	119,923
Equipment rental	213	4,035	13,155	17,403	103	3,256	20,762
Food	10,280	130,320	58,529	199,129	152	624	199,905
Insurance	5,723	23,334	12,321	41,378	1,303	3,057	45,738
Maintenance	9,421	54,339	22,815	86,575	878	5,209	92,662
Mortgage interest	-	60,246	18,288	78,534	-	-	78,534
Office and other	10,103	50,510	16,306	76,919	8,884	19,574	105,377
Professional fees	3,618	19,173	8,321	31,112	40,980	3,979	76,071
Rent	107,915	29,243	15,422	152,580	5,875	23,010	181,465
Seminars and travel	2,091	1,535	1,061	4,687	5,766	301	10,754
Telephone and utilities	18,931	57,024	23,013	98,968	1,843	8,678	109,489
Total Expenses	\$ 533,570	\$ 2,236,628	\$ 1,006,311	\$ 3,776,509	\$ 147,826	\$ 337,005	\$ 4,261,340

LOS ANGELES YOUTH NETWORK
Notes to the Financial Statements
For The Years Ended June 30, 2017 and 2016

NOTE 1 - ORGANIZATION OVERVIEW

The Los Angeles Youth Network (the “Organization”) is a California public benefit charitable corporation organized to empower young people, between the ages of 12 and 21 within Los Angeles County, including but not limited to run-away and homeless youth. The Organization’s mission is to end homelessness one youth at a time by providing shelter, food, and counseling for the abused, neglected, and abandoned. The Organization is a tax exempt organization per the United States of America’s Internal Revenue Code (IRC) 501(c)3.

For more than 30 years, LAYN has been helping runaway teens get off the streets and into a safe environment. The Organization serves youth, families, and the community. For many of the youth we serve, LAYN is the only home they know. Our ongoing programs provide services every day of the year including all holidays. Without the shelter and support services provided by LAYN, many of the youth we serve would remain on the streets, vulnerable and alone.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (“US GAAP”).

Use of Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant accounting estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. These accounting estimates include valuation of accounts receivable, lives used to depreciate fixed assets, deferred revenues, allocation of certain functional expenses, identification and valuation of temporarily or permanently restricted net assets, and value of in-kind donations. Actual results could differ from these estimates and assumptions.

Cash and Cash Equivalents

The Organization’s cash equivalents may be comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase. The Organization maintains cash and cash equivalent balances at multiple reputable financial institutions.

Fair Value of Financial Instruments

The carrying amounts of the Organization’s financial instruments, including cash, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to their short maturities.

Accounts Receivable

Accounts receivable are stated at amounts management expects to collect from outstanding balances. Management provides for a probable uncollectible amount through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Accounts are considered past due when payment has not been received by the due date as stated on the invoice. No allowance for doubtful accounts was deemed necessary as of June 30, 2017 and 2016.

LOS ANGELES YOUTH NETWORK
Notes to the Financial Statements
For The Years Ended June 30, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges are unconditional promises to make future payments. Pledges meeting the requirements specified by GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions (“GASB 33”) are included in the financial statements as pledges receivable and recognized as revenue in the period pledged. In addition, pledges are recorded net of an allowance. The allowance for uncollectible pledges is determined by management. No allowance for doubtful accounts was deemed necessary as of June 30, 2017 and 2016.

Leases

Organization as lessee

Finance leases which transfer to the Organization substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Organization will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Property and Equipment

The Organization capitalizes significant expenditures for property and equipment at cost or fair market value at the date of the contribution. The Organization capitalizes as fixed assets property and equipment having an estimated useful life of more than two years, and an acquisition cost of \$5,000 or more. The Organization uses the straight-line method over the estimated useful lives of the assets to depreciate its property and equipment, including building improvements, which range from five to fifty years (building). Depreciation expense for the years ended June 30, 2017 and 2016 was \$ 54,895 and \$51,593, respectively.

