



Financial Statements

For the Year Ended December 31, 2020

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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, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 28, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 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 November 30, 2021 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 the effectiveness of the Organization's 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
November 30, 2021

YOUTHCARE

Statement of Financial Position

December 31, 2020

(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and cash equivalents	\$ 1,916,633	\$ 140,134
Accounts, grants and contracts receivable	1,935,180	1,364,659
Facility/land use receivable, current portion	18,913	18,913
Pledges receivable, current portion	67,750	421,808
Prepaid expenses and other current assets	<u>246,926</u>	<u>194,294</u>
Total Current Assets	4,185,402	2,139,808
Pledges receivable, long-term		33,000
Pledges receivable, restricted for capital purchases	123,975	500,000
Facility/land use receivable, long-term	956,707	975,620
Board designated operating reserve - investments	820,407	754,639
Cash restricted for capital purchases and facilities renovation	772,572	701,511
Restricted cash	308,941	258,989
Endowment investments	7,841,630	7,237,333
Property and equipment, net	<u>11,190,551</u>	<u>11,198,039</u>
Total Assets	<u>\$ 26,200,185</u>	<u>\$ 23,798,939</u>
Current Liabilities:		
Accounts payable	\$ 453,077	\$ 317,329
Accrued expenses	946,491	722,396
Current portion of capital lease obligations	<u>14,006</u>	<u>66,217</u>
Total Current Liabilities	1,413,574	1,105,942
Long-term portion of capital lease obligations	52,212	10,321
Long-term debt	<u>380,000</u>	<u>380,000</u>
Total Liabilities	1,845,786	1,496,263
Net Assets:		
Without donor restrictions	9,496,836	7,703,571
With donor restrictions	<u>14,857,563</u>	<u>14,599,105</u>
Total Net Assets	<u>24,354,399</u>	<u>22,302,676</u>
Total Liabilities and Net Assets	<u>\$ 26,200,185</u>	<u>\$ 23,798,939</u>

See accompanying notes.

YOUTHCARE

Statement of Activities For the Year Ended December 31, 2020 (With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Operating Support and Revenue:				
Grants and contracts	\$ 11,593,330	\$ -	\$ 11,593,330	\$ 10,893,732
Contributions	3,522,061	486,458	4,008,519	3,671,517
Forgiveness of Paycheck Protection Program loan	1,886,400		1,886,400	
Special events, net of direct expenses of \$58,110 (2019 - \$89,310)	490,265		490,265	736,648
In-kind revenue	74,953		74,953	68,771
United Way	168,417		168,417	322,500
Net assets released from restriction	455,108	(455,108)		
Total public support	18,190,534	31,350	18,221,884	15,693,168
Rental income	16,745		16,745	35,432
Other revenue	76,491		76,491	72,737
Total Operating Support and Revenue	18,283,770	31,350	18,315,120	15,801,337
Operating Expenses:				
Program services	12,230,463		12,230,463	12,158,312
Supporting services	4,913,139		4,913,139	4,209,573
Total Operating Expenses	17,143,602		17,143,602	16,367,885
Change in Net Assets From Operating Activities	1,140,168	31,350	1,171,518	(566,548)
Nonoperating Activities				
Contributions for long-term purposes		208,000	208,000	1,010,000
Loss on disposal of property and equipment				(25,508)
Investment return	67,889	604,316	672,205	764,248
Net assets released from restriction	585,208	(585,208)		
Change in Net Assets From Nonoperating Activities	653,097	227,108	880,205	1,748,740
Total Change in Net Assets	1,793,265	258,458	2,051,723	1,182,192
Net Assets:				
Beginning of year	7,703,571	14,599,105	22,302,676	21,120,484
End of Year	\$ 9,496,836	\$ 14,857,563	\$ 24,354,399	\$ 22,302,676

See accompanying notes.

