



Financial Statements

For the Year Ended December 31, 2017

## Table of Contents

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	Page
<b>Independent Auditor's Report</b>	1 - 2
<b>Financial Statements:</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 18

## Independent Auditor's Report

**To the 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, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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



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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Organization's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2018 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  
July 10, 2018

**YOUTHCARE**

**Statement of Financial Position**

**December 31, 2017**

**(With Comparative Totals for 2016)**

	<u>2017</u>	<u>2016</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 173,512	\$ 886,053
Accounts, grants and contracts receivable	1,165,760	1,344,912
Facility/land use receivable, current portion	237,509	44,993
Pledges receivable, current portion	197,785	375,416
Prepaid expenses and other current assets	<u>227,099</u>	<u>152,677</u>
<b>Total Current Assets</b>	<b>2,001,665</b>	<b>2,804,051</b>
Pledges receivable, long-term	5,000	25,000
Facility/land use receivable, long-term	1,013,447	
Board designated operating reserve	423,304	306,901
Restricted cash	146,613	130,354
Endowment investments	597,995	524,342
Property and equipment, net	<u>10,770,381</u>	<u>9,349,446</u>
<b>Total Assets</b>	<b><u>\$ 14,958,405</u></b>	<b><u>\$ 13,140,094</u></b>
<b>Current Liabilities:</b>		
Accounts payable	\$ 147,702	\$ 149,377
Accrued expenses	665,344	659,750
Current portion of capital lease obligations	<u>26,766</u>	<u>21,030</u>
<b>Total Current Liabilities</b>	<b>839,812</b>	<b>830,157</b>
Long-term portion of capital lease obligations	27,802	54,568
Long-term debt	<u>500,000</u>	<u>500,000</u>
<b>Total Liabilities</b>	<b>1,367,614</b>	<b>1,384,725</b>
<b>Net Assets:</b>		
Unrestricted net assets	7,673,490	7,932,225
Temporarily restricted net assets	5,417,301	3,323,144
Permanently restricted net assets	<u>500,000</u>	<u>500,000</u>
<b>Total Net Assets</b>	<b><u>13,590,791</u></b>	<b><u>11,755,369</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 14,958,405</u></b>	<b><u>\$ 13,140,094</u></b>

See accompanying notes.

## YOUTHCARE

### Statement of Activities For the Year Ended December 31, 2017 (With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
<b>Support and Revenue:</b>					
Grants and contracts	\$ 8,792,377	\$ -	\$ -	\$ 8,792,377	\$ 7,693,557
Contributions	2,237,403	866,750		3,104,153	3,841,987
Special events, net of direct expenses of \$99,322 (2016 - \$79,325)	656,079			656,079	610,454
In-kind revenue	125,521			125,521	133,803
United Way	377,763			377,763	391,921
Net assets released from restriction	1,454,103	(1,454,103)			
<b>Total public support</b>	<b>13,643,246</b>	<b>(587,353)</b>		<b>13,055,893</b>	<b>12,671,722</b>
Rental income	24,994			24,994	36,352
Other revenue	4,940			4,940	20,260
<b>Total Support and Revenue</b>	<b>13,673,180</b>	<b>(587,353)</b>		<b>13,085,827</b>	<b>12,728,334</b>
<b>Expenses:</b>					
Program services	10,453,442			10,453,442	9,364,137
Supporting services	3,523,666			3,523,666	3,100,819
<b>Total Expenses</b>	<b>13,977,108</b>			<b>13,977,108</b>	<b>12,464,956</b>
<b>Change in Net Assets From Operating Activities</b>	<b>(303,928)</b>	<b>(587,353)</b>		<b>(891,281)</b>	<b>263,378</b>
<b>Nonoperating Activities</b>					
Contributions for long-term purposes		1,419,465		1,419,465	1,191,511
Contributed property		1,233,385		1,233,385	
Investment return	200	73,653		73,853	24,967
Net assets released from restriction	44,993	(44,993)			
<b>Change in Net Assets From Nonoperating Activities</b>	<b>45,193</b>	<b>2,681,510</b>		<b>2,726,703</b>	<b>1,216,478</b>
<b>Change in Net Assets</b>	<b>(258,735)</b>	<b>2,094,157</b>		<b>1,835,422</b>	<b>1,479,856</b>
<b>Net Assets:</b>					
Beginning of year	7,932,225	3,323,144	500,000	11,755,369	10,275,513
<b>End of Year</b>	<b>\$ 7,673,490</b>	<b>\$ 5,417,301</b>	<b>\$ 500,000</b>	<b>\$ 13,590,791</b>	<b>\$ 11,755,369</b>

See accompanying notes.

