



Financial Statements

For the Year Ended December 31, 2018

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## 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, 2018, 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Effect of Adopting New Accounting Standard**

As discussed in Note 1, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited the Organization's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 10, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2019 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  
June 18, 2019

**YOUTHCARE**

**Statement of Financial Position**

**December 31, 2018**

**(With Comparative Totals for 2017)**

	<u>2018</u>	<u>2017</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 605,134	\$ 173,512
Accounts, grants and contracts receivable	1,376,522	1,165,760
Facility/land use receivable, current portion	18,913	237,509
Pledges receivable, current portion	759,540	197,785
Prepaid expenses and other current assets	<u>92,689</u>	<u>227,099</u>
<b>Total Current Assets</b>	<b>2,852,798</b>	<b>2,001,665</b>
Pledges receivable, long-term	125,000	5,000
Facility/land use receivable, long-term	994,533	1,013,447
Board designated operating reserve - cash	3,303	423,304
Board designated operating reserve - investments	531,252	
Restricted cash	237,365	146,613
Endowment investments	6,547,168	597,995
Property and equipment, net	<u>11,468,113</u>	<u>10,770,381</u>
<b>Total Assets</b>	<b><u>\$ 22,759,532</u></b>	<b><u>\$ 14,958,405</u></b>
<b>Current Liabilities:</b>		
Accounts payable	\$ 450,175	\$ 147,702
Accrued expenses	697,389	665,344
Current portion of capital lease obligations	<u>76,539</u>	<u>26,766</u>
<b>Total Current Liabilities</b>	<b>1,224,103</b>	<b>839,812</b>
Long-term portion of capital lease obligations	34,945	27,802
Long-term debt	<u>380,000</u>	<u>500,000</u>
<b>Total Liabilities</b>	<b>1,639,048</b>	<b>1,367,614</b>
<b>Net Assets:</b>		
Without donor restrictions	8,197,902	7,673,490
With donor restrictions	<u>12,922,582</u>	<u>5,917,301</u>
<b>Total Net Assets</b>	<b><u>21,120,484</u></b>	<b><u>13,590,791</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 22,759,532</u></b>	<b><u>\$ 14,958,405</u></b>

See accompanying notes.

## YOUTHCARE

### Statement of Activities For the Year Ended December 31, 2018 (With Comparative Totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
<b>Operating Support and Revenue:</b>				
Grants and contracts	\$ 10,550,465	\$ -	\$ 10,550,465	\$ 8,792,377
Contributions	2,387,468	1,431,989	3,819,457	3,104,153
Special events, net of direct expenses of \$80,687 (2017 - \$99,322)	637,526		637,526	656,079
In-kind revenue	111,571		111,571	125,521
United Way	262,806		262,806	377,763
Net assets released from restriction	<u>1,074,116</u>	<u>(1,074,116)</u>		
Total public support	15,023,952	357,873	15,381,825	13,055,893
Rental income	38,334		38,334	24,994
Other revenue	<u>20,204</u>		<u>20,204</u>	<u>4,940</u>
<b>Total Operating Support and Revenue</b>	<b>15,082,490</b>	<b>357,873</b>	<b>15,440,363</b>	<b>13,085,827</b>
<b>Operating Expenses:</b>				
Program services	11,363,430		11,363,430	10,453,442
Supporting services	<u>3,499,207</u>		<u>3,499,207</u>	<u>3,523,666</u>
<b>Total Operating Expenses</b>	<b>14,862,637</b>		<b>14,862,637</b>	<b>13,977,108</b>
<b>Change in Net Assets From Operating Activities</b>	<b>219,853</b>	<b>357,873</b>	<b>577,726</b>	<b>(891,281)</b>
<b>Nonoperating Activities</b>				
Contributions for long-term purposes		7,026,530	7,026,530	1,419,465
Contributed property				1,233,385
Investment return	(23,736)	(50,827)	(74,563)	73,853
Net assets released from restriction	<u>328,295</u>	<u>(328,295)</u>		
<b>Change in Net Assets From Nonoperating Activities</b>	<b>304,559</b>	<b>6,647,408</b>	<b>6,951,967</b>	<b>2,726,703</b>
<b>Total Change in Net Assets</b>	<b>524,412</b>	<b>7,005,281</b>	<b>7,529,693</b>	<b>1,835,422</b>
<b>Net Assets:</b>				
Beginning of year	<u>7,673,490</u>	<u>5,917,301</u>	<u>13,590,791</u>	<u>11,755,369</u>
<b>End of Year</b>	<b><u>\$ 8,197,902</u></b>	<b><u>\$ 12,922,582</u></b>	<b><u>\$ 21,120,484</u></b>	<b><u>\$ 13,590,791</u></b>

