YOUTHCARE

Homeless youth Off the streets Preparing for life

Financial Statements

For the Year Ended December 31, 2014

Table of Contents

Clark Nuber PS

Independent Auditor's Report

Board of Directors
YouthCare
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of YouthCare (the Organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 21, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2015 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Organization's internal control over financial reporting and compliance.

Clark Nuber P.S.

Certified Public Accountants
May 19, 2015

YOUTHCARE

Statement of Financial Position
December 31, 2014
(With Comparative Totals for 2013)

	2014	2013
Current Assets:		
Cash and cash equivalents	$ 1,700,772	$ 2,734,712
Accounts, grants, and contracts receivable	652,041	734,956
Facility use receivable	42,750	33,577
Pledges receivable	278,485	97,912
Prepaid expenses and other current assets	122,770	125,263
Total Current Assets	**2,796,818**	**3,726,420**
Board designated operating reserve	200,040	
Restricted cash	197,743	181,430
Endowment investments	500,028	
Property and equipment, net	8,065,336	8,230,599
Total Assets	**$ 11,759,965**	**$ 12,138,449**
Current Liabilities:		
Accounts payable	$ 89,516	$ 171,956
Accrued expenses	491,818	446,778
Current portion of capital lease obligations	12,983	15,359
Total Current Liabilities	**594,317**	**634,093**
Long-term portion of capital lease obligations	92,122	22,633
Total Liabilities	**686,439**	**656,726**
Net Assets:		
Unrestricted net assets	6,971,280	7,193,135
Temporarily restricted net assets	3,602,246	4,288,588
Permanently restricted net assets	500,000	
Total Net Assets	**11,073,526**	**11,481,723**
Total Liabilities and Net Assets	**$ 11,759,965**	**$ 12,138,449**

See accompanying notes.

YOUTHCARE

Statement of Activities
For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Support and Revenue:					
Grants and contracts	$ 5,723,801	$ -	$ -	$ 5,723,801	$ 6,134,341
Contributions	1,643,189	1,286,528		2,929,717	3,785,951
Special events, net of direct expenses of $73,348 (2013 - $64,620)	490,418			490,418	528,220
In-kind revenue	61,452	76,327		137,779	92,581
United Way	362,237			362,237	409,308
Net assets released from restriction	2,049,197	(2,049,197)			
Total Public Support	**10,330,294**	**(686,342)**		**9,643,952**	**10,950,401**
Rental income	45,872			45,872	73,230
Other revenue	14,684			14,684	24,429
Total Support and Revenue	**10,390,850**	**(686,342)**		**9,704,508**	**11,048,060**
Expenses:					
Program services	8,566,091			8,566,091	8,211,287
Supporting services	2,055,211			2,055,211	1,956,151
Total Expenses	**10,621,302**			**10,621,302**	**10,167,438**
Non-Operating Activities					
Endowment contributions			500,000	500,000	
Gain on sale of assets	8,597			8,597	
Change in Net Assets from Non-Operating Activities	**8,597**		**500,000**	**508,597**	
Change in Net Assets	**(221,855)**	**(686,342)**	**500,000**	**(408,197)**	**880,622**
Net Assets:					
Beginning of year	7,193,135	4,288,588		11,481,723	10,601,101
End of Year	**$ 6,971,280**	**$ 3,602,246**	**$ 500,000**	**$ 11,073,526**	**$ 11,481,723**

See accompanying notes.

YOUTHCARE

Statement of Functional Expenses
For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