Expenditures for major renewals and betterments are capitalized, while minor replacements, repairs, and maintenance, which do not extend the useful lives of the related assets, are expensed as incurred. Upon sale or disposition, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of long-lived assets are reported as revenues of the unrestricted net asset class. Donated fixed assets are recorded at fair market value at the date of receipt. Contributions of cash or other assets to be used to acquire land, buildings, and equipment are reported as revenues of the temporarily restricted net asset class. Restrictions are considered to be released at the time of acquisition of such long-lived assets.

Long-lived Assets

The Organization evaluates the recoverability of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment was deemed necessary during the years ended June 30, 2017 and 2016.

LOS ANGELES YOUTH NETWORK
Notes to the Financial Statements
For The Years Ended June 30, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted, Temporarily Restricted and Permanently Restricted Net Assets

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Organization is required to present a statement of cash flows.

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

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted net assets: Net assets that are subject to donor-imposed stipulations that may or will be met by the occurrence of a specific event or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets: Net assets required to be maintained in perpetuity, with only the income used for operating activities due to donor-imposed restrictions. Currently, there are no permanently restricted net assets.

Donated Materials, Equipment, and Services

Donated materials and equipment are reflected as donated revenue and support with an offsetting expense in the accompanying financial statements and are recorded at fair market value at the date of receipt. The Organization accounts for contributed services received in connection with the active participation by volunteers in the Organization's service programs as well as for contributed services received from various organizations in connection with management, general activities, and special events. The contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The estimated value of such services is reflected as donated support with an offsetting expense in the accompanying financial statements. The Organization received in-kind contributions that qualified per above criteria totaling for the years ended June 30, 2017 and 2016 of \$19,300 and \$19,300, respectively.

Allocation of Functional Expenses

Expenses are classified by function when the expense is incurred. Such classifications require the use of management judgment.

Revenue Recognition and Deferred Revenue

A substantial portion of the Organization's revenue and support is from reimbursement-type grants. Such grants are received from federal, state and municipal governmental agencies which may be funded by federal funds. The Organization also receives grants from private and public foundations as well as individual donors.

LOS ANGELES YOUTH NETWORK
Notes to the Financial Statements
For The Years Ended June 30, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues from reimbursement-type grants are recognized at the time the underlying program costs are incurred and to the extent they are not in excess of the grant limitations. Revenues from attendance based grants and contracts are recognized as services are rendered and when contractual terms are met. Grant revenues received in advance are deferred and recognized when earned. All other grants and donations are recognized at the net realizable value at the time the rights to such revenues becomes unconditional and services are rendered.

Contributions

The Organization accounts for contributions received and contributions made as follows: contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. As such, time-restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. When restrictions are satisfied in the same accounting period as the receipt of the contribution, the Organization reports both the revenue and the related expense in the unrestricted net asset class.

Accrued Expenses

As daily business costs are incurred by the Organization, amounts are recorded as accrued expenses. Once applicable vendor invoices are received by the Organization, amounts are transferred to accounts payable.

Concentration Risks

The Federal Deposit Insurance Corporation (“FDIC”) insures accounts at financial institutions up to \$250,000. Accounts held at a financial institution exceeded the federally insured limit by \$160,320 and \$160,546 as of June 30, 2017 and 2016, respectively. The Organization did not experience any losses related to uninsured amounts during 2017 and 2016. The Organization routinely evaluates the credit worthiness of the institutions with which it deposits funds.

Restricted Deposits

Restricted deposits included in cash are temporarily restricted contributions as further described in Note 9.

Agency payable reclassification

The Organization does not have variance power over the Hollywood Homeless Youth Partnership (HHYP) any more, hence unless the donor explicitly grants variance power the Organization should recognize financial assets received from the donor and a corresponding liability to the specified beneficiary. Therefore, the net assets, revenue and expenses related to HHYP have been reclassified to liabilities.

NOTE 3 – INCOME TAXES

The Organization has been classified as a public benefit charitable corporation and not a private foundation, under Sections 501(a) and 501(c)3 of the IRC because it is an organization of the type described in Section 509(a)(2) of the IRC. Therefore, the Organization is exempt from federal tax, except to the extent of any unrelated business income. During the years ended June 30, 2017 and 2016, the Organization did not incur any unrelated business income.

