



Financial Statements

For the Year Ended December 31, 2016

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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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 17, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2017 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Clark Nuber P.S.

Certified Public Accountants
June 23, 2017

YOUTHCARE

Statement of Financial Position

December 31, 2016

(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and cash equivalents	\$ 886,053	\$ 779,560
Accounts, grants and contracts receivable	1,344,912	982,965
Facility use receivable	44,993	43,800
Pledges receivable, current portion	375,416	112,291
Prepaid expenses and other current assets	<u>152,677</u>	<u>126,599</u>
Total Current Assets	2,804,051	2,045,215
Pledges receivable, long-term	25,000	25,000
Board designated operating reserve	306,901	306,769
Restricted cash	130,354	214,058
Endowment investments	524,342	500,235
Property and equipment, net	<u>9,349,446</u>	<u>7,869,072</u>
Total Assets	<u>\$ 13,140,094</u>	<u>\$ 10,960,349</u>
Current Liabilities:		
Accounts payable	\$ 149,377	\$ 48,814
Accrued expenses	659,750	543,900
Current portion of capital lease obligations	<u>54,568</u>	<u>16,524</u>
Total Current Liabilities	863,695	609,238
Long-term portion of capital lease obligations	21,030	75,598
Long-term debt	<u>500,000</u>	<u></u>
Total Liabilities	1,384,725	684,836
Net Assets:		
Unrestricted net assets	7,932,225	6,792,873
Temporarily restricted net assets	3,323,144	2,982,640
Permanently restricted net assets	<u>500,000</u>	<u>500,000</u>
Total Net Assets	<u>11,755,369</u>	<u>10,275,513</u>
Total Liabilities and Net Assets	<u>\$ 13,140,094</u>	<u>\$ 10,960,349</u>

See accompanying notes.

YOUTHCARE

Statement of Activities For the Year Ended December 31, 2016 (With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Support and Revenue:					
Grants and contracts	\$ 7,693,557	\$ -	\$ -	\$ 7,693,557	\$ 6,253,245
Contributions	2,572,614	1,269,373		3,841,987	2,924,431
Special events, net of direct expenses of \$79,325 (2015 - \$71,497)	610,454			610,454	669,914
In-kind revenue	133,803			133,803	124,644
United Way	391,921			391,921	367,843
Net assets released from restriction	<u>1,086,897</u>	<u>(1,086,897)</u>			
Total public support	12,489,246	182,476		12,671,722	10,340,077
Rental income	36,352			36,352	32,424
Other revenue	<u>20,260</u>			<u>20,260</u>	<u>14,213</u>
Total Support and Revenue	12,545,858	182,476		12,728,334	10,386,714
Expenses:					
Program services	9,364,137			9,364,137	8,392,279
Supporting services	<u>3,100,819</u>			<u>3,100,819</u>	<u>2,850,262</u>
Total Expenses	12,464,956			12,464,956	11,242,541
Change in Net Assets From Operating Activities	80,902	182,476		263,378	(855,827)
Nonoperating Activities					
Contributions for long-term purposes	1,000,000	191,511		1,191,511	57,500
Investment return	950	24,017		24,967	314
Net assets released from restriction	<u>57,500</u>	<u>(57,500)</u>			
Change in Net Assets From Nonoperating Activities	1,058,450	158,028		1,216,478	57,814
Change in Net Assets	1,139,352	340,504		1,479,856	(798,013)
Net Assets:					
Beginning of year	<u>6,792,873</u>	<u>2,982,640</u>	<u>500,000</u>	<u>10,275,513</u>	<u>11,073,526</u>
End of Year	<u>\$ 7,932,225</u>	<u>\$ 3,323,144</u>	<u>\$ 500,000</u>	<u>\$ 11,755,369</u>	<u>\$ 10,275,513</u>

See accompanying notes.

YOUTHCARE

Statement of Functional Expenses For the Year Ended December 31, 2016 (With Comparative Totals for 2015)

