YOUTHCARE

Homeless youth ➔ Off the streets ➔ Preparing for life

Financial Statements

For the Year Ended December 31, 2021

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Clark Nuber PS

Independent Auditor's Report

To the Board of Directors
YouthCare
Seattle, Washington

Opinion

We have audited the accompanying financial statements of YouthCare (the Organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about YouthCare's ability to continue as a going concern for one year after the date that the financial statements are issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 YouthCare's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about YouthCare's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter - Financial Statements Restated

As described in Note 15, the Organization recorded a prior period adjustment of $1,000,000 to reflect the correction of the accounting treatment of a pledge receivable. The 2020 financial statements have been restated to correct this misstatement. Our opinion is not modified with respect to this matter.

Clark Nuber PS

Report on Summarized Comparative Information

We have previously audited the Organization's 2020 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 30, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived as restated as noted above.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2022, 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 solely 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
August 22, 2022

YOUTHCARE

Statement of Financial Position
December 31, 2021
(With Comparative Totals for 2020)

	2021	2020 (As Restated)
Current Assets:		
Cash and cash equivalents	$ 927,835	$ 1,916,633
Accounts, grants and contracts receivable	1,958,149	1,935,180
Facility/land use receivable, current portion	18,913	18,913
Pledges receivable, current portion	290,206	67,750
Prepaid expenses and other current assets	299,340	246,926
Total Current Assets	**3,494,443**	**4,185,402**
Pledges receivable, restricted for capital purchases	1,110,477	1,123,975
Facility/land use receivable, long-term	937,793	956,707
Board designated operating reserve - investments	879,951	820,407
Cash restricted for capital purchases and facilities renovation	772,572	772,572
Restricted cash	343,121	308,941
Endowment investments	8,840,569	7,841,630
Property and equipment, net	10,947,700	11,190,551
Total Assets	**$ 27,326,626**	**$ 27,200,185**
Current Liabilities:		
Accounts payable	$ 164,225	$ 453,077
Accrued expenses	852,472	946,491
Line of Credit	780,000	
Current portion of capital lease obligations	19,024	14,006
Total Current Liabilities	**1,815,721**	**1,413,574**
Long-term portion of capital lease obligations	33,187	52,212
Long-term debt		380,000
Total Liabilities	**1,848,908**	**1,845,786**
Net Assets:		
Without donor restrictions	8,259,559	9,496,836
With donor restrictions	17,218,159	15,857,563
Total Net Assets	**25,477,718**	**25,354,399**
Total Liabilities and Net Assets	**$ 27,326,626**	**$ 27,200,185**

See accompanying notes.

YOUTHCARE

Statement of Activities
For the Year Ended December 31, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total (As Restated)
Operating Support and Revenue:				
Grants and contracts	$ 14,585,422	$ -	$ 14,585,422	$ 11,593,330
Contributions	3,079,100	728,470	3,807,570	4,008,519
Forgiveness of Paycheck Protection Program loan				1,886,400
Special events, net of direct expenses of $8,885 (2020 - $58,110)	131,746		131,746	490,265
In-kind revenue	67,259		67,259	74,953
United Way	102,417		102,417	168,417
Net assets released from restriction	350,430	(350,430)		
Total public support	18,316,374	378,040	18,694,414	18,221,884
Rental income	16,550		16,550	16,745
Other revenue	21,527		21,527	76,491
Total Operating Support and Revenue	**18,354,451**	**378,040**	**18,732,491**	**18,315,120**
Operating Expenses:				
Program services	14,375,373		14,375,373	12,230,463
Supporting services	5,775,040		5,775,040	4,913,139
Total Operating Expenses	**20,150,413**		**20,150,413**	**17,143,602**
Change in Net Assets From Operating Activities	**(1,795,962)**	**378,040**	**(1,417,922)**	**1,171,518**
Nonoperating Activities				
Contributions for long-term purposes		466,843	466,843	1,208,000
Gain on disposal of property and equipment	15,560		15,560	
Investment return	59,917	998,921	1,058,838	672,205
Net assets released from restriction	483,208	(483,208)		
Change in Net Assets From Nonoperating Activities	**558,685**	**982,556**	**1,541,241**	**1,880,205**
Total Change in Net Assets	**(1,237,277)**	**1,360,596**	**123,319**	**3,051,723**
Net Assets:				
Beginning of year	9,496,836	15,857,563	25,354,399	22,302,676
End of Year	**$ 8,259,559**	**$ 17,218,159**	**$ 25,477,718**	**$ 25,354,399**

See accompanying notes.

