

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED JUNE 30, 2017 AND 2016



BOYS & GIRLS CLUBS OF KING COUNTY, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

December 14, 2017

Board of Directors  
Boys & Girls Clubs of King County, Inc.  
Seattle, Washington

We have audited the accompanying financial statements of Boys & Girls Clubs of King County, Inc., a non-profit corporation, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years 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.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

**Opinion**

In our opinion, the financial statements referred to in the first paragraph of this letter present fairly, in all material respects, the financial position of Boys & Girls Club of King County, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Jacobson Jarvis & Co, PLLC*

Jacobson Jarvis & Co, PLLC

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 488,325	\$ 910,306
Investments	1,809,666	1,523,401
Promises to give - current portion	433,804	574,807
Grants receivable	267,717	314,031
Contributed facilities receivable - current portion	204,455	194,990
Other receivables	368,757	338,648
Note receivable - current portion	80,000	80,000
Prepaid expenses	138,604	100,003
Total Current Assets	<u>3,791,328</u>	<u>4,036,186</u>
Endowment Investments	528,578	463,716
Promises to Give, net of current portion	536,478	884,673
Contributed Facilities Receivable, net of current portion	8,113,019	8,317,474
Note Receivable	60,000	140,000
Property and Equipment, net	45,593,304	44,400,373
	<u>\$ 58,622,707</u>	<u>\$ 58,242,422</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 549,825	\$ 525,663
Accrued liabilities	1,021,494	974,081
Unearned revenue	638,938	619,551
Lease obligation, current portion	77,420	70,325
Total Current Liabilities	<u>2,287,677</u>	<u>2,189,620</u>
Long-term Lease, net of current portion	195,198	235,007
Long-term Line of Credit	2,500,000	1,171,398
Long-term Debt	1,750,000	3,000,000
Forgivable Debt	2,679,625	2,745,925
Total Liabilities	<u>9,412,500</u>	<u>9,341,950</u>
Net Assets		
Unrestricted	38,631,306	38,533,292
Temporarily restricted	10,239,941	10,028,220
Permanently restricted	338,960	338,960
Total Net Assets	<u>49,210,207</u>	<u>48,900,472</u>
	<u>\$ 58,622,707</u>	<u>\$ 58,242,422</u>