	Total Program Services	Management and General	Fundraising	Total Supporting Services	2016	2015
Personnel	\$ 7,004,665	\$ 1,598,112	\$ 653,257	\$ 2,251,369	\$ 9,256,034	\$ 8,105,833
Contract services	712,674	277,791	8,866	286,657	999,331	1,073,679
Occupancy	496,393	51,834	15,923	67,757	564,150	553,456
Client costs	352,882	9,957	685	10,642	363,524	345,931
Depreciation and amortization	210,843	40,055	14,013	54,068	264,911	257,364
Supplies	120,586	36,498	86,594	123,092	243,678	205,412
Telephone	114,028	31,247	5,329	36,576	150,604	133,131
Travel	81,449	58,693	3,061	61,754	143,203	142,927
Meetings and training	21,082	107,026	3,072	110,098	131,180	53,620
Client food	129,530		361	361	129,891	113,662
Vehicles	56,905	6,193	1,187	7,380	64,285	76,650
Printing and publicity	5,342	12,927	39,148	52,075	57,417	62,733
Dues, fees and licenses	9,437	33,935	4,935	38,870	48,307	34,608
Insurance	37,946	5,223	2,440	7,663	45,609	45,274
Interest		30,503		30,503	30,503	24,217
Miscellaneous	1,666	7,801	14,718	22,519	24,185	65,887
Postage and delivery	1,410	3,649	10,974	14,623	16,033	14,130
Equipment rent and maintenance	7,299	3,530	607	4,137	11,436	5,524
Total Expenses	9,364,137	2,314,974	865,170	3,180,144	12,544,281	11,314,038
Less special event expenses included with support and revenue on the statement of activities			(79,325)	(79,325)	(79,325)	(71,497)
Total Expenses Included in Expenses on the Statement of Activities	\$ 9,364,137	\$ 2,314,974	\$ 785,845	\$ 3,100,819	\$ 12,464,956	\$ 11,242,541

See accompanying notes.

YOUTHCARE

Statement of Cash Flows For the Year Ended December 31, 2016 (With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,479,856	\$ (798,013)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities-		
Depreciation and amortization	264,911	257,364
Contributions restricted for long-term purposes	(1,191,511)	(57,500)
Unrealized and realized gain on investments	(24,107)	(207)
Changes in assets and liabilities:		
Accounts, grants and contracts receivable	(361,947)	(330,924)
Facility use receivable	(1,193)	(1,050)
Pledges receivable	(263,125)	141,194
Prepaid expenses and other current assets	(26,078)	(3,829)
Accounts payable	100,563	(31,414)
Accrued expenses	115,850	52,082
	<u>93,219</u>	<u>(772,297)</u>
Net Cash Provided by (Used in) Operating Activities		
Cash Flows From Investing Activities:		
Change in restricted cash	83,704	(16,315)
Increase in board designated operating reserve	(132)	(106,729)
Payments to acquire and construct property and equipment	(1,745,285)	(70,388)
	<u>(1,661,713)</u>	<u>(193,432)</u>
Net Cash Used in Investing Activities		
Cash Flows From Financing Activities:		
Principal payments on capital lease obligations	(16,524)	(12,983)
Proceeds from long-term debt	1,000,000	
Principal payments on long-term debt	(500,000)	
Cash received from contributions restricted for long-term purposes	1,191,511	57,500
	<u>1,674,987</u>	<u>44,517</u>
Net Cash Provided by Financing Activities		
Change in Cash and Cash Equivalents	106,493	(921,212)
Cash and cash equivalents, beginning of year	<u>779,560</u>	<u>1,700,772</u>
Cash and Cash Equivalents, End of Year	\$ 886,053	\$ 779,560
Supplementary Disclosures of Cash Flow Information:		
Cash paid during the year for interest	\$ 21,585	\$ 24,217

See accompanying notes.

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Notes to Financial Statements For the Year Ended December 31, 2016

Note 1 - Organization and Significant Accounting Policies

YouthCare is an agency that provides comprehensive services to youth in crisis in the Seattle-King County area, and is dedicated to assisting homeless, runaway, and at-risk youth to create healthy and productive lives. YouthCare accomplishes this goal by providing both residential and nonresidential services to youth ages 11 to 24.

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

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

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of YouthCare or the passage of time. See Note 11 for the specific temporarily restricted amounts.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they will be maintained permanently by YouthCare. Generally the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes. At December 31, 2016 and 2015, YouthCare had \$500,000 of permanently restricted net assets in an endowment fund; the earnings thereon can be used for general purposes.

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

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

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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Notes to Financial Statements For the Year Ended December 31, 2016

Note 1 - Continued

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

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

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

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

Endowment Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Endowment investment income or loss (including realized and unrealized gains and losses on investments) is included in the change in temporarily restricted net assets. At December 31, 2015, endowment investments consisted of cash in a savings account. During 2016, investment holdings were purchased (Note 4).