YOUTHCARE

Statement of Functional Expenses For the Year Ended December 31, 2020 (With Comparative Totals for 2019)

	Total Program Services	Management and General	Fundraising	Total Supporting Services	2020 Total	2019 Total
Personnel	\$ 8,718,921	\$ 2,457,815	\$ 976,009	\$ 3,433,824	\$ 12,152,745	\$ 12,270,653
Contract services	358,480	789,964	148,273	938,237	1,296,717	969,446
Client costs	1,129,235		1,400	1,400	1,130,635	602,172
Occupancy	893,884	111,539	24,408	135,947	1,029,831	864,055
Supplies	288,873	84,373	69,871	154,244	443,117	305,321
Depreciation and amortization	306,762	44,898	17,514	62,412	369,174	363,095
Client food	201,320	4,449	19,029	23,478	224,798	247,881
Telephone	123,462	29,450	6,868	36,318	159,780	153,686
Vehicles	59,326	8,446	3,214	11,660	70,986	65,910
Travel	43,102	12,210	3,484	15,694	58,796	176,211
Insurance	45,985	7,951	3,862	11,813	57,798	52,725
Miscellaneous	1,287	28,312	17,618	45,930	47,217	30,556
Printing and publicity	8,753	17,571	13,657	31,228	39,981	82,419
Dues, fees and licenses	17,758	13,829	4,691	18,520	36,278	81,478
Meetings and training	7,619	23,597	2,411	26,008	33,627	105,394
Interest	18,013	11,759	1,523	13,282	31,295	34,846
Postage and delivery	1,609	1,938	6,518	8,456	10,065	26,673
Equipment rent and maintenance	6,074	2,081	717	2,798	8,872	24,674
Total Expenses	12,230,463	3,650,182	1,321,067	4,971,249	17,201,712	16,457,195
Less special event expenses included with support and revenue on the statement of activities			(58,110)	(58,110)	(58,110)	(89,310)
Total Expenses Included in Expenses on the Statement of Activities	\$ 12,230,463	\$ 3,650,182	\$ 1,262,957	\$ 4,913,139	\$ 17,143,602	\$ 16,367,885

See accompanying notes.

YOUTHCARE

Statement of Cash Flows For the Year Ended December 31, 2020 (With Comparative Totals for 2019)

	2020	2019
Cash Flows From Operating Activities:		
Change in net assets	\$ 2,051,723	\$ 1,182,192
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities-		
Depreciation and amortization	369,174	363,095
Contributions restricted for long-term purposes	(208,000)	(1,010,000)
Loss on disposal of property and equipment		25,508
Unrealized and realized gains on endowment investments	(542,027)	(523,963)
Changes in assets and liabilities:		
Accounts, grants and contracts receivable	(570,521)	11,863
Facility/land use receivable	18,913	18,913
Pledges receivable	462,058	429,732
Prepaid expenses and other current assets	(52,632)	(101,605)
Accounts payable	(96,091)	(132,846)
Accrued expenses	224,095	25,007
Net Cash Provided by Operating Activities	1,656,692	287,896
Cash Flows From Investing Activities:		
Purchases of investments	(899,258)	(6,642,997)
Sales of investments	771,220	6,253,408
Payments to acquire and construct property and equipment	(129,847)	(118,529)
Net Cash Used in Investing Activities	(257,885)	(508,118)
Cash Flows From Financing Activities:		
Principal payments on capital lease obligations	(10,320)	(34,946)
Cash received from contributions restricted for long-term purposes	509,025	510,000
Net Cash Provided by Financing Activities	498,705	475,054
Change in Cash, Cash Equivalents and Restricted Cash	1,897,512	254,832
Cash, cash equivalents and restricted cash, beginning of year	1,100,634	845,802
Cash, Cash Equivalents and Restricted Cash, End of Year	\$ 2,998,146	\$ 1,100,634
The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position that sums to the total of the same such amounts shown in the statement of cash flows:		
Cash and cash equivalents	\$ 1,916,633	\$ 140,134
Cash reserved for capital purchases and facilities renovation	772,572	701,511
Restricted cash	308,941	258,989
Total Cash, Cash Equivalents and Restricted Cash Shown in the Statement of Cash Flows	\$ 2,998,146	\$ 1,100,634
Supplementary Disclosures of Cash Flow Information:		
Cash paid during the year for interest	\$ 25,578	\$ 23,446
Property and equipment purchase reflected in accounts payable	\$ 231,839	\$ -

See accompanying notes.

