

**FRIENDS OF YOUTH and  
THE FRIENDS OF YOUTH FOUNDATION**

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2019

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Note: There were no findings in the prior year. Accordingly, no summary schedule of prior audit findings is included.

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Friends of Youth and  
The Friends of Youth Foundation  
Kirkland, Washington

We have audited the accompanying consolidated financial statements of Friends of Youth and The Friends of Youth Foundation, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Friends of Youth and The Friends of Youth Foundation as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

## **Emphasis of a Matter – Recent Accounting Pronouncement Adopted**

As discussed in Note 1 to the financial statements, during the year ending June 30, 2019, Friends of Youth and The Friends of Youth Foundation adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

## **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and the consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2019, on our consideration of Friends of Youth and The Friends of Youth Foundation'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 the effectiveness of Friends of Youth's and The Friends of Youth Foundation's 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 Friends of Youth and The Friends of Youth Foundation's internal control over financial reporting and compliance.



October 29, 2019

**FRIENDS OF YOUTH and  
THE FRIENDS OF YOUTH FOUNDATION**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

ASSETS	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 500,833	\$ 711,591
Investments	1,069,480	1,006,601
Grants receivable	1,991,806	1,611,119
Contributions receivable	167,533	152,641
Deposits, prepaid expenses, and other	<u>187,873</u>	<u>263,015</u>
Total current assets	3,917,525	3,744,967
Cash and Investments Held for Operating and Replacement Reserves		
	1,031,188	1,019,802
Investments Held for Endowment		
	1,802,400	1,750,099
Contributions Receivable, net of current portion, allowance, and discount		
	60,711	186,002
Property and Equipment, net		
	<u>15,418,724</u>	<u>16,006,371</u>
Total assets	<u>\$ 22,230,548</u>	<u>\$ 22,707,241</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 344,979	\$ 173,519
Accrued payroll, benefits, and taxes	587,278	621,311
Accrued sick leave and vacation pay	364,761	348,556
Current portion of long-term debt	<u>20,209</u>	<u>27,974</u>
Total current liabilities	1,317,227	1,171,360
Long-Term Debt, net of current portion		
	<u>1,994,442</u>	<u>2,227,994</u>
Total liabilities	3,311,669	3,399,354
Net Assets		
Without donor restrictions	9,415,717	9,812,697
With donor restrictions	<u>9,503,162</u>	<u>9,495,190</u>
Total net assets	<u>18,918,879</u>	<u>19,307,887</u>
Total liabilities and net assets	<u>\$ 22,230,548</u>	<u>\$ 22,707,241</u>

See Notes to Consolidated Financial Statements

**FRIENDS OF YOUTH and  
THE FRIENDS OF YOUTH FOUNDATION**

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Activities</b>						
Support and Revenue						
Federal, state, and local fees and grants	\$ 12,463,510	\$ -	\$ 12,463,510	\$ 10,458,762	\$ -	\$ 10,458,762
Contributions, including in-kind of \$396,570 in 2019 and \$437,192 in 2018	2,437,234	224,850	2,662,084	2,440,390	576,615	3,017,005
United Way	188,000		188,000	413,823		413,823
Fees for services	476,494		476,494	270,819		270,819
Investment income	99,381	53,205	152,586	80,527	93,976	174,503
Released from Restrictions						
Satisfaction of program restrictions	455,897	(455,897)		201,029	(201,029)	
Total support and revenue	16,120,516	(177,842)	15,942,674	13,865,350	469,562	14,334,912
Program Expenses						
Residential services	6,602,492		6,602,492	6,105,655		6,105,655
Homeless youth services	3,546,349		3,546,349	3,335,449		3,335,449
Youth and family services	3,712,196		3,712,196	2,623,374		2,623,374
Teen Café	216,557		216,557	34,049		34,049
Total program expenses	14,077,594		14,077,594	12,098,527		12,098,527
Supporting Services						
Management and general	2,189,195		2,189,195	1,512,588		1,512,588
Fundraising	626,019		626,019	651,131		651,131
Total supporting services	2,815,214		2,815,214	2,163,719		2,163,719
Total expenses	16,892,808		16,892,808	14,262,246		14,262,246
<b>Change in net assets from operating activities</b>	<b>(772,292)</b>	<b>(177,842)</b>	<b>(950,134)</b>	<b>(396,896)</b>	<b>469,562</b>	<b>72,666</b>
<b>Non-Operating Activities</b>						
Federal, state, and local fees and grants restricted for facilities		278,403	278,403		524,789	524,789
Released for time restrictions met on restricted use of facilities	92,589	(92,589)		17,005	(17,005)	
Gain on sale of New Roads Renton property	282,723		282,723			
<b>Change in net assets</b>	<b>(396,980)</b>	<b>7,972</b>	<b>(389,008)</b>	<b>(379,891)</b>	<b>977,346</b>	<b>597,455</b>
Net Assets, beginning of year	9,812,697	9,495,190	19,307,887	10,192,588	8,517,844	18,710,432
Net Assets, end of year	\$ 9,415,717	\$ 9,503,162	\$ 18,918,879	\$ 9,812,697	\$ 9,495,190	\$ 19,307,887