See notes to financial statements.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenue								
Public support								
Contributions	\$ 3,520,130	\$ 594,536	\$ -	\$ 4,114,666	\$ 3,971,888	\$ 728,357	\$ -	\$ 4,700,245
Grants from government agencies	1,953,060			1,953,060	2,544,127			2,544,127
In-kind contributions	3,934,741	378,000		4,312,741	1,244,156	-		1,244,156
Special events, net of direct expenses of \$287,962 and \$313,859, respectively	335,582			335,582	373,778			373,778
United Way	248,003			248,003	263,752			263,752
Net assets released from restriction	829,563	(829,563)	-	-	972,082	(972,082)	-	-
Total Public Support	<u>10,821,079</u>	<u>142,973</u>	<u>-</u>	<u>10,964,052</u>	<u>9,369,783</u>	<u>(243,725)</u>	<u>-</u>	<u>9,126,058</u>
Revenue								
Program service fees	8,990,020			8,990,020	8,931,103			8,931,103
Membership dues	441,984			441,984	438,050			438,050
Other	507,488			507,488	537,395			537,395
Total Revenue	<u>9,939,492</u>			<u>9,939,492</u>	<u>9,906,548</u>			<u>9,906,548</u>
Total Public Support and Revenue	<u>20,760,571</u>	<u>142,973</u>	<u>-</u>	<u>20,903,544</u>	<u>19,276,331</u>	<u>(243,725)</u>	<u>-</u>	<u>19,032,606</u>
Expenses								
Program services	17,275,539			17,275,539	16,916,709			16,916,709
Management and general	1,882,230			1,882,230	1,469,642			1,469,642
Fundraising	1,465,678			1,465,678	1,156,214			1,156,214
Total Functional Expenses	<u>20,623,447</u>			<u>20,623,447</u>	<u>19,542,565</u>			<u>19,542,565</u>
Boys & Girls Clubs of America Dues	46,278			46,278	45,376			45,376
Total Expenses	<u>20,669,725</u>			<u>20,669,725</u>	<u>19,587,941</u>			<u>19,587,941</u>
Change in Net Assets before Gains and (Losses)	<u>90,846</u>	<u>142,973</u>	<u>-</u>	<u>233,819</u>	<u>(311,610)</u>	<u>(243,725)</u>	<u>-</u>	<u>(555,335)</u>
Gains and (Losses)								
Gain on insurance company distribution	-			-	114,080			114,080
Gain (loss) on investments	99,369	68,748		168,117	(148,641)	(8,119)		(156,760)
Gain (loss) on disposal of property	3,091			3,091	(30,014)			(30,014)
Loss on uncollectible contributions	(95,292)	-	-	(95,292)	(80,179)	-	-	(80,179)
Total Gains and (Losses)	<u>7,168</u>	<u>68,748</u>	<u>-</u>	<u>75,916</u>	<u>(144,754)</u>	<u>(8,119)</u>	<u>-</u>	<u>(152,873)</u>
Total Change in Net Assets	<u>98,014</u>	<u>211,721</u>	<u>-</u>	<u>309,735</u>	<u>(456,364)</u>	<u>(251,844)</u>	<u>-</u>	<u>(708,208)</u>
Net Assets - beginning of year	<u>38,533,292</u>	<u>10,028,220</u>	<u>338,960</u>	<u>48,900,472</u>	<u>38,989,656</u>	<u>10,280,064</u>	<u>338,960</u>	<u>49,608,680</u>
Net Assets - end of year	<u>\$ 38,631,306</u>	<u>\$ 10,239,941</u>	<u>\$ 338,960</u>	<u>\$ 49,210,207</u>	<u>\$ 38,533,292</u>	<u>\$ 10,028,220</u>	<u>\$ 338,960</u>	<u>\$ 48,900,472</u>

See notes to financial statements.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 8,937,485	\$ 744,765	\$ 883,494	\$ 10,565,744	\$ 8,602,731	\$ 864,076	\$ 609,768	\$ 10,076,575
Employee health and retirement benefits	830,533	35,704	78,613	944,850	738,770	74,204	52,364	865,338
Payroll taxes	773,348	104,268	68,163	945,779	788,550	79,204	55,893	923,647
Total Payroll and Related Expenses	10,541,366	884,737	1,030,270	12,456,373	10,130,051	1,017,484	718,025	11,865,560
Occupancy	2,159,044	135,215	43,555	2,337,814	2,074,321	81,774	59,739	2,215,834
Supplies and awards	1,790,085	12,707	35,446	1,838,238	1,951,922	5,415	38,743	1,996,080
Professional fees and contract services	452,441	476,781	183,808	1,113,030	463,360	183,928	158,828	806,116
Local transportation	275,739	16,621	10,517	302,877	324,252	13,683	11,406	349,341
Bank fees	166,209	57,329	53,075	276,613	247,602	28,727	68,675	345,004
Communications and technology	612,776	47,745	15,583	676,104	254,698	25,852	1,480	282,030
Interest	191,826	-	-	191,826	203,085	-	-	203,085
Insurance	91,196	11,498	-	102,694	116,092	8,362	-	124,454
Conferences and training	64,578	44,058	5,170	113,806	95,948	10,872	5,948	112,768
Equipment maintenance	49,994	3,090	65,362	118,446	42,150	2,792	53,861	98,803
Outside printing	8,670	23,139	14,608	46,417	18,952	19,310	30,155	68,417
Other	38,157	23,227	2,219	63,603	41,441	4,943	1,804	48,188
Advertising and promotion	11,163	741	3,860	15,764	19,724	5,812	4,111	29,647
Postage	4,492	4,025	2,205	10,722	9,483	3,385	3,439	16,307
Total Expenses Before Depreciation and Amortization	16,457,736	1,740,913	1,465,678	19,664,327	15,993,081	1,412,339	1,156,214	18,561,634
Depreciation and Amortization	817,803	141,317	-	959,120	923,628	57,303	-	980,931
Total Expenses	\$ 17,275,539	\$ 1,882,230	\$ 1,465,678	\$ 20,623,447	\$ 16,916,709	\$ 1,469,642	\$ 1,156,214	\$ 19,542,565