See accompanying notes.

## YOUTHCARE

### Statement of Functional Expenses For the Year Ended December 31, 2018 (With Comparative Totals for 2017)

	Total Program Services	Management and General	Fundraising	Total Supporting Services	2018	2017
Personnel	\$ 8,645,523	\$ 1,948,173	\$ 665,184	\$ 2,613,357	\$ 11,258,880	\$ 10,451,631
Contract services	397,362	300,884	54,182	355,066	752,428	978,096
Occupancy	684,534	59,309	24,281	83,590	768,124	604,790
Client costs	560,155	7,156	2,346	9,502	569,657	600,307
Depreciation and amortization	331,342	50,138	21,287	71,425	402,767	303,443
Supplies	149,290	24,370	89,800	114,170	263,460	263,159
Telephone	129,689	32,541	4,124	36,665	166,354	159,053
Travel	91,757	37,673	4,318	41,991	133,748	131,415
Meetings and training	30,982	46,793	4,079	50,872	81,854	124,624
Client food	211,860	66	277	343	212,203	139,397
Vehicles	66,837	6,508	1,615	8,123	74,960	70,120
Printing and publicity	5,227	17,764	56,001	73,765	78,992	62,749
Dues, fees and licenses	8,593	24,014	6,378	30,392	38,985	49,585
Insurance	35,752	5,316	2,132	7,448	43,200	40,717
Interest	1,311	24,125		24,125	25,436	31,781
Miscellaneous	17	11,279	16,821	28,100	28,117	38,295
Postage and delivery	3,754	2,810	25,039	27,849	31,603	14,206
Equipment rent and maintenance	9,445	1,501	1,610	3,111	12,556	13,062
<b>Total Expenses</b>	<b>11,363,430</b>	<b>2,600,420</b>	<b>979,474</b>	<b>3,579,894</b>	<b>14,943,324</b>	<b>14,076,430</b>
Less special event expenses included with support and revenue on the statement of activities			(80,687)	(80,687)	(80,687)	(99,322)
<b>Total Expenses Included in Expenses on the Statement of Activities</b>	<b>\$ 11,363,430</b>	<b>\$ 2,600,420</b>	<b>\$ 898,787</b>	<b>\$ 3,499,207</b>	<b>\$ 14,862,637</b>	<b>\$ 13,977,108</b>

See accompanying notes.