YOUTHCARE

Notes to Financial Statements For the Year Ended December 31, 2020

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.

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.

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Notes to Financial Statements For the Year Ended December 31, 2020

Note 1 - Continued

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 investments designated by YouthCare's board as a reserve for financial stability.

Cash Restricted for Capital Purchases and Facilities Renovations - Cash restricted for capital purchases and facilities renovations consist of cash restricted by donors for capital purchases and facility renovation projects.

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

Accounts, Grants and Contracts Receivable and Revenues - Grant and contract revenue is generally 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.

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 63% and 65% of operating and nonoperating public support revenues during 2020 and 2019, respectively. The balance in accounts, grants, and contracts receivable from these sources totaled \$1,935,180 and \$1,364,659, at December 31, 2020 and 2019, respectively.

Grant and contract revenue where entitlement to the funds is based on the incurrence of costs that are allowable per the Federal cost principles are considered conditional. For these grants and contracts, revenue is recognized when the funds are spent on allowable costs in line with the Federal cost principles. Additionally, grant and contract revenue where entitlement to the funds is based on the adequate performance of certain measurable requirements are considered conditional. For these grants and contracts, revenue is recognized when performance measures are met.

The total amount of unrecognized conditional awards pending for active projects was \$1,050,890 and \$1,083,902 at December 31, 2020 and 2019, respectively.

YOUTHCARE

Notes to Financial Statements For the Year Ended December 31, 2020

Note 1 - Continued

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

There were no significant concentrations for nongovernmental contributions revenue during the years ended December 31, 2020 and 2019.

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 revenue consisted of donated facilities of \$74,953 and \$68,771 for the years ended December 31, 2020 and 2019, respectively.

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 and the board-designated operating reserve 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, 2020 and 2019 was \$24,922 and \$54,143, 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.

Comparative Amounts for 2019 - 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, 2019 from which the summarized information was derived.

Reclassifications - Certain reclassifications were made to the December 31, 2019 financial statements to conform to current year presentation. The reclassifications had no impact on net income or net asset balances.

Subsequent Events - YouthCare has evaluated subsequent events through November 30, 2021, the date on which the financial statements were available to be issued.

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Notes to Financial Statements For the Year Ended December 31, 2020

Note 2 - Pledges and Nonexchange Receivables

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 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 receivable of \$191,725 are due within one year as of December 31, 2020. Additionally, nonexchange accounts, grants and contracts receivable of \$1,935,180 are due within one year as of December 31, 2020.

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, 2020 and 2019.

Note 3 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Nondepreciable-		
Land	\$ 3,656,624	\$ 3,656,624
Work in process	361,721	
Depreciable-		
Buildings and building improvements	11,307,731	11,307,731
Furniture and equipment	482,666	482,666
Vehicles	<u>259,472</u>	<u>259,472</u>
	16,068,214	15,706,493
Less accumulated depreciation	<u>(4,877,663)</u>	<u>(4,508,454)</u>
Total Property and Equipment, Net	<u>\$ 11,190,551</u>	<u>\$ 11,198,039</u>

At December 31, 2020 and 2019, copiers under capital lease agreements are included in furniture and equipment with a cost of \$84,401. Amortization expense for the years ended December 31, 2020 and 2019 was \$10,268 and \$11,587, respectively. Accumulated amortization on these leases was \$17,438 and \$7,136 as of December 31, 2020 and 2019, respectively.