Accounts, Grants and Contracts Receivable and Revenues - A substantial portion of fees and grants from government agencies is derived from grants and contracts administered by various federal, state and local government agencies. Revenue from these grants and contracts is subject to audits, which could result in adjustments to revenue. Any adjustments would be recorded at the time that such amounts could first be reasonably determined, normally upon notification by the government agency. All receivables are considered fully collectible by management. Amounts from the government totaled 56% and 60%, respectively, of public support revenues during 2016 and 2015. The balance in accounts, grants, and contracts receivable from these sources totaled \$1,336,579 and \$890,931, at December 31, 2016 and 2015, respectively.

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

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

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

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Notes to Financial Statements For the Year Ended December 31, 2016

Note 1 - Continued

During the year ended December 31, 2016, approximately 20% of contributions were from one organization. During the year ended December 31, 2015, approximately 13% of contributions were from one organization.

Advertising - Advertising costs are expensed as they are incurred. Total advertising expense for the years ended December 31, 2016 and 2015 was \$37,654 and \$40,496, respectively.

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

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

	<u>2016</u>	<u>2015</u>
Donated goods	\$ 40,916	\$ 29,740
Donated services	4,094	8,354
Facilities	<u>88,793</u>	<u>86,550</u>
	<u><u>\$ 133,803</u></u>	<u><u>\$ 124,644</u></u>

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

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

Comparative Amounts for 2015 - 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, 2015, from which the summarized information was derived.

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

Subsequent Events - YouthCare has evaluated subsequent events through June 23, 2017, 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, 2016

Note 2 - Pledges Receivable

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

Pledges to be received are as follows at December 31, 2016:

Less than one year	\$ 375,416
One to five years	<u>25,000</u>
Total Pledges Receivable	<u>\$ 400,416</u>

There was no allowance for doubtful accounts or discount to net present value at December 31, 2016 and 2015.

Conditional pledges at December 31, 2016 totaled \$300,000 for the Catalyst program at Straley House. The pledge is contingent upon YouthCare meeting certain operational milestones and accordingly has not been recorded as support.

Note 3 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Nondepreciable-		
Land	\$ 3,656,624	\$ 2,959,447
Work in process	76,666	
Depreciable-		
Buildings and building improvements	8,810,274	7,847,825
Furniture and equipment	613,857	604,863
Vehicles	<u>185,242</u>	<u>185,242</u>
	13,342,663	11,597,377
Less accumulated depreciation	<u>(3,993,217)</u>	<u>(3,728,305)</u>
Total Property and Equipment, Net	<u>\$ 9,349,446</u>	<u>\$ 7,869,072</u>

At December 31, 2016 and 2015, copiers under capital lease agreements are included in furniture and equipment with a cost of \$109,656. Amortization expense for each of the years ended December 31, 2016 and 2015 was \$20,887. Accumulated amortization on these leases was \$50,477 and \$29,590 as of December 31, 2016 and 2015, respectively.

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Notes to Financial Statements For the Year Ended December 31, 2016

Note 4 - Investments and Fair Value Measurements

Investments held at December 31 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 5,729	\$ 500,235
Marketable equity securities	300,847	
Marketable debt securities	188,046	
Other	<u>29,720</u>	
Total Investments	<u><u>\$ 524,342</u></u>	<u><u>\$ 500,235</u></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, 2016 or 2015.

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

Marketable Equity and Debt Securities - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held at year end.

All investments held at December 31, 2016 and 2015 were valued using Level 1 inputs.

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

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 7,901	\$ 314
Realized gains	3,461	
Unrealized gains	15,010	
Investment fees	<u>(1,405)</u>	
Total Investment Return	<u><u>\$ 24,967</u></u>	<u><u>\$ 314</u></u>

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

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**Notes to Financial Statements
For the Year Ended December 31, 2016**

Note 5 - Forgivable Loans

YouthCare has received forgivable loans amounting to \$4,437,044 and \$4,564,672 at December 31, 2016 and 2015, respectively. Under terms of the agreements, the proceeds must be used for the specific purpose intended in the loan documents. As management believes the conditions related to these loans have substantially been met and that YouthCare has the present intention and ability to maintain the conditions of forgiveness, the proceeds from these forgivable loans have been recognized as temporarily restricted revenues in the year received. The restrictions are being released over the terms of the forgivable loans. The loan balance, including accrued interest, if any, and in some cases a pro-rata share of appreciation is due generally if YouthCare changes the use of the facilities from the intended purpose or if the property is sold and removed from acceptable use. Each loan has specific agreements and covenants surrounding the use of the property, and the terms of forgiveness depend upon adherence to the terms.