## YOUTHCARE

### Statement of Cash Flows For the Year Ended December 31, 2018 (With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 7,529,693	\$ 1,835,422
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities-		
Depreciation and amortization	402,767	303,443
Contributions restricted for long-term purposes	(7,026,530)	(1,419,465)
Contributions of property		(1,233,385)
Loss or (return) on endowment investments	74,563	(73,653)
Changes in assets and liabilities:		
Accounts, grants and contracts receivable	(210,762)	179,152
Facility/land use receivable	237,510	140,502
Pledges receivable	(681,755)	197,631
Prepaid expenses and other current assets	134,410	(74,422)
Accounts payable	302,473	(1,675)
Accrued expenses	32,045	5,594
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>794,414</b>	<b>(140,856)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchases of investments	(6,554,988)	
Change in restricted cash	(90,752)	(16,259)
Decrease (Increase) in board designated operating reserve - cash	420,001	(116,403)
Payments to acquire and construct property and equipment	(1,100,499)	(490,993)
<b>Net Cash Used in Investing Activities</b>	<b>(7,326,238)</b>	<b>(623,655)</b>
<b>Cash Flows From Financing Activities:</b>		
Principal payments on capital lease obligations	56,916	(21,030)
Principal payments on long-term debt	(120,000)	
Cash received from contributions restricted for long-term purposes	7,026,530	73,000
<b>Net Cash Provided by Financing Activities</b>	<b>6,963,446</b>	<b>51,970</b>
<b>Change in Cash and Cash Equivalents</b>	<b>431,622</b>	<b>(712,541)</b>
Cash and cash equivalents, beginning of year	173,512	886,053
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 605,134</b>	<b>\$ 173,512</b>
<b>Supplementary Disclosures of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 12,643	\$ 18,425

See accompanying notes.



## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2018

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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:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization or the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated funds be maintained in perpetuity. Earnings on donor restricted net assets are to be used for the purpose specified by the donor.

**Revenue and Support With and Without Donor Restrictions** - Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor-stipulation or by law. YouthCare's policy is to record donor-restricted contributions received and expended in the same accounting period in net assets without donor restrictions.

YouthCare reports gifts of land, building, and equipment as without donor restriction unless explicitly stated by the donor on 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 donor 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, 2018

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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 net assets with donor restrictions.

**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** - 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 51% and 72% of operating and nonoperating public support revenues during 2018 and 2017, respectively. The balance in accounts, grants, and contracts receivable from these sources totaled \$1,376,959 and \$1,163,566, at December 31, 2018 and 2017, 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, 2018

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#### Note 1 - Continued

During the year ended December 31, 2018, approximately 55% of contributions were from one bequest, which relates to the endowment activity for the year. During the year ended December 31, 2017, approximately 39% of contributions were from two organizations.

**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>2018</u>	<u>2017</u>
Donated goods	\$ 7,383	\$ 49,236
Facilities	104,188	1,116,525
Contributed property		<u>1,233,385</u>
	<u>\$ 111,571</u>	<u>\$ 2,399,146</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 the investment returns from accumulated earnings on endowment funds that can be 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, 2018 and 2017 was \$52,739 and \$46,497, 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 and statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based on a consistent basis. The bases used to allocate are established in accordance with reasonable criteria and supported by current data. Personnel, contract, client food and supplies costs are based on direct expenses. Occupancy, telephone, printing, postage, equipment rent and maintenance and other miscellaneous costs are based on allocated full time equivalents.

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### Note 1 - Continued

**Comparative Amounts for 2017** - 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, 2017, from which the summarized information was derived.

**New Accounting Standard** - During the year ended December 31, 2018, YouthCare adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14)*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three, and recognition of capital contributions for construction as net assets without donor restrictions when the associated long-lived asset is placed in service. A footnote on liquidity and availability of financial assets has also been added at Note 13.

**Subsequent Events** - YouthCare has evaluated subsequent events through June 18, 2019, 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, 2018:

Less than one year	\$ 759,540
One to five years	<u>125,000</u>
<b>Total Pledges Receivable</b>	<b><u>\$ 884,540</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, 2018 and 2017. There were no conditional pledges as of December 31, 2018.

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### Note 3 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Nondepreciable-		
Land	\$ 3,656,624	\$ 3,656,624
Work in process	15,415	412,411
Depreciable-		
Buildings and building improvements	11,283,927	10,125,142
Furniture and equipment	495,455	621,978
Vehicles	<u>259,472</u>	<u>250,883</u>
	15,710,893	15,067,038
Less accumulated depreciation	<u>(4,242,780)</u>	<u>(4,296,657)</u>
<b>Total Property and Equipment, Net</b>	<b><u>\$ 11,468,113</u></b>	<b><u>\$ 10,770,381</u></b>

At December 31, 2018 and 2017, copiers under capital lease agreements are included in furniture and equipment with a cost of \$194,057 and \$109,656, respectively. Amortization expense for the years ended December 31, 2018 and 2017 was \$21,607 and \$20,887, respectively. Accumulated amortization on these leases was \$92,970 and \$71,364 as of December 31, 2018 and 2017, respectively.