YOUTHCARE

Statement of Functional Expenses
For the Year Ended December 31, 2021
(With Comparative Totals for 2020)

	Total Program Services	Management and General	Fundraising	Total Supporting Services	2021 Total	2020 Total
Personnel	$ 10,035,903	$ 2,563,411	$ 1,039,684	$ 3,603,095	$ 13,638,998	$ 12,152,745
Contract services	269,968	1,118,137	338,891	1,457,028	1,726,996	1,296,717
Client costs	1,535,903	721	356	1,077	1,536,980	1,130,635
Occupancy	1,249,052	229,152	27,492	256,644	1,505,696	1,029,831
Supplies	297,231	78,561	8,886	87,447	384,678	443,117
Depreciation and amortization	306,000	43,303	17,180	60,483	366,483	369,174
Client food	233,700	581	2,259	2,840	236,540	224,798
Telephone	161,966	28,496	9,001	37,497	199,463	159,780
Vehicles	66,126	13,536	1,844	15,380	81,506	70,986
Travel	43,063	17,868	636	18,504	61,567	58,796
Insurance	105,241	17,080	7,593	24,673	129,914	57,798
Miscellaneous	2,355	17,111	23,424	40,535	42,890	47,217
Printing and publicity	20,338	22,069	25,035	47,104	67,442	39,981
Dues, fees and licenses	4,366	14,606	33,480	48,086	52,452	36,278
Meetings and training	26,890	48,903	555	49,458	76,348	33,627
Interest	318	19,591	1,077	20,668	20,986	31,295
Postage and delivery	3,710	3,870	5,568	9,438	13,148	10,065
Bad debt expense	1,504				1,504	
Equipment rent and maintenance	11,739	2,942	1,026	3,968	15,707	8,872
Total Expenses	**14,375,373**	**4,239,938**	**1,543,987**	**5,783,925**	**20,159,298**	**17,201,712**
Less special event expenses included with support and revenue on the statement of activities			(8,885)	(8,885)	(8,885)	(58,110)
Total Expenses Included in Expenses on the Statement of Activities	**$ 14,375,373**	**$ 4,239,938**	**$ 1,535,102**	**$ 5,775,040**	**$ 20,150,413**	**$ 17,143,602**

See accompanying notes.

YOUTHCARE

Statement of Cash Flows
For the Year Ended December 31, 2021
(With Comparative Totals for 2020)

	2021	2020 (As Restated)
Cash Flows From Operating Activities:		
Change in net assets	$ 123,319	$ 3,051,723
Adjustments to reconcile change in net assets		
to cash (used in) provided by operating activities-		
Depreciation and amortization	366,483	369,174
Contributions restricted for long-term purposes	(466,843)	(1,208,000)
Loss on disposal of property and equipment	13,658	
Unrealized and realized gains on endowment investments	(928,850)	(542,027)
Changes in assets and liabilities:		
Accounts, grants and contracts receivable	(22,969)	(570,521)
Facility/land use receivable	18,914	18,913
Pledges receivable	(222,456)	462,058
Prepaid expenses and other current assets	(52,414)	(52,632)
Accounts payable	(288,852)	(96,091)
Accrued expenses	(94,019)	224,095
Net Cash (Used in) Provided by Operating Activities	**(1,554,029)**	**1,656,692**
Cash Flows From Investing Activities:		
Purchases of investments	(878,039)	(899,258)
Sales of investments	748,406	771,220
Payments to acquire and construct property and equipment	(137,290)	(129,847)
Net Cash Used in Investing Activities	**(266,923)**	**(257,885)**
Cash Flows From Financing Activities:		
Principal payments on capital lease obligations	(14,007)	(10,320)
Proceeds from line of credit	1,780,000	
Principal payments on line of credit	(1,000,000)	
Principal payments on note payable	(380,000)	
Cash received from contributions restricted for long-term purposes	480,341	509,025
Net Cash Provided by Financing Activities	**866,334**	**498,705**
Change in Cash, Cash Equivalents and Restricted Cash	**(954,618)**	**1,897,512**
Cash, cash equivalents and restricted cash, beginning of year	2,998,146	1,100,634
Cash, Cash Equivalents and Restricted Cash, End of Year	**$ 2,043,528**	**$ 2,998,146**