## YOUTHCARE

### Statement of Functional Expenses For the Year Ended December 31, 2017 (With Comparative Totals for 2016)

	Total Program Services	Management and General	Fundraising	Total Supporting Services	2017	2016
Personnel	\$ 7,871,509	\$ 1,865,698	\$ 714,424	\$ 2,580,122	\$ 10,451,631	\$ 9,256,034
Contract services	643,519	305,004	29,573	334,577	978,096	999,331
Occupancy	519,991	50,908	33,891	84,799	604,790	564,150
Client costs	572,525	27,149	633	27,782	600,307	363,524
Depreciation and amortization	244,074	44,415	14,954	59,369	303,443	264,911
Supplies	120,677	29,582	112,900	142,482	263,159	243,678
Telephone	124,672	29,969	4,412	34,381	159,053	150,604
Travel	84,811	42,583	4,021	46,604	131,415	143,203
Meetings and training	18,486	103,357	2,781	106,138	124,624	131,180
Client food	138,580	26	791	817	139,397	129,891
Vehicles	61,978	6,421	1,721	8,142	70,120	64,285
Printing and publicity	2,063	16,839	43,847	60,686	62,749	57,417
Dues, fees and licenses	5,522	37,738	6,325	44,063	49,585	48,307
Insurance	33,968	4,513	2,236	6,749	40,717	45,609
Interest		31,781		31,781	31,781	30,503
Miscellaneous	(96)	23,984	14,407	38,391	38,295	24,185
Postage and delivery	1,877	2,278	10,051	12,329	14,206	16,033
Equipment rent and maintenance	9,286	2,002	1,774	3,776	13,062	11,436
<b>Total Expenses</b>	<b>10,453,442</b>	<b>2,624,247</b>	<b>998,741</b>	<b>3,622,988</b>	<b>14,076,430</b>	<b>12,544,281</b>
Less special event expenses included with support and revenue on the statement of activities			(99,322)	(99,322)	(99,322)	(79,325)
<b>Total Expenses Included in Expenses on the Statement of Activities</b>	<b>\$ 10,453,442</b>	<b>\$ 2,624,247</b>	<b>\$ 899,419</b>	<b>\$ 3,523,666</b>	<b>\$ 13,977,108</b>	<b>\$ 12,464,956</b>

See accompanying notes.

## YOUTHCARE

### Statement of Cash Flows For the Year Ended December 31, 2017 (With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 1,835,422	\$ 1,479,856
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities-		
Depreciation and amortization	303,443	264,911
Contributions restricted for long-term purposes	(1,419,465)	(1,191,511)
Contributions of property	(1,233,385)	
Return on endowment investments	(73,653)	(24,107)
Changes in assets and liabilities:		
Accounts, grants and contracts receivable	179,152	(361,947)
Facility use receivable	140,502	(1,193)
Pledges receivable	197,631	(263,125)
Prepaid expenses and other current assets	(74,422)	(26,078)
Accounts payable	(1,675)	100,563
Accrued expenses	5,594	115,850
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>(140,856)</b>	<b>93,219</b>
<b>Cash Flows From Investing Activities:</b>		
Change in restricted cash	(16,259)	83,704
Increase in board designated operating reserve	(116,403)	(132)
Payments to acquire and construct property and equipment	(490,993)	(1,745,285)
<b>Net Cash Used in Investing Activities</b>	<b>(623,655)</b>	<b>(1,661,713)</b>
<b>Cash Flows From Financing Activities:</b>		
Principal payments on capital lease obligations	(21,030)	(16,524)
Proceeds from long-term debt		1,000,000
Principal payments on long-term debt		(500,000)
Cash received from contributions restricted for long-term purposes	73,000	1,191,511
<b>Net Cash Provided by Financing Activities</b>	<b>51,970</b>	<b>1,674,987</b>
<b>Change in Cash and Cash Equivalents</b>	<b>(712,541)</b>	<b>106,493</b>
Cash and cash equivalents, beginning of year	886,053	779,560
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 173,512</b>	<b>\$ 886,053</b>
<b>Supplementary Disclosures of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 18,425	\$ 21,585

See accompanying notes.



## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2017

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#### 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 assisting homeless, runaway, and at-risk youth to create healthy and productive lives. YouthCare accomplishes this goal by providing both residential and nonresidential services to youth ages 11 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 11 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, 2017 and 2016, 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 non-endowment 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. Gains and losses on endowment investments are reported as increases or decreases in temporarily restricted net assets unless their use is permanently 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 that 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 insurance limits.

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2017

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#### 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 not as 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 investments purchased with an original maturity of three months or less to be cash equivalents, except for those held in the investment portfolio.

**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 statement of financial position. Endowment investment income or loss (including realized and unrealized gains and losses on investments) is included in the change in temporarily restricted net assets.

**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 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:

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

**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.

**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 56% of public support revenues during both 2017 and 2016. The balance in accounts, grants, and contracts receivable from these sources totaled \$1,163,566 and \$1,336,579, at December 31, 2017 and 2016, respectively.

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

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2017

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#### Note 1 - Continued

During the year ended December 31, 2017, approximately 39% of contributions were from two organizations. During the year ended December 31, 2016, approximately 20% of contributions were from one organization.

**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.

YouthCare's in-kind donation revenue consisted of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Donated goods	\$ 49,236	\$ 40,916
Donated services		4,094
Facilities	1,116,525	88,793
Contributed property	<u>1,233,385</u>	
	<u><b>\$ 2,399,146</b></u>	<u><b>\$ 133,803</b></u>

During the year ended December 31, 2017, YouthCare acquired two buildings from the City of Seattle in the Sand Point neighborhood of Seattle. YouthCare recorded the fair value of the buildings at the time of receipt of \$1,233,385, as contribution revenue. YouthCare also assumed the balance of two long-term loans totaling \$1,088,030. These loans are included in the forgivable loan listing in Note 5. YouthCare also received a below market lease for the land on which the buildings are situated that was recorded as contribution revenue and a pledge receivable for the right to use the land, see Note 9.

**Nonoperating Activities** - YouthCare considers contributions and grants restricted for the acquisition of long-term assets and the related releases to be nonoperating activities. YouthCare also considers gains and losses on disposal of fixed assets, and investment return other than the board approved payout from accumulated earnings on endowment funds that are used to fund current operations, to be nonoperating activities.

**Advertising** - Advertising costs are expensed as they are incurred. Total advertising expense for the years ended December 31, 2017 and 2016 was \$46,497 and \$37,654, 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.

**Comparative Amounts for 2016** - 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, 2016, from which the summarized information was derived.

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2017

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#### Note 1 - Continued

**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 impact on previously reported changes in net assets or net assets.

**Subsequent Events** - YouthCare has evaluated subsequent events through July 10, 2018, 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.

Pledges to be received are as follows at December 31, 2017:

Less than one year	\$ 197,785
One to five years	<u>5,000</u>
<b>Total Pledges Receivable</b>	<b><u>\$ 202,785</u></b>

Management has determined that the allowance for doubtful accounts and discount to net present value was not material, and as such, no such amounts were recorded at December 31, 2017 and 2016.

Conditional pledges at December 31, 2017 totaled \$150,000 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.