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

Investments held at December 31 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 6,022,019	\$ 9,848
Mutual funds:		
Marketable equity securities	494,292	396,190
Marketable debt securities	<u>562,109</u>	<u>191,957</u>
<b>Total Investments</b>	<b><u>\$ 7,078,420</u></b>	<b><u>\$ 597,995</u></b>

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2018

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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, 2018 and 2017.

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

Mutual Funds - Valued at quoted market prices in active markets for identical assets.

All investments held at December 31, 2018 and 2017 were valued using Level 1 inputs.

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

	2018	2017
Interest and dividends	\$ 32,174	\$ 16,242
Realized and unrealized gains (losses)	(101,519)	60,634
Investment fees	(5,218)	(3,023)
<b>Total Investment Return</b>	<b><u>\$ (74,563)</u></b>	<b><u>\$ 73,853</u></b>

Youthcare recognizes all investment return as nonoperating revenue.

#### Note 5 - Forgivable and Non-Recourse Deferred Payment Loans

YouthCare has received forgivable and non-recourse deferred payment loans amounting to \$6,398,306 and \$5,822,252 at December 31, 2018 and 2017, 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 use the properties for the stipulated purposes, YouthCare has entitlement to use the underlying assets for the expected useful lives. Since the loans are either forgivable or are non-recourse loans with no payments due prior to the expiration of the useful life of the property, the proceeds from these loans have been recognized as revenues with donor restrictions in the year received. The restrictions are being released over the terms of the 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 or deferred payment depend upon adherence to the terms.

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### Note 5 - Continued

Forgivable loans consist of the following at December 31:

	<u>2018</u>	<u>2017</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 was forgivable on December 31, 2018, provided that YouthCare complied with a covenant which required YouthCare to use the property to serve homeless youth.		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.	1,890,852	1,905,369
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.	388,601	385,563
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

**YOUTHCARE**

**Notes to Financial Statements  
For the Year Ended December 31, 2018**

**Note 5 - Continued**

	<u>2018</u>	<u>2017</u>
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.	381,543	378,359
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.	1,031,415	802,225
Non-recourse 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. Of the total loan amount, \$666,775 is federal CDBG funding.	<u>1,284,943</u>	<u>592,029</u>
	<u><b>\$ 6,398,306</b></u>	<u><b>\$ 5,822,252</b></u>

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.



## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### Note 6 - Line of Credit

At December 31, 2018, YouthCare had a \$1,500,000 line of credit with a bank secured by YouthCare's assets. Interest is payable monthly at prime + 1% (6.50% and 4.50% at December 31, 2018 and 2017, respectively) and all outstanding principal is due on November 1, 2019. The line is secured by YouthCare's assets. There were no borrowings on the line at December 31, 2018 and 2017.

#### 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, 2018 and 2017, YouthCare paid down \$120,000 and \$0 of the principal balance, respectively. The outstanding principal balance on the note at December 31, 2018 and 2017 was \$380,000 and \$500,000, 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 \$120,977 and \$112,886 for 2018 and 2017, respectively, and are included in personnel expense.

#### Note 9 - Commitments and Contingencies

**Leases** - 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.

**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.

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### Note 10 - Capital Leases and Operating Leases

YouthCare leases five copiers under a capital lease agreement entered into in 2014, with an imputed interest rate of 24.36%. In 2018, YouthCare entered into two new capital lease agreements to lease additional copiers, with interest rates of 32.09% and 22.66%. Interest rates are 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 leases are as follows:

For the Year Ending December 31,

2019	\$	61,444
2020		32,990
2021		32,990
2022		32,990
2023		30,960
Thereafter		<u>10,185</u>
		201,559
Less amount representing interest		<u>(90,075)</u>
	\$	<u><b>111,484</b></u>

YouthCare leases additional program space under noncancelable operating leases expiring through 2020.