	Total Program Services	Management and General	Fundraising	Total Supporting Services	2014	2013
Personnel	$ 6,279,793	$ 893,833	$ 511,290	$ 1,405,123	$ 7,684,916	$ 7,247,325
Contract services	636,744	168,569	20,627	189,196	825,940	832,890
Occupancy	500,180	58,062	10,252	68,314	568,494	553,423
Client costs	302,855				302,855	309,844
Depreciation and amortization	214,992	36,489	13,936	50,425	265,417	258,952
Supplies	130,400	32,248	37,462	69,710	200,110	226,835
In-kind	67,154	61,452		61,452	128,606	96,255
Client food	123,129				123,129	129,389
Travel	68,292	35,770	2,738	38,508	106,800	86,516
Telephone	75,721	28,465	184	28,649	104,370	109,132
Meetings and training	26,707	71,967	4,525	76,492	103,199	66,956
Vehicles	76,105	5,061	1,470	6,531	82,636	98,347
Printing and publicity	6,280	3,928	44,534	48,462	54,742	57,847
Insurance	34,740	3,774	1,963	5,737	40,477	48,072
Dues, fees and licenses	6,920	27,295	2,977	30,272	37,192	34,303
Postage and delivery	9,429	3,045	16,378	19,423	28,852	16,150
Miscellaneous	1,383	846	12,763	13,609	14,992	30,131
Interest		11,541		11,541	11,541	1,240
Equipment rent and maintenance	5,267	4,826	289	5,115	10,382	28,451
Total Expenses	**8,566,091**	**1,447,171**	**681,388**	**2,128,559**	**10,694,650**	**10,232,058**
Less special event expenses included with support and revenue on the statement of activities			(73,348)	(73,348)	(73,348)	(64,620)
Total Expenses Included in Expenses on the Statement of Activities	**$ 8,566,091**	**$ 1,447,171**	**$ 608,040**	**$ 2,055,211**	**$ 10,621,302**	**$ 10,167,438**

See accompanying notes.

YOUTHCARE

Statement of Cash Flows
For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014	2013
Cash Flows From Operating Activities:		
Change in net assets	$ (408,197)	$ 880,622
Adjustments to reconcile change in net assets		
to cash (used in) provided by operating activities-		
Depreciation and amortization	265,417	258,952
Contributions restricted for long-term purposes	(500,000)	
Gain on sale of property and equipment	(8,597)	
Changes in assets and liabilities:		
Accounts, grants, and contracts receivable	82,915	185,228
Facility use receivable	(9,173)	3,673
Pledges receivable	(180,573)	88,231
Prepaid expenses and other current assets	2,493	12,580
Accounts payable	(87,084)	41,799
Accrued expenses	45,040	22,620
Net Cash (Used in) Provided by Operating Activities	**(797,759)**	**1,493,705**
Cash Flows From Investing Activities:		
Change in restricted cash	(16,313)	(15,032)
Proceeds from sale of property and equipment	8,597	
Increase in board designated operating reserve	(200,040)	
Purchase of endowment investments	(500,028)	
Payments to acquire and construct property and equipment		(33,604)
Net Cash Used in Investing Activities	**(707,784)**	**(48,636)**
Cash Flows From Financing Activities:		
Principal payments on capital lease obligations	(28,397)	(22,154)
Cash received from contributions restricted for long-term purposes	500,000	
Net Cash Provided by (Used in) Financing Activities	**471,603**	**(22,154)**
Change in Cash and Cash Equivalents	**(1,033,940)**	**1,422,915**
Cash and cash equivalents at beginning of year	2,734,712	1,311,797
Cash and Cash Equivalents at End of Year	**$ 1,700,772**	**$ 2,734,712**
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	$ 11,541	$ 1,240
Property and equipment acquired through capital leases	$ 109,654	$ -
Property and equipment purchase reflected in accounts payable	$ 4,644	$ -

See accompanying notes.

Note 1 - Organization and Significant Accounting Policies

YouthCare is an agency that provides comprehensive services to youth in crisis in the Seattle-King County area, and is dedicated to providing a continuum of care that includes outreach, basic services, emergency shelter, housing, counseling, education, and employment training. YouthCare accomplishes this goal by providing both residential and nonresidential services to youth ages 12 to 24.

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

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of YouthCare or the passage of time. See Note 9 for the specific temporarily restricted amounts.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they will be maintained permanently by YouthCare. Generally the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes. At December 31, 2014, YouthCare had $500,000 of permanently restricted net assets in an endowment fund; the earnings thereon can be used for general purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets. It is YouthCare's policy to recognize restricted contributions in the unrestricted net asset class if the restrictions have been met in the same year that they were received.

YouthCare reports gifts of land, building, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets must be used to acquire long-lived assets are reported as restricted support. Absent of donor stipulations about how long those long-lived assets must be maintained, YouthCare reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at 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.

Basis of Accounting - The financial statements of YouthCare are prepared on the accrual basis of accounting in accordance with U.S. GAAP.

Concentration of Credit Risk - YouthCare invests its excess cash with various financial institutions. At times such cash balances are in excess of FDIC-insured limits.

Note 1 - Continued

Federal Income Taxes - The Internal Revenue Service (IRS) has determined YouthCare to be exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and is not a private foundation. Accordingly, no provision for federal income taxes has been made in the financial statements.