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2017

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#### Note 3 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Nondepreciable-		
Land	\$ 3,656,624	\$ 3,656,624
Work in process	412,411	76,666
Depreciable-		
Buildings and building improvements	10,125,142	8,810,274
Furniture and equipment	621,978	613,857
Vehicles	<u>250,883</u>	<u>185,242</u>
	15,067,038	13,342,663
Less accumulated depreciation	<u>(4,296,657)</u>	<u>(3,993,217)</u>
<b>Total Property and Equipment, Net</b>	<b><u>\$ 10,770,381</u></b>	<b><u>\$ 9,349,446</u></b>

At December 31, 2017 and 2016, copiers under capital lease agreements are included in furniture and equipment with a cost of \$109,656. Amortization expense for each of the years ended December 31, 2017 and 2016 was \$20,887. Accumulated amortization on these leases was \$71,364 and \$50,477 as of December 31, 2017 and 2016, respectively.

At December 31, 2017, work in process included renovation at the two Sand Point buildings. Construction commitments related to this project totaled approximately \$540,000 at December 31, 2017.

#### Note 4 - Endowment Investments and Fair Value Measurements

Investments held at December 31 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 9,848	\$ 5,729
Marketable equity securities	363,355	300,847
Marketable debt securities	191,957	188,046
Other	<u>32,835</u>	<u>29,720</u>
<b>Total Investments</b>	<b><u>\$ 597,995</u></b>	<b><u>\$ 524,342</u></b>

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2017

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#### Note 4 - Continued

**Valuation Techniques** - U.S. GAAP provides a consistent model for determining fair value measurements for financial assets and liabilities. U.S. GAAP identifies three levels of inputs that are used for measuring fair value. Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets for identical assets and liabilities. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets and liabilities in active or inactive markets. Financial assets and liabilities valued using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Following is a description of the valuation methodology used for assets and liabilities measured at fair value. There have been no changes to the methodologies used at December 31, 2017 and 2016.

Cash and Cash Equivalents - Amounts are primarily held in money market funds which are valued at cost plus accrued interest, which approximates fair value.

Marketable Equity and Debt Securities - Valued at quoted market prices in active markets for identical assets.

All investments held at December 31, 2017 and 2016 were valued using Level 1 inputs.

Return on investments and cash balances for the years ended December 31 was as follows:

	2017	2016
Interest and dividends	\$ 16,242	\$ 7,901
Realized and unrealized gains	60,634	18,471
Investment fees	(3,023)	(1,405)
<b>Total Investment Return</b>	<b>\$ 73,853</b>	<b>\$ 24,967</b>

Operating investment return is based on the board approved payout from accumulated earnings on endowment funds that are used to fund current operations of YouthCare. All other investment return is considered nonoperating revenue.

#### Note 5 - Forgivable Loans

YouthCare has received forgivable loans amounting to \$5,831,298 and \$4,437,044 at December 31, 2017 and 2016, 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 in the year received. 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.

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2017

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#### Note 5 - Continued

Forgivable loans consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
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 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 accrued interest, secured by a promissory note and deed of trust on real property. Simple interest of 1% accrued for the first twenty years of the loan through 2016, and is being forgiven equally over a twenty-year period ending in 2036. At that time, YouthCare can renew the loan for an additional thirty-five years. 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.	1,905,369	1,920,637
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.	385,563	382,525

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2017

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#### Note 5 - Continued

	<u>2017</u>	<u>2016</u>
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.	378,359	375,175
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
Interest-free loan payable to the State of Washington, secured by a promissory note and a deed of trust. The loan is forgivable on July 31, 2067, provided YouthCare complies with a covenant that requires YouthCare to use the funds for the renovation of the Sandpoint property and operates a low-income housing program for the duration of the loan.	802,225	
Loan payable to the City of Seattle, including interest at 1%, secured by a promissory note and a deed of trust. The loan is payable on July 31, 2067, upon the sale of the Sandpoint property, or upon cessation of use of the property for low-income housing. The maturity date can be extended for twenty-five years if the property continues to be used for the specified purpose.	592,029	
	<u>\$ 5,822,252</u>	<u>\$ 4,437,044</u>



## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2017

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#### Note 5 - Continued

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

#### Note 6 - Line of Credit

At December 31, 2017, YouthCare had a \$750,000 line of credit with a bank secured by YouthCare's assets. Interest is payable monthly at prime + 1% (4.50% and 4.75% at December 31, 2017 and 2016, respectively) and all outstanding principal is due on September 1, 2018. The line is secured by YouthCare's assets. There were no borrowings on the line at December 31, 2017 and 2016.