See Notes to Consolidated Financial Statements

**FRIENDS OF YOUTH and  
THE FRIENDS OF YOUTH FOUNDATION**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

	Program Services					Supporting Services			Total
	Residential Services	Homeless Youth Services	Youth and Family Services	Teen Café	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related expenses	\$ 4,179,968	\$ 2,051,982	\$ 2,498,522	\$ 142,007	\$ 8,872,479	\$ 1,362,672	\$ 274,633	\$ 1,637,305	\$ 10,509,784
Employee benefits	551,732	254,106	359,147	8,385	1,173,370	134,569	36,454	171,023	1,344,393
Payroll taxes	442,823	206,341	222,270	13,166	884,600	115,132	24,690	139,822	1,024,422
Recruitment	9,510	5,170	3,864	340	18,884	7,710	635	8,345	27,229
<b>Total salaries and related expenses</b>	<b>5,184,033</b>	<b>2,517,599</b>	<b>3,083,803</b>	<b>163,898</b>	<b>10,949,333</b>	<b>1,620,083</b>	<b>336,412</b>	<b>1,956,495</b>	<b>12,905,828</b>
Professional fees and contract service payments	333,104	47,201	24,012	1,257	405,574	293,127	5,890	299,017	704,591
Depreciation and amortization	269,902	197,588	98,043	3,719	569,252	34,715	16,354	51,069	620,321
Supplies	186,251	42,294	24,699	34,553	287,797	44,635	72,416	117,051	404,848
In-kind usage	51,815	256,786	69,469		378,070	7,481	69,175	76,656	454,726
Specific assistance to individuals	98,266	118,820	80,445		297,531				297,531
Building rent, insurance, and taxes	85,136	140,304	36,410	112	261,962	5,038	2,408	7,446	269,408
Transportation	112,828	49,696	63,799		226,323	16,570	1,334	17,904	244,227
Utilities	106,012	73,601	20,411	1,407	201,431	10,283	4,002	14,285	215,716
Repairs and maintenance	73,919	61,361	31,664	3,040	169,984	16,463	2,064	18,527	188,511
Information technology	26,930	17,628	82,442	3,035	130,035	25,165	14,744	39,909	169,944
Conferences, conventions, and meetings	25,401	4,859	17,706	3,178	51,144	34,112	826	34,938	86,082
Liability insurance	30,221	13,004	16,594	1,038	60,857	7,359	1,955	9,314	70,171
Merchant and processing fees	99		5,189		5,288	20,353	16,921	37,274	42,562
Printing and publications	1,740	20	403	106	2,269		30,175	30,175	32,444
Loan interest expense			23,580		23,580		11,443	11,443	35,023
Rental equipment	5,969	1,550	12,703		20,222	4,039	3,783	7,822	28,044
Other	10,866	4,038	20,824	1,214	36,942	49,772	36,117	85,889	122,831
<b>Total expenses</b>	<b>\$ 6,602,492</b>	<b>\$ 3,546,349</b>	<b>\$ 3,712,196</b>	<b>\$ 216,557</b>	<b>\$ 14,077,594</b>	<b>\$ 2,189,195</b>	<b>\$ 626,019</b>	<b>\$ 2,815,214</b>	<b>\$ 16,892,808</b>

See Notes to Consolidated Financial Statements

**FRIENDS OF YOUTH and  
THE FRIENDS OF YOUTH FOUNDATION**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	Program Services					Supporting Services			Total
	Residential Services	Homeless Youth Services	Youth and Family Services	Teen Café	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related expenses	\$ 3,990,965	\$ 1,892,918	\$ 1,741,755	\$ 29,496	\$ 7,655,134	\$ 1,033,049	\$ 287,829	\$ 1,320,878	\$ 8,976,012
Employee benefits	371,935	169,910	175,992	2,059	719,896	62,798	23,861	86,659	806,555
Payroll taxes	430,851	194,318	152,939	2,228	780,336	86,293	24,582	110,875	891,211
Recruitment	7,780	3,750	3,781		15,311	14,378	1,495	15,873	31,184
<b>Total salaries and related expenses</b>	<b>4,801,531</b>	<b>2,260,896</b>	<b>2,074,467</b>	<b>33,783</b>	<b>9,170,677</b>	<b>1,196,518</b>	<b>337,767</b>	<b>1,534,285</b>	<b>10,704,962</b>
Professional fees and contract service payments	299,659	57,581	39,984		397,224	104,474	15,280	119,754	516,978
Depreciation and amortization	259,279	181,179	94,267		534,725	35,127	13,697	48,824	583,549
Supplies	182,973	31,744	38,854	125	253,696	38,525	78,748	117,273	370,969
In-kind usage	67,617	223,461	38,082		329,160	7,481	100,551	108,032	437,192
Specific assistance to individuals	93,421	190,565	94,291		378,277				378,277
Building rent, insurance, and taxes	54,941	124,302	16,870	27	196,140	4,320	824	5,144	201,284
Transportation	104,375	48,497	36,000		188,872	17,168	2,032	19,200	208,072
Utilities	106,788	77,920	17,460		202,168	9,403	1,933	11,336	213,504
Repairs and maintenance	56,611	102,385	24,352		183,348	16,113	1,143	17,256	200,604
Information technology	15,794	15,408	63,140	28	94,370	17,919	16,761	34,680	129,050
Conferences, conventions, and meetings	18,014	4,127	19,788		41,929	12,023	624	12,647	54,576
Liability insurance	26,098	11,708	10,035	86	47,927	6,728	1,855	8,583	56,510
Merchant and processing fees			2,316		2,316	19,452	17,553	37,005	39,321
Printing and publications	2,728	625	1,452		4,805	290	33,403	33,693	38,498
Loan interest expense		2,949	23,222		26,171	2,569	12,862	15,431	41,602
Rental equipment	5,175	731	13,779		19,685	3,797	3,766	7,563	27,248
Other	10,651	1,371	15,015		27,037	20,681	12,332	33,013	60,050
<b>Total expenses</b>	<b>\$ 6,105,655</b>	<b>\$ 3,335,449</b>	<b>\$ 2,623,374</b>	<b>\$ 34,049</b>	<b>\$ 12,098,527</b>	<b>\$ 1,512,588</b>	<b>\$ 651,131</b>	<b>\$ 2,163,719</b>	<b>\$ 14,262,246</b>