Required minimum payments for noncancelable operating leases are as follows:

For the Year Ending December 31,

2019	\$	133,200
2020		<u>16,000</u>
	\$	<u><b>149,200</b></u>

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### Note 11 - Net Assets With Donor Restrictions

Net assets with donor restrictions were available for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Forgivable and non-recourse deferred payments notes payable (time restricted) (Note 5)	\$ 4,074,386	\$ 3,298,405
Facility/land use receivable	1,174,195	1,178,941
Barista/YouthBuild training program	315,200	35,000
Facilities renovation	191,511	211,511
Catalyst	102,245	
Hope Center	73,557	
Prevention programs	69,461	114,198
Luncheon	30,000	98,850
Capital purchases		53,000
Education and employment programs	46,406	89,743
Food	36,213	23,720
Other program activities	262,240	215,938
Endowment funds:		
Corpus	6,500,000	500,000
Accumulated earnings	47,168	97,995
	<u><u>\$ 12,922,582</u></u>	<u><u>\$ 5,917,301</u></u>

For the year ended December 31, 2018, net assets of \$1,402,411 were released from donor restrictions by incurring expenses satisfying the restricted purposes. Earnings on endowment funds can be used for general purposes.

#### Note 12 - Endowments

YouthCare's endowment consists of two donor-restricted endowment funds 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 net assets with donor restrictions - corpus (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment.

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2018

#### Note 12 - Continued

The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions - accumulated earnings 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 as of December 31:

	<u>2018</u>	<u>2017</u>
Endowment funds with donor restrictions:		
Corpus	\$ 6,500,000	\$ 500,000
Accumulated earnings	<u>47,168</u>	<u>97,995</u>
<b>Endowment Net Assets</b>	<b><u>\$ 6,547,168</u></b>	<b><u>\$ 597,995</u></b>

Changes to endowment net assets for the years ended December 31, 2018 and 2017, are as follows:

	<u>Total</u>
Endowment Net Assets, January 1, 2017	\$ 524,342
Investment return	<u>73,653</u>
<b>Endowment Net Assets, December 31, 2017</b>	<b>597,995</b>
Contribution	\$ 6,000,000
Investment return (loss)	<u>(50,827)</u>
<b>Endowment Net Assets, December 31, 2018</b>	<b><u>\$ 6,547,168</u></b>

## YOUTHCARE

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### Note 12 - Continued

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, 2018 and 2017.

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.

#### Note 13 - Liquidity and Availability of Financial Assets

As part of YouthCare's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, YouthCare has an operating reserve that had a balance of \$534,555 and \$423,304 at December 30, 2018 and 2017, respectively. This is a governing board-designated reserve with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. The operating reserve funds are held in lower-risk cash and cash equivalents and mutual funds. In the event of an unanticipated liquidity need, YouthCare also could draw upon \$1,500,000 of available line of credit (as further discussed in Note 6).

The following reflects YouthCare's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations as of December 31:

	<u>2018</u>	<u>2017</u>
Financial assets:		
Cash and cash equivalents	\$ 605,134	\$ 173,512
Accounts, grants and contracts receivable	1,376,522	1,165,760
Pledges receivable current portion	759,540	197,785
Board designated operating reserve - cash	3,303	423,304
Board designated operating reserve - investments	531,252	
Less current financial assets restricted for facilities renovation	<u>(191,511)</u>	<u>(264,511)</u>
<b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	<b>3,084,240</b>	<b>1,695,850</b>
Liquidity resources:		
Available line of credit	<u>1,500,000</u>	<u>750,000</u>
<b>Total financial assets and liquidity resources available within one year</b>	<b><u>\$ 4,584,240</u></b>	<b><u>\$ 2,445,850</u></b>