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from contributors	\$ 5,213,967	\$ 5,551,293
Cash received from government agencies	1,933,074	2,609,505
Cash received from program participants	9,031,540	8,833,977
Cash received from members	441,984	438,050
Interest and other received	374,523	566,697
Cash paid to employees	(12,408,960)	(11,806,513)
Cash paid to vendors	(6,238,351)	(5,987,668)
Cash paid for interest	<u>(56,826)</u>	<u>(47,947)</u>
Net Cash (Used) Provided by Operating Activities	<u>(1,709,049)</u>	<u>157,394</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(102,376)	(831,272)
Payments received on note receivable	80,000	80,000
Purchase of investments	(231,446)	(99,268)
Proceeds from sale of investments	<u>132,250</u>	<u>349,905</u>
Net Cash Used by Investing Activities	<u>(121,572)</u>	<u>(500,635)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted to investment in property	166,152	105,855
Proceeds from line of credit	1,328,602	950,000
Proceeds from notes payable	-	2,391,193
Principal payments on line of credit	-	(1,340,000)
Principal payments on notes payable and lease obligations	<u>(86,114)</u>	<u>(1,829,633)</u>
Net Cash Provided by Financing Activities	<u>1,408,640</u>	<u>277,415</u>
Change in Cash and Cash Equivalents	(421,981)	(65,826)
Cash and Cash Equivalents - beginning of year	<u>910,306</u>	<u>976,132</u>
Cash and Cash Equivalents - end of year	<u>\$ 488,325</u>	<u>\$ 910,306</u>
<b>Noncash Investing and Financing Activities</b>		
Purchase of equipment through issuance of lease obligation	<u>\$ 53,400</u>	<u>\$ -</u>

See notes to financial statements.



BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of Change in Net Assets to</b>		
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 309,735	\$ (708,208)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation and amortization	959,120	980,931
Forgiveness of debt	(1,316,300)	(513,800)
Contributed property and equipment	(1,954,991)	(16,100)
Reinvested earnings	(83,814)	(124,381)
(Gain) loss on investments	(168,117)	156,760
(Gain) loss on disposal of property and equipment	(3,091)	30,014
Contributions restricted to investment in property and equipment	(166,152)	(105,855)
Decrease (increase) in		
Promises to give	489,198	85,693
Grants receivable	46,314	131,678
Contributed facilities receivable	194,990	186,212
Other receivables	(30,109)	12,117
Prepaid expenses	(38,601)	58,538
(Decrease) increase in		
Accounts payable	(14,031)	(35,626)
Accrued liabilities	47,413	59,047
Unearned revenue	19,387	(39,626)
	<u>19,387</u>	<u>(39,626)</u>
Net Cash (Used) Provided by Operating Activities	<u>\$ (1,709,049)</u>	<u>\$ 157,394</u>

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Boys & Girls Clubs of King County, Inc. (the Clubs) is a nonprofit corporation organized to promote the health; life skills; and educational, vocational, and character development of youth ages 6-18. The Clubs' operations are carried out through 13 Clubs and 28 before-and-after-school program sites in King County, Washington (Bainbridge Island Club is located within Kitsap County).

Each of the program sites facilitates programs designed to meet the physical, emotional, cultural, and social needs of the participants. Because these core areas are integrated, it is not practical to separate expenses into program categories. Some of the programs are as follows:

**Project Learn** – The base of all educational programs offered through Boys & Girls Clubs, Project Learn bridges the gap between school-based educational activities and the wide range of programs offered at Boys & Girls Clubs. For each participating Boys & Girls Club member, an assessment plan (educational, fitness, social, and life skills) is established to reinforce regular school curriculum through Club activities.

