

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED JUNE 30, 2014 AND 2013

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITOR'S REPORT

December 18, 2014

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, 2014 and 2013, 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 Clubs of King County, Inc. as of June 30, 2014 and 2013, 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, 2014 AND 2013

	<u>2014</u>	<u>Restated 2013</u>
<u>ASSETS</u>		<u>Consolidated</u>
Current Assets		
Cash and cash equivalents	\$ 800,473	\$ 645,156
Investments	1,616,907	1,315,705
Promises to give - current portion	532,333	804,154
Grants receivable	234,792	219,826
Contributed facilities receivable - current portion	177,837	192,882
Other receivables	320,114	464,293
Prepaid expenses	248,861	375,767
Total Current Assets	<u>3,931,317</u>	<u>4,017,783</u>
Endowment Investments	491,864	423,221
Promises to Give, net of current portion	786,319	1,338,652
Contributed Facilities Receivable, net of current portion	8,698,676	8,962,805
Note Receivable	-	11,044,109
Property and Equipment, net	44,927,191	45,705,052
	<u>\$ 58,835,367</u>	<u>\$ 71,491,622</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 684,758	\$ 526,387
Accrued liabilities	825,922	691,944
Unearned revenue	732,746	735,711
Line of credit	-	555,000
Lease obligation, current portion	33,716	31,289
Notes payable, current portion	3,226,054	409,838
Total Current Liabilities	<u>5,503,196</u>	<u>2,950,169</u>
Long-term Lease, net of current portion	76,381	110,096
Long-term Debt, net of current portion	3,400,000	22,012,964
Forgivable Debt	2,878,525	2,944,825
Total Liabilities	<u>11,858,102</u>	<u>28,018,054</u>
Net Assets		
Unrestricted	35,537,193	32,409,380
Temporarily restricted	11,101,112	10,725,228
Permanently restricted	338,960	338,960
Total Net Assets	<u>46,977,265</u>	<u>43,473,568</u>
	<u>\$ 58,835,367</u>	<u>\$ 71,491,622</u>

See notes to financial statements.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2014 AND 2013