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:

	2021	2020 (As Restated)
Cash and cash equivalents	$ 927,835	$ 1,916,633
Cash reserved for capital purchases and facilities renovation	772,572	772,572
Restricted cash	343,121	308,941
Total Cash, Cash Equivalents and Restricted Cash Shown in the Statement of Cash Flows	**$ 2,043,528**	**$ 2,998,146**
Supplementary Disclosures of Cash Flow Information:		
Cash paid during the year for interest	$ 30,798	$ 25,578
Property and equipment purchase reflected in accounts payable	$ 231,839	$ 231,839

See accompanying notes.

Note 1 - Organization and Significant Accounting Policies

YouthCare is an agency that provides comprehensive services to youth in crisis in the Seattle-King County area, and is dedicated to 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.

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 67% and 63% of operating and nonoperating public support revenues during 2021 and 2020, respectively. The balance in accounts, grants, and contracts receivable from these sources totaled $1,958,149 and $1,935,180, at December 31, 2021 and 2020, 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 $148,219 and $1,050,890 at December 31, 2021 and 2020, respectively.

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, 2021 and 2020.

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 $67,259 and $74,953 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020 was $47,351 and $24,922, 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 2020 - 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, 2020 from which the summarized information was derived.

Reclassifications - Certain reclassifications were made to the December 31, 2020 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 August 22, 2022, the date on which the financial statements were available to be issued.

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 $1,030,121 are due within one year as of December 31, 2021. The remaining pledges receivable as of December 31, 2021 are due within one to five years. Only pledges receivable due within one year that are not restricted to capital purchases are shown as current in the statement of financial position. All pledges receivable are expected to be collected. Additionally, nonexchange accounts, grants and contracts receivable of $1,958,149 are due within one year as of December 31, 2021.

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, 2021 and 2020.

Note 3 - Property and Equipment

Property and equipment consisted of the following at December 31:

	2021	2020
Nondepreciable-		
Land	$ 3,656,624	$ 3,656,624
Work in process	431,646	361,721
Depreciable-		
Buildings and building improvements	11,332,927	11,307,731
Furniture and equipment	488,287	482,666
Vehicles	261,687	259,472
	16,171,171	16,068,214
Less accumulated depreciation	(5,223,471)	(4,877,663)
Total Property and Equipment, Net	**$ 10,947,700**	**$ 11,190,551**

At December 31, 2021 and 2020, 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, 2021 and 2020 was $14,006 and $10,268, respectively. Accumulated amortization on these leases was $31,411 and $17,438 as of December 31, 2021 and 2020, respectively.

Note 4 - Investments and Fair Value Measurements

Investments held at December 31 are summarized as follows:

	2021	2020
Board designated operating reserve - investments	$ 879,951	$ 820,407
Endowment investments	8,840,569	7,841,630
Total Investments	**$ 9,720,520**	**$ 8,662,037**

	2021	2020
Cash and cash equivalents	$ 49,155	$ 49,740
Mutual funds-		
Marketable equity securities	5,781,219	5,234,303
Marketable debt securities	3,890,146	3,377,994
Total Investments	**$ 9,720,520**	**$ 8,662,037**

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, 2021 and 2020.

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, 2021 and 2020 were valued using Level 1 inputs. Investment balances are in excess of the available SPIC insurance.

Note 4 - Continued

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

	2021	2020
Interest and dividends	$ 180,454	$ 171,468
Realized and unrealized gains	928,850	542,027
Investment fees	(50,466)	(41,290)
Total Investment Return	**$ 1,058,838**	**$ 672,205**

YouthCare recognizes all investment return as nonoperating revenue.

Note 5 - Forgivable and Nonrecourse Deferred Payment Loans

YouthCare has received forgivable and nonrecourse deferred payment loans amounting to $6,408,910 and $6,402,425 at December 31, 2021 and 2020, 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:

	2021	2020
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.	1,851,537	1,863,971

Note 5 - Continued

	2021	2020
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.	397,676	394,639
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.	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. Increase in the balance is due to imputed interest.	391,095	387,911
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

Note 5 - Continued

	2021	2020
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	1,031,415
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.	1,316,235	1,303,537
	$ 6,408,910	**$ 6,402,425**

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, 2021, 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, 2021 and 2020, respectively) and all outstanding principal is due on February 1, 2022. The line is secured by YouthCare's assets. The outstanding line of credit balance was $780,000 at December 31, 2021. There were no borrowings on the line of credit at December 31, 2020.