**Computer Education** – Each of the 13 Clubs offers access to networked computer workstations and skill-level/age-appropriate training classes. In addition to Microsoft Office Suite lessons (Word, Excel, PowerPoint, etc.), a full range of digital arts and desktop publishing programs is offered as part of Club Tech. For younger members, software titles geared toward developing cognitive skills are featured.

**Smart Girls** – Community service is a leading principle for Boys & Girls Clubs' life skills-focused programs. The Smart Girls program matches teenage girl members with younger female members in a mentorship-based program that addresses personal, health, and social issues.

**Athletics** – Boys & Girls Clubs sports/fitness programs have an introductory skills focus and emphasize inclusion, sportsmanship and life skills lessons. Options range from daily drop-in activities to full-league sessions.

**Keystone & Torch Clubs** – Members have access to Clubs-based leadership development programs through Keystone (high school) and Torch Clubs (middle school). Highlights include community service projects, national conferences, and member-to-member mentoring.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal income taxes

The Internal Revenue Service has recognized the Clubs as 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.

Basis of presentation

In accordance with financial accounting standards, the Clubs are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets of the Clubs are available as follows:

Unrestricted net assets are available without restriction for support of the Clubs' operations.

Temporarily restricted net assets are restricted by the donors to be used for certain purposes or future periods as follows:

	<u>2017</u>	<u>2016</u>
Contributed facility - use in future periods	\$ 8,317,474	\$ 8,512,463
Capital expenditures	263,636	168,339
Program services	<u>1,658,831</u>	<u>1,347,418</u>
	<u>\$ 10,239,941</u>	<u>\$ 10,028,220</u>

Net assets were released from donor temporary restrictions by incurring costs satisfying the restricted purposes or by the passage of time as follows:

	<u>2017</u>	<u>2016</u>
Capital campaign expenditures	\$ 70,855	\$ 38,835
Use of contributed facilities	194,989	186,212
Program services	<u>563,719</u>	<u>747,035</u>
	<u>\$ 829,563</u>	<u>\$ 972,082</u>

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for various program purposes.

Cash and cash equivalents

Cash and cash equivalents consist of checking and savings accounts. The Clubs maintain cash deposits in bank accounts which may exceed federally insured limits at times during the year. The Clubs have not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Investments

Investments are stated at fair value. Investment earnings are reported net of related investment expenses on the statements of activities. The amount of expenses netted with earnings was \$15,570 and \$16,082, respectively, for the years ended June 30, 2017 and 2016.

Grants receivable

Grants and accounts receivable are stated at net realizable value and consist of grants from corporations and government agencies to fund after-school programs for children from low-to-moderate income families.

Promises to give

In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period received. Promises to give are shown net of the allowance for uncollectible amounts. Allowances for uncollectible accounts are estimated based on management's periodic evaluation of the Clubs' past loss experience and management's analysis of specific amounts due.

The fair value of promises to give is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At June 30, 2017 and 2016, the Clubs had no conditional promises to give.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional promises to give as of June 30, consist of:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 433,804	\$ 574,807
Receivable in two to five years	419,900	569,633
Receivable in more than five years	<u>250,000</u>	<u>476,617</u>
	1,103,704	1,621,057
Less allowance for uncollectible accounts	(47,800)	(68,514)
Less discounts to net present value at 4%	<u>(85,622)</u>	<u>(93,063)</u>
	<u>\$ 970,282</u>	<u>\$ 1,459,480</u>

As of June 30, 2017, 72% of total unconditional promises to give were due from two donors.

Property and equipment

Property and equipment are stated at cost, or if donated, at fair value at date of donation. The Clubs capitalize all expenditures for property and equipment in excess of \$5,000. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Property and equipment consist of the following:

	<u>Estimated Useful Lives</u>	<u>2017</u>	<u>2016</u>
Land and improvements		\$ 7,103,407	\$ 5,169,711
Buildings	20 years	44,122,675	44,074,714
Furniture, equipment, vehicles	5 years	3,994,698	3,888,641
Leasehold improvements	15 years	<u>3,005,052</u>	<u>2,940,715</u>
		58,225,832	56,073,781
	Less accumulated depreciation	<u>(12,632,528)</u>	<u>(11,673,408)</u>
		<u>\$ 45,593,304</u>	<u>\$ 44,400,373</u>

Unearned revenue

Unearned revenue consists of payments received for childcare registrations and camp fees in advance of the month of service. Revenue is recognized in the period to which it applies.