Forgivable loans consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Interest-free loan payable to the State of Washington, secured by a promissory note and deed of trust on real property. The loan is forgivable on January 1, 2048, provided that YouthCare complies with a covenant which requires YouthCare to use the property to serve homeless youth.	\$ 1,070,952	\$ 1,070,952
Interest-free CDBG Federal loan payable to King County, secured by a promissory note and deed of trust on real property. The loan was forgiven on December 31, 2016.		150,000
Interest-free CDBG Federal loan payable to the City of Seattle, secured by a promissory note and deed of trust on real property. The loan is forgivable on December 31, 2018, provided that YouthCare complies with a covenant which requires YouthCare to use the property to serve homeless youth.	337,755	337,755
Loan payable to the City of Seattle, including an accrual of simple interest at 1% per year for the first 20 years (through July 2016), secured by a promissory note and deed of trust on real property. The principal and interest will be forgiven on July 31, 2071, provided that YouthCare complies with a covenant that requires YouthCare to use the property to serve low-income families.	1,920,637	1,904,486

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**Notes to Financial Statements
For the Year Ended December 31, 2016**

Note 5 - Continued

	<u>2016</u>	<u>2015</u>
<p>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.</p>	382,525	379,488
<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 ending in 2009. The term of the loan is perpetual but the principal is only payable upon sale of the property or cessation of use of the property for providing services to young people in the Seattle area.</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.</p>	375,175	371,991
<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>	<u>250,000</u>	<u>250,000</u>
	<u>\$ 4,437,044</u>	<u>\$ 4,564,672</u>

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

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Notes to Financial Statements For the Year Ended December 31, 2016

Note 6 - Line-of-Credit

At December 31, 2016, YouthCare had a \$750,000 line-of-credit with a bank secured by YouthCare's assets. Interest is payable monthly at prime + 1% (4.75% and 4.5% at December 31, 2016 and 2015, respectively) and all outstanding principal is due on August 1, 2017. The line is secured by YouthCare's assets. There were no borrowings on the line at December 31, 2016 and 2015.

Note 7 - Long-Term Debt

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

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 \$99,992 and \$105,663 for 2016 and 2015, respectively, and are included in personnel expense.

Note 9 - Commitments and Contingencies

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

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 received a McKinney Supportive Housing Grant with the U.S. Department of Housing and Urban Development from the City of Seattle in 1995. The \$125,000 grant was for acquisition costs of property that is used for site administration offices, transitional housing and supportive services. As part of the requirements of this grant, YouthCare must refund the entire grant amount if it sells the property or discontinues using the property for its required purposes prior to a 10-year period beginning in 2006. If the property continues to be used longer than the first 10-year period, the maximum refundable portion of the grant is reduced by 10 percentage points each year. The property was completely clear of this commitment at December 31, 2016.

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Notes to Financial Statements For the Year Ended December 31, 2016

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

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

Required minimum payments for capital lease obligations are as follows:

For the Year Ending December 31,

2017	\$	37,200
2018		37,200
2019		<u>31,000</u>
		105,400
Less amount representing interest		<u>(29,802)</u>
	\$	<u><u>75,598</u></u>

Note 11 - Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Forgivable notes payable (time restricted) (Note 5)	\$ 2,016,147	\$ 2,124,136
Barista/YouthTech training program	62,595	91,600
Facilities renovation	191,511	57,500
Facility use receivable	44,993	43,800
Education and employment programs	479,857	320,296
Prevention programs	227,737	
Food	38,357	6,326
Luncheon	54,500	70,000
Unspent endowment earnings	24,324	235
Other program activities	<u>183,123</u>	<u>268,747</u>
	<u><u>\$ 3,323,144</u></u>	<u><u>\$ 2,982,640</u></u>

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Notes to Financial Statements For the Year Ended December 31, 2016

Note 11 - Continued

For the year ended December 31, 2016, net assets of \$1,144,397 were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Note 12 - Endowments

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

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

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

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

Endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, December 31, 2016	\$ -	\$ 24,342	\$ 500,000	\$ 524,342
Endowment Net Assets, December 31, 2015	\$ -	\$ 235	\$ 500,000	\$ 500,235

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Notes to Financial Statements For the Year Ended December 31, 2016

Note 12 - Continued

Changes to endowment net assets for the years ended December 31, 2016 and 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2015	\$ -	\$ 28	\$ 500,000	\$ 500,028
Interest		207		207
Endowment net assets, December 31, 2015		235	500,000	500,235
Investment return		24,107		24,107
Endowment Net Assets, December 31, 2016	\$ -	\$ 24,342	\$ 500,000	\$ 524,342

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, 2016 or 2015.

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.