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Notes to Financial Statements For the Year Ended December 31, 2020

Note 4 - Investments and Fair Value Measurements

Investments held at December 31 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Board designated operating reserve - investments	\$ 820,407	\$ 754,639
Endowment investments	<u>7,841,630</u>	<u>7,237,333</u>
Total Investments	<u>\$ 8,662,037</u>	<u>\$ 7,991,972</u>

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 49,740	\$ 90,839
Mutual funds-		
Marketable equity securities	5,234,303	4,632,620
Marketable debt securities	<u>3,377,994</u>	<u>3,268,513</u>
Total Investments	<u>\$ 8,662,037</u>	<u>\$ 7,991,972</u>

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, 2020 and 2019.

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, 2020 and 2019 were valued using Level 1 inputs.

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

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 171,468	\$ 240,285
Realized and unrealized gains	542,027	564,795
Investment fees	<u>(41,290)</u>	<u>(40,832)</u>
Total Investment Return	<u>\$ 672,205</u>	<u>\$ 764,248</u>

YouthCare recognizes all investment return as nonoperating revenue.

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Notes to Financial Statements For the Year Ended December 31, 2020

Note 5 - Forgivable and Nonrecourse Deferred Payment Loans

YouthCare has received forgivable and nonrecourse deferred payment loans amounting to \$6,402,425 and \$6,403,396 at December 31, 2020 and 2019, respectively. Under terms of the agreements, the proceeds must be used for the specific purpose intended in the loan documents, generally to renovate, construct or acquire buildings to be used in its operations. As management believes the conditions related to entitlement to these funds has been met, YouthCare has entitlement to these funds and to use the underlying assets for the expected useful lives. Since the loans are either forgivable or are nonrecourse 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 YouthCare chooses to sell the property and it is removed from acceptable use before the restriction period ends, thus representing a contingent liability. 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.

Forgivable loans consist of the following at December 31:

	<u>2020</u>	<u>2019</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
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.	1,863,971	1,877,060
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. Increase in balance is due to imputed interest.	394,639	391,601

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**Notes to Financial Statements
For the Year Ended December 31, 2020**

Note 5 - Continued

	<u>2020</u>	<u>2019</u>
<p>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 ended 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.</p>	100,000	100,000
<p>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. Increase in the balance is due to imputed interest.</p>	387,911	384,727
<p>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.</p>	250,000	250,000
<p>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.</p>	1,031,415	1,031,415
<p>Nonrecourse 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. Increase in balance is due to imputed interest.</p>	1,303,537	1,297,641
	<u>\$ 6,402,425</u>	<u>\$ 6,403,396</u>

YOUTHCARE

Notes to Financial Statements For the Year Ended December 31, 2020

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, 2020, YouthCare had a \$1,500,000 line of credit with a bank secured by YouthCare's assets. Interest is payable monthly at prime + 1% (4.25% and 5.75% at December 31, 2020 and 2019, respectively) and all outstanding principal is due on February 1, 2022. The line is secured by YouthCare's assets. There were no borrowings on the line at December 31, 2020 and 2019.

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, which was subsequently extended to September 2021. The note is secured by the property. The outstanding principal balance on the note at December 31, 2020 and 2019 was \$380,000. Loan was subsequently paid off in September 2021.

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 \$117,105 and \$119,899 for 2020 and 2019, respectively, and are included in personnel expense.

Note 9 - Commitments and Contingencies

Leases - In 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. The pledge receivable balance was \$975,620 and \$994,533 at December 31, 2020 and 2019, respectively.

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, 2020

Note 9 - Continued

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 and Operating Leases

In 2018, YouthCare entered into two new capital lease agreements to lease copiers, with interest rates of 32.09% and 22.66%, which expire in 2024. 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,

2021	\$	32,989
2022		32,899
2023		30,960
2024		<u>10,184</u>
		107,032
Less amount representing interest		<u>(40,814)</u>
	\$	<u><u>66,218</u></u>

Additionally, in 2019 YouthCare entered into a new operating lease agreement which expires in 2021.