#### Note 7 - Long-Term Debt

Effective March 25, 2016, YouthCare entered into a purchase and sale agreement to acquire real property at a cost of \$1,500,000. \$1,000,000 of the purchase price was financed by the seller. The note requires monthly interest-only payments at 3% with a balloon payment due in March 2021. The note is secured by the property. During the years ended December 31, 2017 and 2016, YouthCare paid down \$0 and \$500,000 of the principal balance, respectively.

#### Note 8 - Retirement 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 incurred under this plan were \$112,886 and \$99,992 for 2017 and 2016, respectively, and are included in personnel expense.

#### Note 9 - Commitments and Contingencies

**Leases** - YouthCare leased office space under a noncancelable operating lease. The lease was scheduled to expire in February 2017. In March 2016, YouthCare purchased the building (Note 7).

During the year ended December 31, 2017, YouthCare entered into a 55-year ground lease agreement with the City of Seattle for the Sand Point property. The agreement calls for lease payments of \$1 per year, and requires YouthCare to use the property for a residential living complex for homeless persons. Upon signing the lease agreement, YouthCare recognized contribution revenue of \$1,040,240 for the present value of the right to use the property, with a corresponding pledge receivable that will be amortized into rent expense over the term of the agreement.

**Grants** - In 1990, YouthCare received two grants from the State of Washington Department of Community Development for building improvements 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

### Notes to Financial Statements For the Year Ended December 31, 2017

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#### Note 9 - Continued

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 was completely clear of this commitment at December 31, 2016.

**Litigation** - YouthCare is involved from time to time in claims, proceedings and litigation arising in the ordinary course of business. YouthCare does not believe that any such pending claims, proceedings or litigation either alone or in the aggregate, will have a material effect on YouthCare's financial position or results of operations.

#### Note 10 - Capital Leases

YouthCare leases five copiers under a capital lease agreement. The interest rate on the capitalized lease is 24.36% and was 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,

2018	\$	37,200
2019		<u>31,000</u>
		68,200
Less amount representing interest		<u>(13,632)</u>
	\$	<u><u>54,568</u></u>

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2017

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#### Note 11 - Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Forgivable notes payable (time restricted) (Note 5)	\$ 3,298,405	\$ 2,016,147
Facility/land use receivable	1,178,941	44,993
Facilities renovation	211,511	191,511
Prevention programs	114,198	227,737
Luncheon	98,850	54,500
Unspent endowment earnings	97,995	24,324
Education and employment programs	89,743	479,857
Capital purchases	53,000	
Barista/YouthTech training program	35,000	62,595
Food	23,720	38,357
Other program activities	215,938	183,123
	<u>\$ 5,417,301</u>	<u>\$ 3,323,144</u>

For the year ended December 31, 2017, net assets of \$1,499,096 were released from donor restrictions by incurring expenses satisfying the restricted purposes.

#### Note 12 - Endowments

YouthCare's endowment consists of one donor-restricted endowment fund established for general support of operations. 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 fund that is 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.

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2017

#### Note 12 - Continued

Endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, December 31, 2017	\$ -	\$ 97,995	\$ 500,000	\$ 597,995
Endowment Net Assets, December 31, 2016	\$ -	\$ 24,342	\$ 500,000	\$ 524,342

Changes to endowment net assets for the years ended December 31, 2017 and 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, January 1, 2016	\$ -	\$ 235	\$ 500,000	\$ 500,235
Investment return	<u>                    </u>	<u>24,107</u>	<u>                    </u>	<u>24,107</u>
<b>Endowment Net Assets, December 31, 2016</b>		<b>24,342</b>	<b>500,000</b>	<b>524,342</b>
Investment return	<u>                    </u>	<u>73,653</u>	<u>                    </u>	<u>73,653</u>
<b>Endowment Net Assets, December 31, 2017</b>	<b><u>\$ -</u></b>	<b><u>\$ 97,995</u></b>	<b><u>\$ 500,000</u></b>	<b><u>\$ 597,995</u></b>

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 deficiencies at December 31, 2017 and 2016.

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.