See Notes to Consolidated Financial Statements



**FRIENDS OF YOUTH and  
THE FRIENDS OF YOUTH FOUNDATION**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ (389,008)	\$ 597,455
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	620,321	583,549
Realized and unrealized gains on investments	(8,761)	(74,086)
Contributions restricted for endowment	(50,000)	(50,000)
Federal, state, and local fees and grants restricted for facilities	(278,403)	(524,789)
Gain on sale of New Roads Renton property	(282,723)	
Allowance on contributions receivable		18,807
Change in discount on contributions receivable	(10,616)	18,691
Changes in operating assets and liabilities		
Grants receivable	(283,687)	(348,134)
Contributions receivable	121,015	(376,141)
Deposits, prepaid expenses, and other	75,142	(12,634)
Accounts payable	171,460	20,234
Accrued payroll, benefits, taxes, sick leave, and vacation pay	(17,828)	47,032
Net cash flows from operating activities	(333,088)	(100,016)
Cash Flows from Investing Activities		
Purchases of investments, net	(106,419)	(154,586)
Proceeds from sale of New Roads Renton property, net of selling costs	648,885	
Purchase of property and equipment	(398,836)	(671,351)
Net cash flows from investing activities	143,630	(825,937)
Cash Flows from Financing Activities		
Payments on notes payable	(427,294)	(26,056)
Proceeds from issuance of notes payable	185,977	82,813
Receipts of contributions restricted for endowment	50,000	50,000
Federal, state, and local fees and grants collected and restricted for facilities	181,403	276,789
Change in cash and investments held for operating and replacement reserves	(11,386)	(65,394)
Net cash flows from financing activities	(21,300)	318,152
<b>Net change in cash and cash equivalents</b>	<b>(210,758)</b>	<b>(607,801)</b>
Cash and Cash Equivalents, beginning of year	711,591	1,319,392
Cash and Cash Equivalents, end of year	500,833	711,591
Noncash Investing and Financing Activities		
Cash paid for interest	33,027	37,825
State grant earned and restricted for facilities	97,000	248,000
Long-term debt issuances for the acquisition of property and equipment	\$ -	\$ 294,786

See Notes to Consolidated Financial Statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Organization and Summary of Significant Accounting Policies

Friends of Youth was incorporated in 1951 to ensure all youth have every opportunity to succeed. The Agency partners with youth and families to provide the relationships, resources, and skills they need to attain personal growth and success. Friends of Youth is committed to equal opportunity for all persons without regard to gender, age, race, color, religion, creed, national origin, marital status, disability, or sexual orientation.

The Friends of Youth Foundation ("the Foundation") is a supporting organization that was established to seek and accept legacy gifts to support Friends of Youth. The Foundation is structured so that majority of its board members also serve on the Friends of Youth board. Accordingly, the Foundation is consolidated into the Friends of Youth financial statements.

Collectively, Friends of Youth and the Foundation are referred to as "the Agency" in these consolidated financial statements.

The Agency is headquartered in Kirkland, Washington, and provides services for youth throughout the Puget Sound region. The programs of the Agency are as follows:

#### Residential Services

- **Foster Care** – Providing a temporary home for children and youth whose family is unable to care for them. Our goal is to care for each child in a loving, secure home until they can be reunited with families, adopted, or placed into permanent homes. We foster youth referred by both the state and federal government.
- **Extended Foster Care** – New Roads Kingsgate provides extended foster care for unaccompanied refugee and immigrant youth, ages 16 to 21, as they pursue the education, employment, and life skills they need to transition to independence.
- **Residential Treatment** – This program provides 24-hour care and treatment for adolescents with emotional, behavioral, and family problems. Matsen House provides treatment for 12 adolescent boys with inappropriate sexual behaviors, referred by both the State of Washington and the federal government. Treatment addresses the range of developmental, social, and psychological concerns of each resident. McEachern House provides specialized mental health treatment for up to 10 youth referred by the federal government. Each resident has an individualized treatment plan that addresses substance abuse, family issues, social skills, education, vocational training, and the specifics of their legal cases. Colin Ferguson House provides group foster care for five youth with a focus on positive transitions to adulthood including education, community involvement, employment, and independent living skills.
- **Emergency Shelter** – Youth Haven, a home for youth ages 7 through 17, supports both foster youth and homeless or runaway youth. Services include a 24-hour intake phone line, assessment counseling, and family preservation. Referrals are accepted from youth, the state, and other partners.
- **Safe Place** – A nationally recognized outreach program for teens in crisis (ages 12 through 17) who can reach out for help through text message, phone, or one of our trained Safe Place sites. Our trained staff members respond immediately to connect youth with resources, including assistance in securing shelter, returning home, or finding an alternative safe placement.

## Homeless Youth Services

Our comprehensive services for youth, young adults, and young families experiencing homelessness include both our crisis response and a launching pad to self-sufficiency.

Crisis response services include the following:

- **Outreach & Drop-In Program** – Provides mobile street outreach, drop-in program, and case management services to homeless youth and young adults in North and East King County.
- **Emergency Shelter** – Our Landing shelter provides emergency overnight shelter for young adults ages 18 through 24. Guests receive a hot dinner, shower, laundry, a safe place to sleep, and access to mental health counseling, case management, and housing assessments.
- **Case Management** – Case managers assist young people experiencing homelessness in securing independent housing, in reconciling with family, in addressing the impact of sexual assault, and supporting CSEC (commercially exploited children) and those at risk of exploitation with specialized services.

Our launching support to self-sufficiency include the following:

- **Transitional Living Programs** – New Ground Everett, New Ground Kirkland, and New Ground Totem Lake provide housing and case management support for single young adults (ages 18 through 21) experiencing homelessness to support them in securing stable permanent housing and achieving self-sufficiency. New Ground Bothell and New Ground Sandpoint (ages 18 through 21) and New Ground Avondale Park (ages 18 through 24) provide transitional housing and case management for pregnant and parenting young adults and their children, with the goal of transitioning them to safe and secure permanent housing.
- **Supportive Housing Programs** – Housing for both single young adults and young families (ages 18 through 24) that provides case management to support them in securing stable permanent housing and achieving self-sufficiency.
- **Rapid Rehousing Program** – Supports households experiencing homelessness, ages 18 through 24, including individuals and families, in securing and maintaining housing by providing step-down rental assistance and housing-focused case management services.
- **Behavioral Health Support** – Individual, group, and family counseling for both mental health and substance use disorders, provided within our shelter, drop-in, and housing programs.
- **Employment** – Provides employment and training opportunities for young people experiencing homelessness, including internships, skill building, and job search support.
- **Education** – In collaboration with Lake Washington Technical College and Seattle Education Access, supports disconnected youth and young adults in completing a GED and pursuing post-secondary education and training.