Required minimum payments for noncancelable operating leases are as follows:

For the Year Ending December 31,

2021	\$	<u>19,200</u>
	\$	<u><u>19,200</u></u>

Note 11 - Paycheck Protection Program Loan

In response to the COVID-19 pandemic, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. On April 18, 2020, YouthCare obtained a loan under the PPP with a principal balance of \$1,886,400 and an annual interest rate of 1%. Principal and interest were payable in monthly installments beginning July 30, 2021 through maturity on April 18, 2022.

YOUTHCARE

Notes to Financial Statements For the Year Ended December 31, 2020

Note 11 - Continued

All or a portion of the PPP loan may be forgiven if certain terms and conditions of the program are met. YouthCare's accounting policy for recognition of revenue from forgiveness of the PPP loan is to recognize the revenue when the loan is forgiven by the lender. For the year ended December 31, 2020, YouthCare applied for, and was notified, that the full amount of the PPP loan was forgiven by its lender and the Small Business Administration (SBA). Loan forgiveness is reflected in operating support and revenue in the accompanying statement of activities.

Note 12 - Net Assets With Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Forgivable and non-recourse deferred payments notes payable (time restricted) (Note 5)	\$ 3,843,811	\$ 3,969,073
Facility/land use	1,110,686	1,132,555
Barista/YouthBuild training program	234,612	206,615
Facilities renovation	191,511	201,511
Catalyst		10,000
Hope Center	9,666	22,507
Prevention programs	61,730	81,000
Luncheon	1,000	
Capital purchases	705,036	1,000,000
Education and employment programs	253,898	236,505
Food	14,521	30,365
Orion and shelter	104,088	109,471
Jackson St. renovations	13,837	
Tile program	30,000	
UDYC	39	
COVID-19 expenditures	41,492	
Straley	4,468	
YouthGrow	7,500	
James Place studio	4,961	
Passage	5,000	
South Seattle Young Adult Shelter	3,000	
Other program activities	375,077	362,170
Endowment funds-		
Corpus	6,500,000	6,500,000
Accumulated earnings	1,341,630	737,333
	<u><u>\$ 14,857,563</u></u>	<u><u>\$ 14,599,105</u></u>

For the year ended December 31, 2020, net assets of \$893,185 were released from donor restrictions by incurring expenses satisfying the restricted purposes. Earnings on endowment funds can be used for general purposes.

YOUTHCARE

Notes to Financial Statements For the Year Ended December 31, 2020

Note 13 - 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.

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>2020</u>	<u>2019</u>
Endowment funds with donor restrictions-		
Corpus	\$ 6,500,000	\$ 6,500,000
Accumulated earnings	<u>1,341,630</u>	<u>737,333</u>
Endowment Net Assets	<u>\$ 7,841,630</u>	<u>\$ 7,237,333</u>

Changes to endowment net assets for the years ended December 31, 2020 and 2019, are as follows:

Endowment Net Assets, January 1, 2019	\$ 6,547,168
Investment return	<u>690,165</u>
Endowment Net Assets, December 31, 2019	7,237,333
Investment return	<u>604,297</u>
Endowment Net Assets, December 31, 2020	<u>\$ 7,841,630</u>

YOUTHCARE

Notes to Financial Statements For the Year Ended December 31, 2020

Note 13 - 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, 2020 and 2019.

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 14 - 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 \$820,407 and \$754,639 at December 31, 2020 and 2019, 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>2020</u>	<u>2019</u>
Financial assets-		
Cash and cash equivalents	\$ 1,916,633	\$ 140,134
Accounts, grants and contracts receivable	1,935,180	1,364,659
Pledges receivable current portion	67,750	421,808
Board designated operating reserve - investments	<u>820,407</u>	<u>754,639</u>
Financial assets available to meet cash needs for general expenditures within one year	4,739,970	2,681,240
Liquidity resources-		
Available line of credit	<u>1,500,000</u>	<u>1,500,000</u>
Total Financial Assets and Liquidity Resources Available Within One Year	<u>\$ 6,239,970</u>	<u>\$ 4,181,240</u>