Restricted and unrestricted support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the year in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gifts of equipment are reported 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 explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

In-kind goods and services

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation. The following in-kind support has been recorded in the financial statements for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Goods	\$ 389,097	\$ 66,282
Imputed interest on non-interest bearing notes	135,000	155,138
Use of contributed facilities and equipment	740,424	740,424
Services	<u>38,218</u>	<u>4,924</u>
Total in-kind expenses	1,302,739	966,768
Reduction in contributed facilities receivable	(194,989)	(186,212)
Debt forgiveness	1,250,000	447,500
Land	1,890,000	-
Property and equipment	<u>64,991</u>	<u>16,100</u>
Total in-kind revenue	<u>\$ 4,312,741</u>	<u>\$ 1,244,156</u>

In-kind support benefited the following activities for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Program services	\$ 1,265,961	\$ 961,844
Management and general	13,760	4,160
Fundraising	<u>23,018</u>	<u>764</u>
	<u>\$ 1,302,739</u>	<u>\$ 966,768</u>

On December 30, 2016, the Clubs received a donation of land in Pierce County with a fair market value of \$1,890,000. The Clubs intend to sell the land in the next two to five years. The donor has restricted 20% of the sales proceeds for art programs in the Clubs.

The Clubs receive donated facilities for their Federal Way, Rotary Club, Sammamish and two Mercer Island sites under long-term lease agreements. The contributions have been recorded at the estimated fair value and are shown as a receivable and temporarily restricted net asset.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The receivables will decrease each year by the following amounts:

Years ending June 30,	
2018	\$ 204,455
2019	213,553
2020	188,571
2021	171,953
2022	180,496
Thereafter	<u>7,358,446</u>
	<u>\$ 8,317,474</u>

Advertising

The Clubs use advertising to promote programs among the audiences served. The production costs of advertising are expensed as incurred. Advertising expense was \$15,764 and \$29,647, respectively, for the years ended June 30, 2017 and 2016.

Functional allocation of expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statements of activities and of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification

Certain amounts in the 2016 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the total net assets or total change in net assets as of or for the year ended June 30, 2016.

NOTE B - FAIR VALUE MEASUREMENTS

Assets carried at fair value on a recurring basis (at least annually) consist of the following:

	Quoted Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
As of June 30, 2017:				
Mutual funds	\$ 2,029,382	\$ -	\$ -	\$ 2,029,382
Money market funds	<u>308,862</u>	<u>-</u>	<u>-</u>	<u>308,862</u>
Total assets shown at fair value	<u>\$ 2,338,244</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,338,244</u>

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE B - FAIR VALUE MEASUREMENTS (Continued)

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
As of June 30, 2016:				
Mutual funds	\$ 1,774,809	\$ -	\$ -	\$ 1,774,809
Money market funds	<u>212,308</u>	<u>-</u>	<u>-</u>	<u>212,308</u>
Total assets shown at fair value	<u>\$ 1,987,117</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,987,117</u>

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input. The Clubs also use fair value concepts to test various long-lived assets for impairment.

NOTE C - NOTE RECEIVABLE

In January 2002, the Clubs entered into a lease and construction agreement with the Bainbridge Island Parks District. The agreement called for the Clubs to pay for the construction of an additional wing on the Bainbridge High School Aquatic center in exchange for the right to use the facility through November 2069. If the lease was terminated early, the Parks District agreed to repay \$400,000 of construction costs. In February 2015, the Clubs and the Parks District agreed to terminate the lease for a total consideration of \$400,000, consisting of \$100,000 in cash received in April 2015 and annual payments of \$80,000 beginning in May 2016 for three years and \$60,000 in the fourth year.