## **Youth and Family Services**

- **Behavioral Health Outpatient Counseling and Family Support** – Individual, group, and family counseling for both mental health and substance use disorders as well as parenting, prevention, mentoring, and family support programs. Services are available in the Issaquah, Snoqualmie Valley, and Riverview School District communities as well as in our Child Welfare and Homeless Youth programs.
- **Home Visiting –Healthy Start** – In-home family support program that serves young parents residing in North and East King County with services that support the family and encourages the healthy development of their children. Family Support Specialists support new parents in their homes, including Friends of Youth's family housing programs.
- **Prevention** – A variety of school-based programs to support youth at risk of academic failure or in need of behavioral health supports during the school day. In addition, financial and social support is available for young adults and families in East King County to prevent them from experiencing homelessness.
- **WISe-Wraparound** – A team-based planning process for youth with complex needs and their families designed to help produce better outcomes for youth so that they can live in their homes and communities and realize their hopes and dreams. Services are available in the school district communities of Tahoma, Issaquah, Snoqualmie Valley, Riverview, and Skykomish.

## **Fiscal Sponsorship**

The Agency serves as a fiscal sponsor for Teen Café. Teen Café provides a safe, drop-in place for teens to go when they are out of school, where they can meet their friends and access programming and services as needed. The Agency maintains legal control over Teen Café and operates Teen Café as a program of the Agency. All activity of Teen Café is included in these consolidated financial statements and all unspent contributions restricted for the use of Teen Café are included in net assets with donor restrictions at the end of the year.

## **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Friends of Youth and the Foundation. All significant entity transactions and accounts have been eliminated in consolidation.

## **Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

## **Financial Statement Presentation**

The Agency reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

The Agency records grants and contributions received depending on the existence and/or nature of any donor restrictions. Donor-imposed restrictions that are met in the same reporting period as received are classified as increases in net assets without donor restrictions.

## **Net Assets with Donor Restrictions**

Net assets with donor restrictions consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Net assets with purpose restrictions		
Teen Café	\$ 193,537	\$ 405,000
Capital campaign - Issaquah remodel	131,300	
Capital campaign - New Ground Sandpoint remodel		73,578
Foster recruit	36,209	77,866
Various program services	49,307	80,833
Restricted for continued program use, invested in property and equipment	<u>7,415,464</u>	<u>7,229,650</u>
	7,825,817	7,866,927
Net assets with endowment restrictions		
Unappropriated endowment earnings	139,845	140,763
Perpetual endowment restrictions	<u>1,537,500</u>	<u>1,487,500</u>
	<u>1,677,345</u>	<u>1,628,263</u>
	<u>\$ 9,503,162</u>	<u>\$ 9,495,190</u>

The Agency often receives loans for the purpose of acquiring property and equipment to be used for specific programs for a stated period of time. For certain loans, if the compliance term is met, the loan is forgiven. As management considers the possibility of any repayment as remote, the amounts have been recorded as revenue with donor restrictions in the year earned by the Agency. Certain loans have forgiveness provisions (similar to contributions) where the maximum amount repayable (should default occur) is reduced over time as the compliance is met on a pro rata basis; however, other loans require the entire period of compliance be met before any amounts are forgiven. It is the Agency's policy to recognize the release of net assets with donor restrictions related to these restrictions in accordance with the forgiveness provision. In addition, certain agreements require payment of a portion of any appreciation in the value of property from the time the grant was made if the property is sold or the programs are discontinued.

Income from the Agency's perpetual endowment fund is to be used by the Agency for the purpose of delivering youth services consistent with its mission.

## **Duvall Project – Tenancy in Common**

The Agency is a tenant in common with Hopelink, another nonprofit organization, related to a two-story building in Duvall, Washington. Each organization uses one floor for its program activities and equally share in the cost of operations. The building costs attributable to the Agency was funded primarily through forgivable loans. The primary funding requirement related to the forgivable loans is that the building be used for program purposes for 50 years from the date the building was occupied in 2009. If the use restriction is met, no repayment of the total forgivable loans of approximately \$1,500,000 (the portion attributable to the Agency), included in net assets with donor restrictions, will be required.

## **Fair Value Measurements**

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

As noted below, investments are stated at fair value in these consolidated financial statements.

## **Cash and Cash Equivalents**

Cash and cash equivalents include cash in banks and money market funds. Cash and cash equivalents held in investment accounts are included with investment balances. On occasion, the Agency has amounts deposited with financial institutions in excess of federally insured limits.

## **Investments**

All investments are stated at fair value using Level 1 inputs under the fair value hierarchy above (quoted prices in active markets). Investments that are donated are recorded at fair value on the date of receipt.

## **Grants Receivable**

Grants receivable consist of grants and contracts administered by various local, state, and federal governmental agencies awarded or earned but not yet received. Revenue from these grants and contracts is subject to audit, which could result in adjustments to revenue. The adjustments are recorded at the time that such amounts can first be reasonably determined, normally upon notification by the government agency. During the years ended June 30, 2019 and 2018, no significant adjustments were made.

Management reviews grants receivable, estimates the amount of uncollectible accounts, and records a reserve for doubtful accounts (if required). Uncollectible accounts are written off against the reserve. An allowance for doubtful accounts was not considered necessary at June 30, 2019 or 2018.

## **Contributions Receivable**

Contributions receivable are recognized in the year the unconditional pledge is made. Contributions receivable are reviewed by management for collectibility, and an allowance is created for the estimated uncollectible balances. When a promise to give is determined to be uncollectible, it is written off against the allowance.

Contributions receivable due within one year are recorded at the amount expected to be collected. Contributions receivable that are considered long-term (expected to be collected in one to five years) are recognized at fair value (at the time of the donation) and are measured at the present value of the estimated cash flows. In arriving at fair value, contributions receivable are discounted using a market rate, which includes a present value discount rate and an estimated rate as an allowance for uncollectible amounts.

### **Operating and Replacement Reserve**

As part of certain programs with various entities, including the state and King County, the Agency is required to build up reserves for operations, repairs, and replacements. These reserve balances are as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Griffin Home	\$ 400,000	\$ 400,000
New Ground Kirkland	226,905	286,905
Duvall Project reserve (tenant in common with Hopelink)	88,300	85,700
Youth Haven	69,908	57,343
New Ground Totem Lake	55,283	42,660
Foster Homes	47,932	44,782
New Roads Kingsgate	46,364	34,168
New Ground Bothell	42,385	37,485
New Ground Sand Point	39,353	16,001
Others	14,758	14,758
	<u>\$ 1,031,188</u>	<u>\$ 1,019,802</u>

### **Property and Equipment**

Property and equipment are recorded at cost, if purchased, or at fair value at date of receipt, if donated. The Agency's policy is to capitalize assets with a cost greater than \$5,000 and a useful life of three years or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

### **Revenue Recognition from Contributions, Grants, and Fees**

Revenue from contributions (including those from the United Way) is recorded when the unconditional promise to give to the Agency is made. Revenue from grants and fees is recorded when the service is provided or the related expenditure is incurred.