Cash and Cash Equivalents - YouthCare considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash - Restricted cash consists of cash restricted for YouthCare's replacement and operating reserves required by certain forgivable debt agreements.

Board Designated Operating Reserve - Operating reserves consist of cash designated by YouthCare's board as a reserve for financial stability.

Endowment Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments) is included in the change in unrestricted net assets unless the income or loss is restricted by donor or law. At December 31, 2014, endowment investments consisted of cash in a savings account.

Accounts, Grants, and Contracts Receivable and Revenues - A substantial portion of fees and grants from government agencies is derived from grants and contracts administered by various federal, state and local government agencies. Revenue from these grants and contracts is subject to audits, which could result in adjustments to revenue. Any adjustments would be recorded at the time that such amounts could first be reasonably determined, normally upon notification by the government agency. All receivables are considered fully collectible by management. Amounts from the government totaled 59% and 54%, respectively, of public support revenues during 2014 and 2013. The balance in accounts, grants and contracts receivable from these sources totaled $637,009 and $734,328, at December 31, 2014 and 2013, respectively.

During the year ended December 31, 2014, approximately 26% of contributions were from two organizations. During the year ended December 31, 2013, approximately 39% of contributions were from three organizations.

Property and Equipment - Land, buildings, building improvements, furniture, and equipment are stated at cost if purchased or, in the case of donated assets, at estimated fair value at the date of contribution. YouthCare capitalizes all computer equipment and other depreciable assets with a purchase price and/or donated fair value greater than $5,000. Depreciation is provided on the straight-line method over the following estimated lives:

Building and improvements	10 - 40 years
Furniture and equipment	3 - 10 years
Vehicles	5 years

Nonoperating Activities - YouthCare considers contributions and grants restricted for the acquisition of long-term assets and repayment of long-term debt and the related releases to be nonoperating activities. YouthCare also considers gains and losses on disposal of fixed assets to be nonoperating activities.

Note 1 - Continued

Contributions - Contributions, which include unconditional promises to give (pledges), are recognized as support in the period received.

Advertising - Advertising costs are expensed as they are incurred. Total advertising expenses for the years ended December 31, 2014 and 2013 were $30,828 and $34,346, respectively.

In-Kind Donations - Donated materials and equipment are recorded as in-kind donations and either expenses or capital assets at their estimated fair value to the extent they can be objectively measured. Contributions of services are recognized if the services received create or enhance a nonfinancial asset or the services require specialized skills that are provided by individuals possessing those skills.

In-kind contributions included donated services of $61,452 and $24,627 for the years ended December 31, 2014 and 2013, respectively, and donated rent of $76,327 and $67,954 for the years ended December 31, 2014 and 2013, respectively.

Allocation of Functional Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on the benefits derived.

Grants and Contracts - Cost reimbursement grant and contract revenue is recognized and recorded as related program expenses are incurred. YouthCare receives reimbursement for indirect costs on certain grants based upon a provisional rate applied to direct costs. Any adjustments that are necessary when final rates are determined are recorded in the period they become known. Direct and indirect costs reimbursed by United States government agencies are subject to review and audit by such agencies.

Comparative Amounts for 2013 - For comparative purposes, the financial statements include certain prior-year summarized information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with YouthCare's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Reclassifications - Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. The reclassifications have no effect on previously reported changes to net assets or net assets.

Subsequent Events - YouthCare has evaluated subsequent events through May 19, 2015, the date on which the financial statements were available to be issued.

Note 2 - Pledges Receivable

Unconditional promises to give that are expected to be collected in one year are stated at net realizable value. Unconditional promises to give that are expected to be collected in future years are presented at the present value of their estimated future cash flows. The discounts on those amounts are computed using a discount rate applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. In accordance with U.S. GAAP, unconditional promises to give are recognized as support in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are not included in support until the conditions are substantially met. YouthCare provides for losses on pledges receivable using the allowance method. The allowance is based on past experience. It is YouthCare's policy to charge off uncollectible pledges receivable when management determines the receivable will not be collected.

All unconditional pledges receivable outstanding at December 31, 2014 are due in 2015. There was no allowance for doubtful accounts or discount to net present value at December 31, 2014 and 2013.

Conditional pledges at December 31, 2014 totaled $600,000 for the Catalyst program at Straley House. The pledge is contingent upon YouthCare meeting certain operational milestones and accordingly has not been recorded as support.