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 required monthly interest-only payments at 3% with a balloon payment due in March 2021, which was subsequently extended to September 2021. The note was secured by the property. Loan was 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 $132,590 and $117,105 for 2021 and 2020, 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 $937,793 and $956,706 at December 31, 2021 and 2020, 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.

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,	
2022	$ 32,990
2023	30,960
2024	10,185
	74,135
Less amount representing interest	(21,924)
	$ 52,211

Additionally, in 2020 YouthCare entered into a new operating lease agreement which expires in September 2025.

Note 10 - Continued

Required minimum payments for noncancelable operating leases are as follows:

For the Year Ending December 31,		
2022	$	128,868
2023		128,868
2024		129,834
2025		99,549
	$	**487,119**

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.

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:

	2021	2020
Forgivable and non-recourse deferred payments notes payable (time restricted) (Note 5)	$ 3,718,549	$ 3,843,811
Facility/land use	1,088,816	1,110,686
Barista/YouthBuild training program	104,864	234,612
Facilities renovation	191,511	191,511
Catalyst	12,274	
Hope Center	1,181	9,666
Prevention programs	62,062	61,730
Luncheon	5,780	1,000
Capital purchases	1,835,803	1,705,036
Education and employment programs	605,997	253,898
Food	11,195	14,521
Orion and shelter	147,611	104,088
Jackson St. renovations	13,837	13,837
Tile program	30,000	30,000
UDYC	4,018	39
COVID-19 expenditures	32,091	41,492
Straley	13,747	4,468
YouthGrow	7,361	7,500
James Place studio	4,961	4,961
Passage	3,537	5,000
South Seattle Young Adult Shelter	20,340	3,000
Pathways	60,579	
Other program activities	401,476	375,077
Endowment funds-		
Corpus	6,500,000	6,500,000
Accumulated earnings	2,340,569	1,341,630
	$ 17,218,159	**$ 15,857,563**

For the year ended December 31, 2021, net assets of $833,638 were released from donor restrictions by incurring expenses satisfying the restricted purposes. Earnings on endowment funds can be used for general purposes.

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.

Note 13 - Continued

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:

	2021	2020
Endowment funds with donor restrictions-		
Corpus	$ 6,500,000	$ 6,500,000
Accumulated earnings	2,340,569	1,341,630
Endowment Net Assets	**$ 8,840,569**	**$ 7,841,630**

Changes to endowment net assets for the years ended December 31, 2021 and 2020, are as follows:

Endowment Net Assets, January 1, 2020	$ 7,237,333
Investment return	604,297
Endowment Net Assets, December 31, 2020	**7,841,630**
Investment return	998,939
Endowment Net Assets, December 31, 2021	**$ 8,840,569**

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, 2021 and 2020.

Note 13 - Continued

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 $879,951 and $820,407 at December 31, 2021 and 2020, 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:

	2021	2020
Financial assets-		
Cash and cash equivalents	$ 927,835	$ 1,916,633
Accounts, grants and contracts receivable	1,958,149	1,935,180
Pledges receivable current portion	290,206	67,750
Board designated operating reserve - investments	879,951	820,407
Financial assets available to meet cash needs for general expenditures within one year	4,056,141	4,739,970
Liquidity resources-		
Available line of credit	720,000	1,500,000
Total Financial Assets and Liquidity Resources Available Within One Year	**$ 4,776,141**	**$ 6,239,970**

Note 15 - Prior Period Adjustment

During the audit of the year ended December 31, 2021, management identified an error in the 2020 financial statement presentation resulting in a prior period restatement of the statement of financial position, statement of activities and statement of cash flows for the year ended December 31, 2020. The error related to recording of a pledge receivable in the amount of $1,000,000. The 2020 financial statements presented herein have been restated to properly present the pledge receivable recording. As of December 31, 2020, this adjustment reflects an increase in pledges receivable, restricted for capital purchases, of $1,000,000 and increase in net assets with donor restrictions of $1,000,000 on the statement of financial position, increase in contributions for long-term purposes and change in net assets of $1,000,000 on the statement of activities and increase in change in net assets and contributions restricted for long-term purposes of $1,000,000 on the statement of cash flows.