### **Contributed Services and Materials**

Many volunteers make significant contributions of their time to carry out programs and activities of the Agency. In both 2019 and 2018, thousands of hours were contributed. The value of these services is not recorded in the consolidated financial statements because such items do not meet the criteria for recording under accounting principles generally accepted in the United States.

In-kind donations in both 2019 and 2018 consist of utilities, food, clothing, and baby care items. These in-kind donations are recognized as contribution revenue at fair value with a corresponding expense.

### **Federal Income Taxes**

Friends of Youth and the Foundation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

### **Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include salaries and wages, benefits, payroll taxes, in-kind usage, supplies, transportation, information technology, and conferences and meetings, which are allocated on the basis of estimates of time and effort, and rent, utilities, repairs and maintenance, interest, insurance, and depreciation, which are allocated on square footage basis.

### **Concentrations**

The Agency received approximately 45% and 47% of total support and revenue from three sources for the years ended June 30, 2019 and 2018, respectively. Receivables from four sources comprised approximately 75% of grants receivable at June 30, 2019. Receivables from three sources comprised approximately 58% of grants receivable at June 30, 2018.

### **Recent Accounting Pronouncement Adopted**

During the year ended June 30, 2019, the Agency adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Agency has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability of resources note (see Note 2).

### **Subsequent Events**

Management of the Agency has evaluated subsequent events through the date these consolidated financial statements were available to be issued, which was October 29, 2019.

### **Note 2. Liquidity and Availability of Resources**

The Agency strives to maintain liquid financial assets and reserves sufficient to cover at least 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in cash and cash equivalents and mutual and exchange-traded funds.



The following table reflects the Agency's financial assets as of June 30, 2019, available to meet general expenditures within one year of the statement of financial position date:

Financial assets at year-end:	
Cash and cash equivalents (including cash and investments held for reserves)	\$ 1,532,021
Investments	2,871,880
Grants receivable	1,991,806
Contributions receivable	<u>228,244</u>
	6,623,951
Amounts available (not available) to be used for general expenditures within one year:	
Appropriations from the endowment expected to be distributed in the next year	55,000
Cash and investments held for operating and replacement reserves	(1,031,188)
Investments held for endowment	(1,802,400)
Contributions receivable not expected to be collected within the next year	(60,711)
Net assets with purpose restrictions:	
Teen Café	(193,537)
Capital campaign - Issaquah remodel	(131,300)
Foster recruit	(36,209)
Various program services	<u>(49,307)</u>
	<u>(3,249,652)</u>
	<u><u>\$ 3,374,299</u></u>

### Note 3. Investments

Current investments and investments held for reserves consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents (held for reserves)	\$ 187,968	\$ 257,085
Mutual and exchange-traded funds		
Fixed income	1,122,188	1,019,607
Large cap equities	384,388	351,411
International equities	156,279	147,283
Small cap equities	91,405	100,802
Real estate	82,672	75,658
Emerging markets	<u>75,768</u>	<u>74,557</u>
	<u>\$ 2,100,668</u>	<u>\$ 2,026,403</u>

Current investments and investments held for reserves are presented in the consolidated statements of financial position as follows at June 30:

	<u>2019</u>	<u>2018</u>
Investments	\$ 1,069,480	\$ 1,006,601
Cash and investments held for operating and replacement reserves	<u>1,031,188</u>	<u>1,019,802</u>
	<u>\$ 2,100,668</u>	<u>\$ 2,026,403</u>

Investments held for endowment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Cash equivalents	\$ 76,725	\$ 81,413
Mutual and exchange-traded funds		
Fixed income	653,967	612,062
Large cap equities	444,953	416,716
Small cap equities	210,345	225,652
International equities	189,890	204,846
Real estate	124,599	109,022
Emerging markets	<u>101,921</u>	<u>100,388</u>
	<u>\$ 1,802,400</u>	<u>\$ 1,750,099</u>

Cash equivalents held for the endowment are included in the investment balance as they are held for long-term purposes.

Investment income is reported in the statements of activities and consists of interest and dividend income and realized and unrealized gains and losses.

#### **Note 4. Contributions Receivable**

Contributions receivable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 167,533	\$ 152,641
Receivable in one to five years	80,000	206,500
Receivable in more than five years	<u>6,000</u>	<u>17,000</u>
	253,533	376,141
Less: allowance for uncollectible contributions receivable	(17,214)	(18,807)
Less: discount on contributions receivable (4.75%)	<u>(8,075)</u>	<u>(18,691)</u>
Net contributions receivable	<u>\$ 228,244</u>	<u>\$ 338,643</u>

Contributions receivable are presented in the statements of financial position as follows at June 30:

	<u>2019</u>	<u>2018</u>
Contributions receivable	\$ 167,533	\$ 152,641
Contributions receivable, net of current portion, allowance and discount	<u>60,711</u>	<u>186,002</u>
	<u>\$ 228,244</u>	<u>\$ 338,643</u>

#### **Note 5. Property and Equipment**

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Furniture, fixtures, and equipment	\$ 967,029	\$ 968,650
Buildings and improvements	<u>19,499,253</u>	<u>18,978,434</u>
	20,466,282	19,947,084
Less: accumulated depreciation	<u>(7,642,865)</u>	<u>(7,116,719)</u>
	12,823,417	12,830,365
Land	2,536,700	2,611,700
Construction in progress	<u>58,607</u>	<u>564,306</u>
	<u>\$ 15,418,724</u>	<u>\$ 16,006,371</u>

Construction in progress at June 30, 2018, consists primarily of renovation costs related to the New Ground Sand Point property. The renovation was completed during the year ended June 30, 2019, and placed into service.