Note 3 - Property and Equipment

Property and equipment consisted of the following at December 31:

	2014	2013
Nondepreciable-		
Land	$ 2,959,447	$ 2,959,447
Depreciable-		
Buildings and building improvements	7,810,103	7,805,459
Furniture and equipment	604,863	606,605
Vehicles	161,864	172,308
	11,536,277	11,543,819
Less accumulated depreciation	(3,470,941)	(3,313,220)
Total Property and Equipment, net	**$ 8,065,336**	**$ 8,230,599**

At December 31, 2014 and 2013, copiers under capital lease agreements are included in furniture and equipment with a cost of $109,656 and $111,398, respectively. Accumulated depreciation on these leases was $8,703 and $76,034 as of December 31, 2014 and 2013, respectively.

Note 4 - Forgivable Loans

YouthCare has received forgivable loans amounting to $4,542,299 and $4,519,926 at December 31, 2014 and 2013, respectively. Under terms of the agreements, the proceeds must be used for the specific purpose intended in the loan documents. As management believes the conditions related to these loans have substantially been met and that YouthCare has the present intention and ability to maintain the conditions of forgiveness, the proceeds from these forgivable loans have been recognized as temporarily restricted revenues. The restrictions are being released over the terms of the forgivable loans. The loan balance, including accrued interest, if any, and in some cases a pro-rata share of appreciation is due generally if YouthCare changes the use of the facilities from the intended purpose or if the property is sold and removed from acceptable use. Each loan has specific agreements and covenants surrounding the use of the property, and the terms of forgiveness depend upon adherence to the terms.

Forgivable loans consist of the following at December 31:

	2014	2013
Interest-free loan payable to the State of Washington, secured by a promissory note and deed of trust on real property. The loan is forgivable on January 1, 2048, provided that YouthCare complies with a covenant which requires YouthCare to use the property to serve homeless youth.	$ 1,070,952	$ 1,070,952
Interest-free CDBG Federal loan payable to King County, secured by a promissory note and deed of trust on real property. The loan is forgivable on December 31, 2016, provided that YouthCare complies with a covenant which requires YouthCare to use the property to serve low-income and youth.	150,000	150,000
Interest-free CDBG Federal loan payable to the City of Seattle, secured by a promissory note and deed of trust on real property. The loan is forgivable on December 31, 2018, provided that YouthCare complies with a covenant which requires YouthCare to use the property to serve homeless youth.	337,755	337,755
Loan payable to the City of Seattle, including an accrual of simple interest at 1% per year for the first 20 years (through July 2016), secured by a promissory note and deed of trust on real property. The principal and interest will be forgiven on July 31, 2071, provided that YouthCare complies with a covenant that requires YouthCare to use the property to serve low-income families.	1,888,334	1,872,182

Note 4 - Continued

	2014	2013
Loan payable to City of Seattle, including an accrual of simple interest at 1% per year, secured by a deed of trust in first position on land, building and improvements with a cost of $713,558. The loan is payable on April 15, 2030, upon the sale of the property, or upon cessation of use of the property for low-income housing. The maturity date can be extended in five year intervals if the property continues to be used for the specified purpose.	376,451	373,414
Loan payable to a local foundation, including interest that was adjusted annually at four points below the prime rate, secured by a deed of trust in second position on the same land, building and improvements described above. Compounded interest accrued for the first ten years of the loan through 1999 was forgiven equally over a ten-year period ending in 2009. The term of the loan is perpetual but the principal is only payable upon sale of the property or cessation of use of the property for providing services to young people in the Seattle area.	100,000	100,000
Loan payable to the City of Seattle, secured by a promissory note and a deed of trust for the Ravenna House. The loan accrues interest at 1% through February 2019 at which time accrued interest will be forgiven over the next 20 years. The principal of the loan ($318,394) is forgivable on February 23, 2039, provided YouthCare complies with a covenant that requires YouthCare to use the funds strictly for the development of the Ravenna property and operates a low-income housing program for the duration of the loan.	368,807	365,623
Interest-free loan payable to the State of Washington, secured by a promissory note and a deed of trust. The loan is forgivable on February 23, 2039, provided YouthCare complies with a covenant that requires YouthCare to use the funds for the development of the Ravenna property and operates a low-income housing program for the duration of the loan.	250,000	250,000
	4,542,299	4,519,926

Note 4 - Continued

Interest has not been imputed for any of the above loans that carry below-market rate loans, as they are payable to governmental entities that set the interest rates and carry legal restrictions.