LOS ANGELES YOUTH NETWORK
Notes to the Financial Statements
For The Years Ended June 30, 2017 and 2016

NOTE 3 – INCOME TAXES (Continued)

The Organization files its tax forms in the U.S. federal jurisdiction (Internal Revenue Service), State of California Franchise Tax Board, and the office of the state's attorney general for the State of California. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before June 30, 2012 and State of California Franchise Tax Board before June 30, 2011.

Uncertain Tax Positions

The Organization recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The Organization has evaluated its tax positions for the open tax years ended June 30, 2012 through 2017 for federal purposes and June 30, 2011 through June 30, 2017 for California tax purposes. As of June 30, 2017, the Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements or which may have an effect on its tax exempt status nor is material change to uncertain tax positions anticipated during the twelve months following June 30, 2017.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at June 30 consist of the following:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 1,337,745	\$ 1,318,589
Automobiles and trucks	137,785	137,785
Office equipment	94,167	17,980
	<u>1,569,697</u>	<u>1,474,354</u>
Less: accumulated depreciation	<u>(334,315)</u>	<u>(297,401)</u>
	1,235,382	1,176,953
Land	<u>1,878,410</u>	<u>1,878,410</u>
Total	<u>\$ 3,113,792</u>	<u>\$ 3,055,363</u>

LOS ANGELES YOUTH NETWORK
Notes to the Financial Statements
For The Years Ended June 30, 2017 and 2016

NOTE 5 – LINE OF CREDIT

Line of Credit with California United Bank (formerly 1st Enterprise Bank)

On April 28, 2016, the organization entered into a line of credit agreement with California United Bank in the amount of \$300,000, replacing the \$150,000 line of credit discussed below. The letter of credit is secured by a second deed of trust on the property located at 2471 N. Beachwood Drive, Los Angeles, California 90028. It bears interest at a variable rate of one percentage point above the index (The Wall Street Journal Prime Rate). As of June 30, 2016, interest rate was 4.5% per annum. The line of credit calls for monthly interest-only payments that accrue on the outstanding balance as of the end of the prior month. The line of credit is subject to non-financial and financial covenants, including providing audited financial statements within 120 days of fiscal year end; delivering internal prepared financial statements every quarter within 30 days of quarter end; and having a positive change in net assets for the year ended June 30, 2017. The line of credit expires on May 1, 2021. There was no balance outstanding on the line of credit as of June 30, 2017 and 2016.

NOTE 6 – MORTGAGE NOTES PAYABLE AND BANK LOANS

Mortgage notes payable are summarized as follows:

Beachwood Drive – Promissory Note with California United Bank (formerly 1st Enterprise Bank)

On April 17, 2012, the organization entered into a loan agreement with California United Bank in the amount of \$375,000. The proceeds were used to refinance and pay the bridge loan on the property located at 2471 N. Beachwood Drive, Los Angeles, California 90028. The loan is secured by a first deed of trust on the same property. The term of the loan is for twenty (20) years, but is amortized over a period of ten (10) years. The loan bears interest at a rate of 5.24% per annum and it calls for 118 regular monthly payments of approximately \$2,300 each, representing interest and principal, with first payment due on June 1, 2012, and one lump-sum payment of \$283,000 to be made on April 1, 2022, representing the remaining unpaid principal and accrued interest. The balance outstanding on the loan as of June 30, 2017 was \$ 333,063 and \$323,322 classified as a long term liability. The balance outstanding on the loan as of June 30, 2016 was \$342,245 and \$333,001 classified as a long term liability.

Taft Avenue - Community Redevelopment Agency of Los Angeles

On December 28, 1983 the Organization entered into a mortgage note payable for \$193,000 with the CRALA for the purchase of a shelter home located on 1754 Taft Avenue, Los Angeles, California. The note payable is non-interest bearing unless there are residual receipts as defined by the loan agreement.

Should there be residual receipts the loan will bear interest at the rate of seven and one half percent (7.5%) per annum. The loan is secured by a first trust deed, and matures upon the sale of the property. Management does not contemplate the sale of the property in the foreseeable future. As of June 30, 2014 and prior there have been no residual receipts.