## Note 6. Long-Term Debt

The Agency has the following notes payable at June 30:

	2019	2018
Non-interest-bearing note payable to Washington State Department of Commerce, secured by a deed of trust on property owned by Friends of Youth in Bothell with a carrying value of \$496,570. No payments are required until the note is due, which is on December 31, 2027.	\$ 350,000	\$ 350,000
Non-interest-bearing note payable to King County, secured by deed of trust on property owned by Friends of Youth in Kirkland with a carrying value of \$1,669,164. No payments are required until the note is due, which is on June 30, 2063. The loan remains interest-free provided there is no breach, default, or violation of loan covenants. If a breach, default, or violation occurs, the loan will bear the lesser of an annual interest of 12% or the highest rate allowed by law.	228,000	228,000
Non-interest-bearing note payable to Washington State Department of Commerce, secured by a deed of trust on property owned by Friends of Youth in Bellevue with a carrying value of \$189,690. No payments are required until the note is due, which is on April 30, 2021. The loan remains interest-free provided there is no change of use of the building (foster care).	208,213	208,213
Non-interest-bearing note payable to King County, secured by deed of trust on two properties owned by Friends of Youth in Kirkland with a carrying value of \$1,020,585. No payments are required until the note is due, which is on May 31, 2063. The loan remains interest-free providing there is no breach, default, or violation of loan covenants. If a breach, default, or violation occurs, the loan will bear the lesser of an annual interest of 12% or the highest rate allowed by law.	200,000	200,000
Non-interest bearing note payable to King County, secured by deed of trust on two properties owned by Friends of Youth in Kirkland with a carrying value of \$1,016,177. No payments are required until the note is due, which is on October 31, 2064. The loan remains interest-free providing there is no breach, default, or violation of loan covenants. If a breach, default, or violation occurs, the loan will bear the lesser of an annual interest of 12% or the highest rate allowed by law.	200,000	200,000
Wells Fargo note with fixed interest at 4.75%. The note is secured by real property owned by Friends of Youth in North Bend with a carrying value of \$707,983. Regular monthly principal and interest payments are required in the amount of \$2,692 (an additional principal payment of \$181,403 was made in 2019). The note is due in full upon maturity at April 15, 2022.	264,862	458,017

The Agency's notes payable continue as follows at June 30:

	<u>2019</u>	<u>2018</u>
Note payable to City of Seattle with fixed interest at 1%. No interest or principal payments are due until maturity on July 31, 2067. A 25-year extension may be applied for prior to the original maturity date to July 31, 2092. The loan is secured by a deed of trust on a building owned by Friends of Youth with a carrying value of \$1,170,997. The loan remains interest-free providing there is no change of use of the building (low-income housing). If a breach, default, or violation occurs, the loan will bear the lesser of an annual interest of 12% or the highest rate allowed by law.	563,576	377,599
Notes paid in full during the year ending June 30, 2019		<u>234,139</u>
Total notes payable	2,014,651	2,255,968
Less: current portion	<u>(20,209)</u>	<u>(27,974)</u>
	<u>\$ 1,994,442</u>	<u>\$ 2,227,994</u>

Principal maturities on those notes are as follows for the years ending June 30:

2020	\$ 20,209
2021	229,403
2022	223,463
2023	
2024	
Thereafter	<u>1,541,576</u>
	<u>\$ 2,014,651</u>

#### **Note 7. Leases**

The Agency has noncancelable operating leases for office space and other property. Total rental expense, excluding common area maintenance charges, was approximately \$81,000 and \$49,000 for the years ended June 30, 2019 and 2018, respectively. Total future minimum lease payments due under these lease agreements are as follows for the years ending June 30:

2020	\$ 91,832
2021	46,384
2022	33,972
2023	30,720
2024	30,720
Thereafter	<u>99,840</u>
	<u>\$ 333,468</u>

In 2018, the Agency entered into a lease for the land under the New Ground Sand Point property with the City of Seattle at an amount of \$1 per year through March 31, 2072. The land lease bears restrictive covenants to the use of the land for the lease period and, therefore, the Agency has not recognized a value of this lease within its consolidated financial statements as it believes the fair value is not material. The Agency is in compliance with the land lease covenants at June 30, 2019.

#### **Note 8. Pension Plan**

The Agency participates in a defined contribution pension plan covering eligible employees. The Agency matches contributions up to 3% of the employee's salary. Included in employee benefits expense is \$155,346 and \$133,079 of pension expense for the years ended June 30, 2019 and 2018, respectively.

#### **Note 9. Endowment**

The Agency's endowment includes one individual perpetual fund for the purpose of delivering youth services as well as funds designated by the Board of Directors to function as endowments ("quasi-endowments"). As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### **Interpretation of Relevant Law**

The Board of Directors of the Agency has interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of 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 interpretation, the Agency classifies as net assets with perpetual donor restrictions as (a) the original value of gifts donated to the perpetual endowment, plus (b) the original value of subsequent gifts to the perpetual endowment and accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with perpetual donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

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

Endowment net assets consisted of the following at June 30:

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Earnings	Perpetual	
Donor-restricted endowment funds	\$ -	\$ 139,845	\$ 1,537,500	\$ 1,677,345
Board-designated funds	125,055			125,055
Total funds	<u>\$ 125,055</u>	<u>\$ 139,845</u>	<u>\$ 1,537,500</u>	<u>\$ 1,802,400</u>

  

	2018			
	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Earnings	Perpetual	
Donor-restricted endowment funds	\$ -	\$ 140,763	\$ 1,487,500	\$ 1,628,263
Board-designated funds	121,836			121,836
Total funds	<u>\$ 121,836</u>	<u>\$ 140,763</u>	<u>\$ 1,487,500</u>	<u>\$ 1,750,099</u>

Changes in endowment net assets are as follows for the years ended June 30:

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Earnings	Perpetual	
Endowment net assets, beginning of year	\$ 121,836	\$ 140,763	\$ 1,487,500	\$ 1,750,099
Investment return				
Interest and dividends	4,382	57,769		62,151
Net depreciation (realized and unrealized) in investments	(322)	(4,564)		(4,886)
Total investment return	4,060	53,205		57,265
Contributions received	19,853		50,000	69,853
Appropriation of endowment earnings for expenditure		(54,123)		(54,123)
Transfers out	(20,694)			(20,694)
Endowment net assets, end of year	<u>\$ 125,055</u>	<u>\$ 139,845</u>	<u>\$ 1,537,500</u>	<u>\$ 1,802,400</u>