NOTE D - ENDOWMENT

The Clubs' endowment contains four donor-restricted funds established to support a variety of program areas. Endowments in Washington State are governed by the "Uniform Prudent Management of Institutional Funds Act," (UPMIFA) as stated in the Revised Code of Washington (RCW) 24.55. The RCW provides that, unless stated otherwise in endowment gift instruments, no portions of donor-restricted endowments will be shown as unrestricted net assets other than amounts appropriated for spending in the current year, or negative endowment earnings to date.

The Clubs have interpreted 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 Clubs classify 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.



BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE D - ENDOWMENT (Continued)

The Board has adopted an investment and spending policy for the endowment designed to provide reasonable spending in support of the Clubs, while maintaining the purchasing power of the endowment over the long term. To achieve these objectives, endowment assets are invested in a well-diversified, balanced portfolio intended to capture the broad market return. This means the portfolio assumes moderate investment risk consistent with the broad market.

The Clubs utilize a total return strategy, with investment returns achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Because the Clubs seek to balance current spending with maintenance of purchasing power over the long term, the asset allocation of the portfolio favors equity investments, but within an overall balanced portfolio.

Endowment net assets by fund type as of June 30, 2017:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
Ballard Club Endowment	\$ -	\$ 4,202	\$ 12,956	\$ 17,158
Southwest Club Endowment	-	155,939	187,557	343,496
Finkbeiner Scholarship (Kirkland)	-	25,395	108,533	133,928
Arlene Brooks-Bull Scholarship	-	4,082	29,914	33,996
Total endowment funds	<u>\$ -</u>	<u>\$ 189,618</u>	<u>\$ 338,960</u>	<u>\$ 528,578</u>

Change in endowment net assets for the year ended June 30, 2017:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ (100)</u>	<u>\$ 124,856</u>	<u>\$ 338,960</u>	<u>\$ 463,716</u>
Additions				
Investment return:				
Investment income		26,184	-	26,184
Net gains	100	42,564	-	42,664
Total investment return	100	68,748	-	68,848
Appropriated for expenditure	-	(3,986)	-	(3,986)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 189,618</u>	<u>\$ 338,960</u>	<u>\$ 528,578</u>

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE D - ENDOWMENT (Continued)

Endowment net assets by fund type as of June 30, 2016:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
Ballard Club Endowment	\$ -	\$ 2,868	\$ 12,956	\$ 15,824
Southwest Club Endowment	-	113,299	187,557	300,856
Finkbeiner Scholarship (Kirkland)	-	8,689	108,533	117,222
Arlene Brooks-Bull Scholarship	(100)	-	29,914	29,814
Total endowment funds	<u>\$ (100)</u>	<u>\$ 124,856</u>	<u>\$ 338,960</u>	<u>\$ 463,716</u>

Change in Endowment Net Asset for the year ended June 30, 2016:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ -</u>	<u>\$ 133,012</u>	<u>\$ 338,960</u>	<u>\$ 471,972</u>
Additions				
Investment return:				
Investment income	-	36,652	-	36,652
Net losses	(100)	(44,808)	-	(44,908)
Total investment return	(100)	(8,156)	-	(8,256)
Appropriated for expenditure	-	-	-	-
Endowment net assets, end of year	<u>\$ (100)</u>	<u>\$ 124,856</u>	<u>\$ 338,960</u>	<u>\$ 463,716</u>

NOTE E - UNEMPLOYMENT INSURANCE

The Clubs have elected to self-insure employees for unemployment compensation through participation in the 501(c) Agencies Trust plan. Unemployment claims are paid by the Trust from the Clubs' account. The surplus in the Clubs' account is included in prepaid expense.

NOTE F - RETIREMENT PLAN

The Clubs participate in a defined contribution plan covering all employees with one year and 1,000 hours of service. Employer contributions to the plan were \$33,617 and \$17,087, respectively, during the years ended June 30, 2017 and 2016.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE G - LINES OF CREDIT

The Clubs have two lines of credit. The first is a secured line from Wells Fargo, entered into on October 1, 2015 for three years in the amount of \$2,500,000 for operating purposes. The line's interest is payable monthly at a rate of 3.5% and the entire amount is due on September 30, 2018. As of June 30, 2017, there was \$2,500,000 outstanding on this line.