As noted below, on October 4, 2007, the Community Redevelopment Agency of Los Angeles converted this mortgage note payable into a service repayment conditional grant. Under the terms of the agreement, the Organization amortized the principal balance in accordance with the service repayment conditional grant. The opportunity cost and benefit of not paying principal at the fair market value of \$19,300 has been included as an in-kind contribution for each of the years ended June 30, 2017 and 2016, respectively.

LOS ANGELES YOUTH NETWORK
Notes to the Financial Statements
For The Years Ended June 30, 2017 and 2016

NOTE 6 – MORTGAGE NOTES PAYABLE AND BANK LOANS (Continued)

Loan Consolidation and Service Repayment Conditional Grant- Community Redevelopment Agency of Los Angeles

On June 28, 2011, the Organization concluded extended negotiations, dating back to 2007, with the CRALA to convert its repayment terms of both of the aforementioned existing mortgage notes to a single service repayment conditional grant. Although the agreement was signed on June 28, 2011, the terms of the agreement were retroactive back to the date that the terms of the agreement were voted on and approved by the Los Angeles City Council on October 4, 2007.

The service repayment conditional grant provides that the principal of \$263,000 and accrued interest payable of \$33,281, as of April 30, 2007, on both mortgage notes payable be amortized over ten years, with the offset to revenues, (10) years beginning October 4, 2007, except for the 1754 Taft Street property mortgage note payable's contingent accrued interest payable of \$352,595, has been and will continue to be amortized as an in-kind contribution on annual basis. On March 21, 2014, the CRALA terminated the service repayment conditional grant requirement and use restriction on the 1550 North Gower Street building, thus permitting its sale, which closed on June 4, 2014.

In 2011 the Organization entered into an Agreement Containing Covenants with the CRALA, which contains covenants through December 31, 2025. The covenants require LAYN to properly maintain the 1550 North Gower Street and 1754 Taft Street properties; provide social services to homeless youth ages twelve to seventeen at both sites until October 3, 2017, at such time the debt will be deemed repaid; prevent the sale of the property(ies) without prior approval from the CRALA; comply with governmental laws including non-discrimination regulations and American Disabilities Act; and Uniform Housing Code occupancy standards. On March 21, 2014, the CRALA terminated the service repayment conditional grant and use restriction requirement on the 1550 North Gower Street building, thus permitting its sale, which closed on June 4, 2014 and upon purchase of the 1719 Taft location on June 9, 2014, the CRALA transferred the above covenants, except for the service repayment conditional requirements.

Taft Avenue – Catholic Charities of Los Angeles

On February 28, 2014, the entity entered into a mortgage note payable for \$1,350,000 with Catholic Charities of Los Angeles for the purchase of a group home facility located at 1719 Taft Avenue, Los Angeles, California. The mortgage loan bears interest at 5.5% per annum. The monthly shall be due on the first day of each month. The term of the agreement is June 30, 2017. If the principal is not paid at the term of the agreement, 36 months after the first payment, the interest increases to 8% per annum. As of June 30, 2016 and 2015, the outstanding balance of the principal was \$0 and \$1,350,000, respectively. The loan has been fully repaid on May 9, 2016.

Taft Avenue – Banc of California

On April 21, 2016 the entity entered into a Bank Loan agreement for \$1,350,000 with Banc of California secured by a group home facility located at 1719 Taft Avenue, Los Angeles, California. The Bank Loan provided financial accommodations for the entity to refinance and pay-off the mortgage loan from Catholic Charities of Los Angeles. The term of the agreement is to April 21, 2026. The Bank loan bears interest at 4.506% per annum. As of June 30, 2017 the outstanding balance of the principal was \$1,322,492 and \$1,298,883 classified as a long term liability. As of June 30, 2016 the outstanding balance of the principal was \$1,344,300 and \$1,321,728 classified as a long term liability.