	2018			
	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Earnings	Perpetual	
Endowment net assets, beginning of year	\$ 70,721	\$ 105,435	\$ 1,437,500	\$ 1,613,656
Investment return				
Interest and dividends	2,306	49,419		51,725
Net appreciation (realized and unrealized) in investments	1,843	44,557		46,400
Total investment return	4,149	93,976		98,125
Contributions received	18,076		50,000	68,076
Appropriation of endowment earnings for expenditure		(58,648)		(58,648)
Transfers in	28,890			28,890
Endowment net assets, end of year	<u>\$ 121,836</u>	<u>\$ 140,763</u>	<u>\$ 1,487,500</u>	<u>\$ 1,750,099</u>

The endowment agreement provides for the use of up to 25% of the corpus (the perpetual endowment fund) once every 10 years in an emergency situation to be decided unanimously by the Board of Directors. No such releases occurred during the years ended June 30, 2019 or 2018.

### **Return Objectives and Risk Parameters**

The Agency has adopted investment and spending policies for 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 the Agency must hold in perpetuity or for a donor-specified period, as well as quasi-endowment funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to protect principal while maximizing returns within parameters of reasonable and prudent risk. The Agency's goal is to manage the funds to provide a total return over a five-year rolling period exceeding the Consumer Price Index plus administrative costs. Actual returns in any given year may vary from this amount.

### **Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Agency relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Agency targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

### **Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Agency makes available for spending an amount equal to the sum of the assumed long-term future net investment returns minus the sum of the assumed long-term rate of inflation plus the Agency's administrative fee, multiplied by the average quarterly balance of each fund for the most recently audited 12 quarters. The Agency shall annually analyze the spending guideline in light of various factors to determine the actual amount to be distributed.



### **Funds with Deficiencies**

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 UPMIFA requires the Agency to retain as a fund of perpetual duration. There were no deficiencies of this nature as of June 30, 2019 or 2018.

S U P P L E M E N T A R Y   I N F O R M A T I O N

**FRIENDS OF YOUTH and  
THE FRIENDS OF YOUTH FOUNDATION**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2019

ASSETS	Friends of Youth	The Friends of Youth Foundation	Eliminating Entries	Total
<b>Current Assets</b>				
Cash and cash equivalents	\$ 499,359	\$ 1,474	\$ -	\$ 500,833
Investments	1,069,480			1,069,480
Grants receivable	1,991,806			1,991,806
Contributions receivable	167,533			167,533
Inter-entity receivables		123,279	(123,279)	
Deposits, prepaid expenses, and other	187,873			187,873
<b>Total current assets</b>	<b>3,916,051</b>	<b>124,753</b>	<b>(123,279)</b>	<b>3,917,525</b>
<b>Cash and Investments Held for</b>				
Operating and Replacement Reserves	1,031,188			1,031,188
Investments Held for Endowment		1,802,400		1,802,400
Contributions Receivable, net of current portion, allowance, and discount	60,711			60,711
Property and Equipment, net	15,418,724			15,418,724
<b>Total assets</b>	<b>\$20,426,674</b>	<b>\$ 1,927,153</b>	<b>\$ (123,279)</b>	<b>\$22,230,548</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 344,979	\$ -	\$ -	\$ 344,979
Inter-entity payables	123,279		(123,279)	
Accrued payroll, benefits, and taxes	587,278			587,278
Accrued sick leave and vacation pay	364,761			364,761
Current portion of long-term debt	20,209			20,209
<b>Total current liabilities</b>	<b>1,440,506</b>		<b>(123,279)</b>	<b>1,317,227</b>
Long-Term Debt, net of current portion	1,994,442			1,994,442
<b>Total liabilities</b>	<b>3,434,948</b>		<b>(123,279)</b>	<b>3,311,669</b>
<b>Net Assets</b>				
Without donor restrictions	9,165,909	249,808		9,415,717
With donor restrictions	7,825,817	1,677,345		9,503,162
<b>Total net assets</b>	<b>16,991,726</b>	<b>1,927,153</b>		<b>18,918,879</b>
<b>Total liabilities and net assets</b>	<b>\$20,426,674</b>	<b>\$ 1,927,153</b>	<b>\$ (123,279)</b>	<b>\$22,230,548</b>

**FRIENDS OF YOUTH and  
THE FRIENDS OF YOUTH FOUNDATION**

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

	Friends of Youth	The Friends of Youth Foundation	Eliminating Entries	Total
<b><u>Operating Activities</u></b>				
Support and Revenue				
Federal, state, and local fees and grants	\$ 12,463,510	\$ -	\$ -	\$ 12,463,510
Contributions, including in-kind	2,890,286	69,853	(298,055)	2,662,084
United Way	188,000			188,000
Fees for services	508,396	20,000	(51,902)	476,494
Investment income	95,321	57,265		152,586
	<hr/>	<hr/>	<hr/>	<hr/>
Total support and revenue	16,145,513	147,118	(349,957)	15,942,674
Program Expenses				
Residential services	6,622,492		(20,000)	6,602,492
Homeless youth services	3,546,349			3,546,349
Youth and family services	3,712,196			3,712,196
Teen Café	216,557			216,557
Support to Friends of Youth		298,055	(298,055)	
	<hr/>	<hr/>	<hr/>	<hr/>
Total program expenses	14,097,594	298,055	(318,055)	14,077,594
Supporting Services				
Management and general	2,189,195			2,189,195
Fundraising	594,981	62,940	(31,902)	626,019
	<hr/>	<hr/>	<hr/>	<hr/>
Total supporting services	2,784,176	62,940	(31,902)	2,815,214
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	16,881,770	360,995	(349,957)	16,892,808
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Change in net assets from operating activities</b>	<b>(736,257)</b>	<b>(213,877)</b>		<b>(950,134)</b>
<b><u>Non-Operating Activities</u></b>				
Federal, state, and local fees and grants restricted for facilities	278,403			278,403
Gain on sale of New Roads Renton property		282,723		282,723
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Change in net assets</b>	<b>\$ (457,854)</b>	<b>\$ 68,846</b>	<b>\$ -</b>	<b>\$ (389,008)</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

SUPPLEMENTARY REPORTS AND  
SCHEDULES IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS  
AND THE UNIFORM GUIDANCE

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Friends of Youth and  
The Friends of Youth Foundation  
Kirkland, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Friends of Youth and The Friends of Youth Foundation (collectively, "the Agency"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 29, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Agency's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Peterson Sullivan LLP". The signature is written in a cursive, flowing style.