The second is a secured line of credit (against the value of securities held on account) from Morgan Stanley for capital improvement purposes entered into in April 2014. Available credit on the line is based on a percentage of the underlying securities that serve as the line's collateral. Interest is based on the 30 day LIBOR index plus 3.0% and the line does not have a predetermined expiration or renewal date. As of June 30, 2017, available credit was \$1,329,028 with no amounts outstanding on this line.

NOTE H - LONG TERM DEBT

In July 2012, the Clubs entered into a loan agreement in the amount of \$6,855,000 with an anonymous party or parties. The term of the loan was five years and carries an interest rate of zero percent. The loan was payable in installments of \$3,455,000 and \$3,400,000, due on June 30, 2015 and 2017, respectively. As of June 30, 2014, \$852,500 of the amount was forgiven, reducing the amount due as of June 30, 2015 to \$2,602,500. In June 2015, the Clubs and lending party amended and restated the loan agreement whereby an additional \$2,555,000 of the original debt was forgiven.

Under the amended and restated loan agreement, the balance of \$3,447,500 is payable in one installment due on June 30, 2018. The amended and restated loan agreement specifies programmatic, operational, organizational and financial metrics that, if met, will result in additional loan forgiveness of \$447,500, \$1,250,000, and \$1,750,000 effective June 30, 2016, 2017 and 2018, respectively. As of June 30, 2017 and 2016, \$1,750,000 and \$3,000,000 respectively were outstanding under the terms of this loan. As management intends to comply with the terms of the agreement which will result in the forgiveness of the remaining amount due, the balance is not included in current liabilities.

Imputed interest expense on non-interest bearing notes payable has been recorded at a market rate of 4.5%. Interest of \$135,000 and \$155,138, respectively, have been recorded as in-kind interest expense and in-kind donations for the years ended June 30, 2017 and 2016. Total interest expense incurred for the years ended June 30, 2017 and 2016 was \$191,826 and \$203,085, respectively.

NOTE I - FORGIVABLE DEBT

In 2007, the Clubs entered into a \$3,315,000 non-interest bearing note payable to the City of Seattle Department of Parks and Recreation, secured by the Rainer Valley property. The terms of the agreement were met during the year ended June 30, 2009 and the property and related note payable were recorded.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE I - FORGIVABLE DEBT (Continued)

The note is to be forgiven over a 50-year period ending in 2057 provided that the Clubs complies with the terms of the loan agreement, principally requiring continuing use of the property for age-appropriate recreational opportunities, educational support, and technology access for teenagers from predominantly low and moderate income backgrounds. The management of the Clubs fully intends to comply with the terms of the loan agreement. The annual amount forgiven is \$66,300. As of June 30, 2017, \$2,679,625 was outstanding under the terms of this note.

NOTE J - CAPITAL LEASE OBLIGATION

During June 2015, the Clubs entered into a non-cancelable capital lease with a total recorded cost of \$297,500 and related accumulated depreciation at June 30, 2017 of \$118,056. Total monthly payments are \$6,191, including interest at 1.45% per annum. During April 2017, the Clubs entered into a non-cancelable capital lease with a total recorded cost of \$53,400 and related accumulated depreciation at June 30, 2017 of \$2,322. Total monthly payments are \$881, including interest at 1.45% per annum. Scheduled lease payment on these leases for the years ending June 30 are as follows:

Years ending June 30,	
2018	\$ 80,858
2019	80,858
2020	80,857
2021	26,740
2022	<u>10,569</u>
	279,882
Less interest	<u>(7,264)</u>
	272,618
Less current portion	<u>(77,420)</u>
	<u>\$ 195,198</u>