LOS ANGELES YOUTH NETWORK
Notes to the Financial Statements
For The Years Ended June 30, 2017 and 2016

NOTE 6 – MORTGAGE NOTES PAYABLE AND BANK LOANS (Continued)

The following table summarizes the approximate future annual mortgage notes payments as of June 30, 2017, which includes \$4,970 mortgage notes payable to the CRALA, which are subject to the conditional service repayment grant noted above:

2017	\$ 114,889
2018	109,919
2019	109,919
2020	109,919
2021 and thereafter	1,215,878
	<u>\$ 1,660,525</u>

NOTE 7 – CONCENTRATIONS

During the year ended June 30, 2017 and 2016, the Organization had recognized revenues from federal grants from the US Department of Health and Human Services of \$ \$2,330,105 and \$2,482,970, which comprised of 52% and 58%, respectively, of the organization’s total unrestricted revenues.

NOTE 8 – COMMITMENTS

Federal Grant Compliance

The Organization has received state and federal grant funds that are for specific purposes and are subject to compliance requirements. The grant expenditures are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that such potential outcomes are remote.

Office, Shelter Facility and Equipment Operating Leases

The Organization leases certain office, shelter facilities and office equipment under short term operating leases. Facility rent expense for the years ended June 30, 2017 and 2016 was \$181,448 and \$181,465, respectively. Office equipment rent expense for the years ended June 30, 2017 and 2016 were \$0 and \$1,092, respectively.

Finance Lease – Vehicle

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

During the year ended December 31, 2011, the Organization entered into a vehicle lease during the year. This lease transfers substantially all the risks and benefits incidental to ownership to the Organization and title transfers to the Organization at the end of the lease. Accordingly, the lease has been accounted for as a finance lease where the asset and liability is recorded on the balance sheet and the asset is depreciated over its useful life. The lease term is for six years and requires a monthly payment of \$509. Depreciation expense for the year ended June 30, 2017 and 2016 totaled \$6,364 and \$6,364, respectively.

LOS ANGELES YOUTH NETWORK
Notes to the Financial Statements
For The Years Ended June 30, 2017 and 2016

NOTE 8 – COMMITMENTS (Continued)

The following is a schedule, by years, of minimum future rentals under vehicle finance lease as of June 30, 2017:

	Total Commitments
2017	2,036
Less: Imputed Interest on Finance Lease	(523)
	\$ 1,513

Threatened Litigation

The Organization is periodically subject to legal complaints and/or lawsuits in the ordinary course of operations. The Organization is not presently a party to any litigation that it believes might have a material adverse effect on its business operations.

NOTE 9 – NET ASSETS

Temporarily restricted net assets (time and service restricted) are available for future periods are as follows:

	Beginning Balance (Reclassified, Note 2)	Restricted Donations	Restrictions Release	Ending Balance
Year ended June 30, 2017				
Jewish Community Foundation	\$ -	\$ 40,000	\$ -	\$ 40,000
John Gogian Family Foundation	-	80,000	(34,682)	45,318
Karisma Foundation	-	100,000	-	100,000
Skylight Foundation	-	50,265	-	50,265
DCFS	157,842	-	(157,842)	-
	\$ 157,842	\$ 270,265	\$ (192,524)	\$ 235,583
Ending Balance (Reclassified, Note 2)				
	Beginning Balance	Restricted Donations	Restrictions Release	Ending Balance (Reclassified, Note 2)
Year ended June 30, 2016				
California Community Community Foundation	\$ 37,500	\$ -	\$ (37,500)	\$ -
Queenscare Foundation	50,000	-	(50,000)	-
DCFS	-	1,516,344	(1,358,502)	157,842
	\$ 87,500	\$ 1,516,344	\$ (1,446,002)	\$ 157,842

LOS ANGELES YOUTH NETWORK
Notes to the Financial Statements
For The Years Ended June 30, 2017 and 2016

NOTE 10 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 5, 2017, the date of issuance of these financial statements for items that should potentially be recognized or disclosed in these financial statements. No such material events or transactions were noted to have occurred.