October 29, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors  
Friends of Youth and  
The Friends of Youth Foundation  
Kirkland, Washington

**Report on Compliance for Each Major Federal Program**

We have audited the Friends of Youth and The Friends of Youth Foundation's (collectively, "the Agency") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2019. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.



### ***Opinion on Each Major Federal Program***

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

### **Report on Internal Control over Compliance**

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Peterson Sullivan LLP*

October 29, 2019

**FRIENDS OF YOUTH and  
THE FRIENDS OF YOUTH FOUNDATION**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2019

Federal Grantor/Program Title	Award Number	CFDA Number	Federal Expenditures
<b>Department of Agriculture</b>			
<i>Child Nutrition Cluster</i>			
Passed through State of Washington, School Food Services			
School Breakfast Program	174039519	10.553	\$ 11,922
National School Lunch Program	174039519	10.555	<u>19,062</u>
<b>Total Child Nutrition Cluster and Department of Agriculture</b>			<b>30,984</b>
<b>Department of Housing and Urban Development</b>			
<i>CDBG - Entitlement Grants Cluster</i>			
Passed through King County Department of Housing and CDBG			
Community Development Block Grants/Entitlement Grants	N/A	14.218	3,454
Passed through City of Seattle Office of Housing			
Community Development Block Grants/Entitlement Grants**	N/A	14.218	<u>563,576</u>
Total CDBG - Entitlement Grants Cluster			567,030
Continuum of Care Program	WA0005L0T001609	14.267	64,206
Continuum of Care Program	WA0005L0T001710	14.267	59,330
Passed through City of Seattle Human Services Department			
Continuum of Care Program	DA17-1423	14.267	41,663
Continuum of Care Program	DA18-1573	14.267	56,689
Continuum of Care Program	DA18-1423	14.267	114,157
Passed through King County			
Continuum of Care Program	5897696	14.267	65,972
Passed through YMCA			
Continuum of Care Program	5984981	14.267	<u>121,295</u>
Total Continuum of Care Program			523,312
<i>Housing Voucher Cluster</i>			
Passed through King County Housing Authority			
Section 8 Housing Choice Vouchers	2013-PSH-0016	14.871	<u>43,503</u>
Total Housing Voucher Cluster			<u>43,503</u>
<b>Total Department of Housing and Urban Development</b>			<b>1,133,845</b>
<b>Department of Justice</b>			
Passed through King County Sexual Assault Resource Center			
Consolidated and Technical Assistance Grant Program to Address Children and Youth Experiencing Domestic and Sexual Violence and Engage Men and Boys as Allies	N/A	16.888	<u>31,116</u>
<b>Total Department of Justice</b>			<b>\$ 31,116</b>

\* Denotes major program

\*\* Loans with continuing compliance requirements

See Notes to Schedule of Expenditures of Federal Awards

**FRIENDS OF YOUTH and  
THE FRIENDS OF YOUTH FOUNDATION**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

For the Year Ended June 30, 2019

Federal Grantor/Program Title	Award Number	Number	Expenditures
<b>Department of Health and Human Services</b>			
Passed through Public Health - Seattle and King County			
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	3005 CHS	93.505	\$ 93,037
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	3967 CHS	93.505	<u>72,259</u>
Total Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program			165,296
Transitional Living for Homeless Youth	90CX6964-05-01	93.550	53,382
Transitional Living for Homeless Youth	90CX7076-05-01	93.550	<u>187,492</u>
Total Transitional Living for Homeless Youth			240,874
Basic Center Grant	90CY6983-01-00	93.623	53,050
Basic Center Grant	90CY6983-02-00	93.623	<u>145,358</u>
Total Basic Center Grant			198,408
Unaccompanied Alien Children Program*	90ZU0150-03-07	93.676	826,203
Unaccompanied Alien Children Program*	90ZU0245-01-03	93.676	1,079,610
Unaccompanied Alien Children Program*	90ZU0246-01-03	93.676	<u>1,518,612</u>
Total Unaccompanied Alien Children Program			<u>3,424,425</u>
<b>Total Department of Health and Human Services</b>			<b>4,029,003</b>
<b>Department of Homeland Security</b>			
Passed through Hopelink			
Emergency Food and Shelter National Board Program	N/A	97.024	<u>10,948</u>
<b>Total Department of Homeland Security</b>			<b><u>10,948</u></b>
<b>Total federal expenditures</b>			<b><u>\$ 5,235,896</u></b>

\* Denotes major program

\*\* Loans with continuing compliance requirements

See Notes to Schedule of Expenditures of Federal Awards

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### **Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards ("the Schedule") includes the federal grant activity of Friends of Youth and The Friends of Youth Foundation (collectively, "the Agency") under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Agency. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

### **Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

### **Note 3. Indirect Cost Rate**

The Agency has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**FRIENDS OF YOUTH and  
THE FRIENDS OF YOUTH FOUNDATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2019

**A. Summary of Audit Results**

**Financial Statements:**

Type of auditors' report issued: Unmodified

**Internal Control over Financial Reporting:**

Material weaknesses identified: None reported

Significant deficiencies identified not considered to be material weaknesses: None reported

Noncompliance material to financial statements noted: None reported

**Federal Awards:**

Material weaknesses identified: None reported

Significant deficiencies identified not considered to be material weaknesses: None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported: None reported

**Identification of Major Programs:**

<u>Program Title</u>	<u>CFDA Number</u>
Unaccompanied Alien Children Program	93.676

Dollar threshold used to distinguish between Type A and B programs: \$ 750,000

Auditee qualified as low-risk auditee: Yes

**B. Findings - Financial Statement Audit** None reported

**C. Findings and Questioned Costs - Major Federal Award Programs Audit** None reported