NOTE K - COMMITMENTS

The Clubs received funds from the State of Washington Department of Commerce for use in the remodel of the Ballard Club. A requirement of this funding is that the Clubs continue to operate this facility for the intended purpose of offering age-appropriate recreational opportunities, educational support, and technology access for teenagers from predominantly low and moderate income backgrounds through 2022. In the event that the Clubs is found to be out of compliance with this requirement, the Clubs would be obligated to repay funds in the amount of \$420,275 plus accrued interest to the State of Washington. The management of the Clubs fully intends to comply with the requirements of this funding.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE K - COMMITMENTS (Continued)

The Clubs received funds from the State of Washington Department of Commerce for use in the construction of the Mercer Island Club. A requirement of this funding is that the Clubs continue to operate this facility for the intended purpose of offering age-appropriate recreational opportunities, educational support, and technology access for teenagers from predominantly low and moderate income backgrounds through 2022. In the event that the Clubs are found to be out of compliance with this requirement, the Clubs would be obligated to repay funds in the amount of \$776,000 plus accrued interest to the State of Washington. The management of the Clubs fully intends to comply with the requirements of this funding.

In 2006, the Clubs entered into a \$340,517 non-interest bearing note payable to the King County Department of Community and Human Services secured by the Federal Way Teen Center property. The note is to be forgiven in 2021 provided that the Clubs complies with the terms of the loan agreement, principally requiring continuing use of the property for age-appropriate recreational opportunities, educational support, and technology access for teenagers from predominantly low and moderate income backgrounds. In 2012, management considered the likelihood of its failure to meet the commitments of the agreement to be remote and accordingly recognized the \$340,517 as grant revenue.

In 2008, the Clubs and the City of Auburn entered to a lease agreement to promote youth recreational activities at the Parks, Recreation and Arts Administration Building (PRAB) located at 911 9th Ave, Auburn, WA. The original term of the lease was 25 years with a yearly rent of \$1. Subsequently, the Clubs and the City entered into a joint operating agreement which specified that both the Clubs and the City would operate programs at the PRAB.

In December 2010, the Clubs received a \$780,000 grant commitment from the State of Washington Department of Commerce for use in the renovation of the building owned by the City of Auburn and leased to the Clubs. In September 2013, the Clubs received a further \$306,520 for the same purpose. As the Clubs have no variance authority over the use of the funds and the building is owned by the City of Auburn, the Clubs passed these amounts through to the City and did not record grant revenue or expenses.

As requirement of this funding, the PRAB facility must continue to operate programs for the intended purpose of offering age-appropriate recreational opportunities, educational support, and technology access for teenagers from predominantly low and moderate income backgrounds for a period of 10 years. In the event that the City of Auburn or the Clubs are found to be out of compliance with this requirement, the parties would be jointly obligated to repay funds in the amount of \$1,086,520 plus accrued interest to the State of Washington. Both parties to the joint operating agreement fully intend to comply with the requirements of this funding.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE L - OPERATING LEASE COMMITMENTS

At June 30, 2017, the Clubs were obligated to make payments under several non-cancelable operating lease agreements for vehicles, equipment, and buildings. Rent expense under these commitments was \$192,243 and \$191,139, respectively, for the years ended June 30, 2017 and 2016. Future minimum lease commitments under these agreements are as follows:

Years ending June 30,	
2018	\$ 194,131
2019	129,713
2020	93,855
2021	97,036
2022	100,335
Thereafter	<u>293,510</u>
	<u>\$ 908,580</u>

NOTE M - SALE OF PROPERTY WITH LEASE BACK PROVISION

In November 2007, the Clubs sold the building and land associated with the Mercer Island Club. As part of the sale, the Clubs agreed to lease the property back from the purchaser for a nominal annual rent of \$10 for a term of 12 years, expiring in October 2019. The promise to give inherent in the below-market lease was recorded at its net present value of \$571,547 as temporarily restricted contributed facilities and is being amortized over the term of the lease. In addition, the sale agreement includes a provision whereby any proceeds in excess of \$7 million from the sale of the property occurring during the lease term shall be remitted to the Clubs, up to the maximum additional consideration of \$1 million.

NOTE N - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to June 30, 2017 through December 14, 2017, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at June 30, 2017, including the estimates inherent in the processing of financial statements.