LOS ANGELES YOUTH NETWORK
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2017

	<u>CFDA Number</u>	<u>Expenditures</u>
FEDERAL AWARDS		
U.S. Department of Health and Human Services		
Children's Hospital Los Angeles (CHLA); Homeless Youth & Exploitation Program (HYEP): 2016-17 HX 16-15-1185; Department of Children and Family Services Group Home Contract: 2015-16, 2016-17 07-023-045	93.658	\$ 2,442,790
U.S. Department of Housing and Urban Development		
Through Los Angeles Homeless Service Authority (LAHSA): Emergency Shelter Program (ESP): HYS & TAFT 2016-17 2016CITYGF02	14.231	300,294
U.S. Department of Health and Human Services		
Health and Human Services (HHS); Basic Center Program (BCP) Taft: 2015-16 and 2016-17 90CY6633	93.623	102,340
Health and Human Services (HHS); Transitional Living Program (TLP): 2015-16 and 2016-17 09CX6918	93.550	194,581
U.S. Department of Housing and Urban Development		
Los Angeles Homeless Services Authority (LAHSA) Transitional Living Program (TLP): 2016-17 2016CITYGF22	14.235	185,989
U.S. Department of Homeland Security		
Emergency Food and Shelter Program -ESFP - Phase 29: 2015-16 069500-037	97.024	9,758
TOTAL FEDERAL AWARDS		<u><u>\$ 3,235,752</u></u>

LOS ANGELES YOUTH NETWORK
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2017

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the Organization’s under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in OMB Circular A-133, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited to reimbursement.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Los Angeles Youth Network

We have audited 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, the financial statements of Los Angeles Youth Network, which comprise the statement of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 5, 2017 and August 26, 2016, respectively.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Los Angeles Youth Network's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Los Angeles Youth Network's internal control. Accordingly, we do not express an opinion on the effectiveness of Los Angeles Youth Network'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Los Angeles Youth Network's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)**

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MJF *& Associates, APC*

Los Angeles, California
December 5, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors and Management
Los Angeles Youth Network

Report on Compliance for Each Major Federal Program

We have audited the compliance of Los Angeles Youth Network (a California public benefit charitable corporation), with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017 and 2016. Los Angeles Youth Network's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the entity's management.

Auditor's Responsibility

Our responsibility is to express an opinion on Los Angeles Youth Network's compliance with the applicable compliance requirements based on our compliance audits.

We conducted our compliance audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and Circular A-133 require that we plan and perform the compliance audits to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. A compliance audit includes examining, on a test basis, evidence about Los Angeles Youth Network's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our compliance audit provides a reasonable basis for our opinion. Our compliance audits does not provide a legal determination on Los Angeles Youth Network's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Los Angeles Youth Network complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017 and 2016.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(CONTINUED)**

Report on Internal Control over Compliance

The management of Los Angeles Youth Network is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our compliance audit, we considered Los Angeles Youth Network's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our compliance auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Los Angeles Youth Network's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with the type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Restricted Use

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

MJF *& Associates, APC*

Los Angeles, California
December 5, 2017

LOS ANGELES YOUTH NETWORK
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I: Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	No
Are any significant deficiencies identified not considered to be material weaknesses?	No
Is any noncompliance material to financial statements noted?	No

Federal Awards

Type of auditors' report issued on compliance for major programs: Unmodified

Internal control over major program compliance:

Are any material weaknesses identified?	No
Are any significant deficiencies identified not considered to be material weaknesses?	None Reported
Are any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133, <i>Audits of State, Local Governments, and Non-Profit Organizations</i> , Section .510(a)?	No

Identification of major programs:

CFDA Number(s) and Name of Federal Program or Cluster

93.658 – Foster Care

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Is the auditee qualified as a low-risk auditee?	Yes

**LOS ANGELES YOUTH NETWORK
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

Section II: Financial Statement Findings

There were no reportable findings for the year ended June 30, 2017.

Section III: Federal Awards Findings

There were no reportable findings for the year ended June 30, 2017.

LOS ANGELES YOUTH NETWORK
Status of Prior Year Findings
As of June 30, 2016

Section II: Financial Statement Findings

There were no reportable findings for the year ended June 30, 2016.

Section III: Federal Awards Findings

There were no reportable findings for the year ended June 30, 2016.