Note 5 - Line of Credit

At December 31, 2014, YouthCare had a $750,000 line of credit with a bank secured by YouthCare's assets. Interest is payable monthly at prime + 1% (4.25% at both December 31, 2014 and 2013) and all outstanding principal is due on August 1, 2015. There were no borrowings on the line of credit at December 31, 2014 and 2013.

Note 6 - Pension Plan

YouthCare has a 401(k) plan covering all eligible employees. An employee is eligible for participation in the plan the following quarter after the employee has completed 1,000 hours of employment, three months of service, and has reached age 21. Employees can defer up to 100% of their annual salary, not to exceed IRS limits. YouthCare's contributions to the plan are discretionary and decided upon annually by the Board of Directors. YouthCare also matches employee deferrals up to certain percentages. Total expenses accrued under this plan were $101,211 and $100,152 for 2014 and 2013, respectively, and are included in personnel expense as reported on the statement of functional expenses.

Note 7 - Commitments and Contingencies

Leases - YouthCare leases one office space under a noncancelable operating lease. This lease expired in February 2015 and switched to a month-to-month agreement after expiration. The future noncancelable minimum lease payments total $15,110 at December 31, 2014.

Grants - In 1990, YouthCare received two grants from the State of Washington Department of Community Development for improvements to Straley House and the Shelter totaling approximately $280,000. Under the terms of these grants, YouthCare is obligated to serve low-income citizens for a period of 40 years. If, at any time in these periods, YouthCare fails in its obligations, the State may recover a pro-rata portion of the awarded funds.

The acquisition of Ravenna House in 1999 was partially financed by a $60,000 grant from the Low Income Housing Institute. The grant contains certain restrictions, including stipulations that the building adhere to low-income housing requirements and that the property be maintained as low-income housing for 50 years.

YouthCare received a McKinney Supportive Housing Grant with the U.S. Department of Housing and Urban Development from the City of Seattle in 1995. The $125,000 grant was for acquisition costs of property that is used for site administration offices, transitional housing and supportive services. As part of the requirements of this grant, YouthCare must refund the entire grant amount if it sells the property or discontinues using the property for its required purposes prior to a 10-year period beginning in 2006. If the property continues to be used longer than the first 10-year period, the maximum refundable portion of the grant is reduced by 10 percentage points each year. The property will completely clear of this commitment in year 2016.

Note 8 - Capital Leases

YouthCare leases five copiers under a capital lease agreement. The interest rate on the capitalized lease is 24.36% and is imputed based on the lower of YouthCare's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

Required minimum payments for capital lease obligations are as follows:

For the Year Ending December 31,	
2015	$ 37,200
2016	37,200
2017	37,200
2018	37,200
2019	31,000
	179,800
Less amount representing interest	(74,695)
	$ 105,105

Note 9 - Temporarily Restricted Net Assets

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

	2014	2013
Forgivable notes payable (time restricted) (Note 4)	$ 2,232,125	$ 2,340,114
Barista/YouthTech training program	65,769	233,411
Orion Center		280,000
Facility use receivable	42,750	33,577
Education and employment programs	673,863	723,500
Prevention	30,000	153,685
Food	6,650	20,000
Luncheon	37,000	49,000
Mental health program	68,948	123,279
Endowment earnings (Note 10)	28	
Other program activities	445,113	332,022
	$ 3,602,246	**$ 4,288,588**

Note 9 - Continued

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes and/or by the passage of time as follows for the year ended December 31, 2014:

Purpose restriction	$ 101,710
Time restriction	1,898,487
Time and purpose restrictions	49,000
	$ 2,049,197

Note 10 - Endowments

YouthCare's endowment consists of funds established for a variety of purposes, and consists of donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

YouthCare's Board of Directors has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA), and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this determination, YouthCare classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by YouthCare in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, YouthCare considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of YouthCare and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of YouthCare; and
- The investment policies of YouthCare.

Endowment net assets consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, December 31, 2014	**$ -**	**$ 28**	**$ 500,000**	**$ 500,028**

Note 10 - Continued

Changes to endowment net assets for the year ended December 31, 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2013	$ -	$ -	$ -	$ -
Interest		28		28
Endowment contributions			500,000	500,000
Endowment Net Assets, December 31, 2014	**$ -**	**$ 28**	**$ 500,000**	**$ 500,028**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or PMIFA requires YouthCare to retain as a fund of perpetual duration. However, there were no such funds at December 31, 2014.

YouthCare is developing investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that YouthCare must hold in perpetuity or for donor-specified periods.