	2014				Restated 2013 - Consolidated			
	<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	\$ 3,995,468	\$ 405,353	\$ -	\$ 4,400,821	\$ 3,513,470	\$ 1,127,448	\$ 600	\$ 4,641,518
Grants from government agencies	1,691,193			1,691,193	1,320,820			1,320,820
In-kind contributions	1,027,309	625,000	-	1,652,309	1,092,332	227,500	-	1,319,832
Special events, net of direct expenses of \$317,378 and \$365,892, respectively	571,685	-	-	571,685	502,720	-	-	502,720
United Way	345,339	-	-	345,339	335,678	-	-	335,678
Net assets released from restriction	729,839	(729,839)	-	-	682,732	(682,732)	-	-
Total Public Support	<u>8,360,833</u>	<u>300,514</u>	<u>-</u>	<u>8,661,347</u>	<u>7,447,752</u>	<u>672,216</u>	<u>600</u>	<u>8,120,568</u>
Revenue								
Program service fees	7,936,702			7,936,702	7,622,694			7,622,694
Membership dues	375,909			375,909	370,974			370,974
Other	875,072			875,072	1,215,452			1,215,452
Total Revenue	<u>9,187,683</u>			<u>9,187,683</u>	<u>9,209,120</u>			<u>9,209,120</u>
Total Public Support and Revenue	<u>17,548,516</u>	<u>300,514</u>	<u>-</u>	<u>17,849,030</u>	<u>16,656,872</u>	<u>672,216</u>	<u>600</u>	<u>17,329,688</u>
Expenses								
Program services	15,708,396			15,708,396	15,111,122			15,111,122
Management and general	1,783,853			1,783,853	1,591,811			1,591,811
Fundraising	1,327,963			1,327,963	1,101,317			1,101,317
Total Functional Expenses	<u>18,820,212</u>			<u>18,820,212</u>	<u>17,804,250</u>			<u>17,804,250</u>
Boys & Girls Clubs of America Dues	44,059			44,059	43,063			43,063
Total Expenses	<u>18,864,271</u>			<u>18,864,271</u>	<u>17,847,313</u>			<u>17,847,313</u>
Change in Net Assets before Gains and (Losses)	<u>(1,315,755)</u>	<u>300,514</u>	<u>-</u>	<u>(1,015,241)</u>	<u>(1,190,441)</u>	<u>672,216</u>	<u>600</u>	<u>(517,625)</u>
Gains and (Losses)								
Gain on investments	122,859	75,370		198,229	99,475	35,198		134,673
(Loss) gain on sale of property	(33,178)			(33,178)	9,992			9,992
Loss on uncollectible contributions	-	-		-	(121,250)	-		(121,250)
Gain on Unwind of New Market Tax Credit Financing	4,353,887			4,353,887	-			-
Total Gains and (Losses)	<u>4,443,568</u>	<u>75,370</u>	<u>-</u>	<u>4,518,938</u>	<u>(11,783)</u>	<u>35,198</u>	<u>-</u>	<u>23,415</u>
Total Change in Net Assets	<u>3,127,813</u>	<u>375,884</u>	<u>-</u>	<u>3,503,697</u>	<u>(1,202,224)</u>	<u>707,414</u>	<u>600</u>	<u>(494,210)</u>
Net Assets - beginning of year	<u>32,409,380</u>	<u>10,725,228</u>	<u>338,960</u>	<u>43,473,568</u>	<u>33,611,604</u>	<u>10,017,814</u>	<u>338,360</u>	<u>43,967,778</u>
Net Assets - end of year	<u>\$ 35,537,193</u>	<u>\$ 11,101,112</u>	<u>\$ 338,960</u>	<u>\$ 46,977,265</u>	<u>\$ 32,409,380</u>	<u>\$ 10,725,228</u>	<u>\$ 338,960</u>	<u>\$ 43,473,568</u>

See notes to financial statements.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2014 AND 2013

	2014				Restated 2013 - Consolidated			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 7,278,855	\$ 868,578	\$ 579,471	\$ 8,726,904	\$ 6,790,248	\$ 750,951	\$ 600,362	\$ 8,141,561
Employee health and retirement benefits	526,071	61,442	40,742	628,255	646,388	75,241	58,537	780,166
Payroll taxes	667,421	79,676	53,162	800,259	621,187	71,645	58,003	750,835
Total Payroll and Related Expenses	8,472,347	1,009,696	673,375	10,155,418	8,057,823	897,837	716,902	9,672,562
Occupancy	1,985,502	169,769	38,166	2,193,437	1,873,507	92,018	7,533	1,973,058
Supplies and awards	1,721,774	32,637	79,798	1,834,209	1,723,105	30,758	49,233	1,803,096
Professional fees and contract services	450,371	423,334	387,840	1,261,545	269,636	441,798	214,978	926,412
Interest	783,510	-	-	783,510	1,019,208	-	-	1,019,208
Other	288,498	19,000	54,799	362,297	238,431	-	46,750	285,181
Local transportation	341,265	5,770	9,075	356,110	348,926	4,445	9,108	362,479
Conferences and training	233,312	9,691	19,743	262,746	97,277	3,724	11,985	112,986
Telephone	177,063	28,344	-	205,407	163,640	32,170	-	195,810
Equipment maintenance	101,656	30,669	5,690	138,015	39,896	31,567	7,683	79,146
Insurance	80,419	18,621	-	99,040	86,989	17,167	-	104,156
Outside printing	30,943	10,645	49,616	91,204	17,570	21,057	28,982	67,609
Advertising and promotion	28,068	-	6,824	34,892	88,640	-	5,252	93,892
Postage	18,147	1,101	3,037	22,285	31,848	-	2,911	34,759
Total Expenses Before Depreciation and Amortization	14,712,875	1,759,277	1,327,963	17,800,115	14,056,496	1,572,541	1,101,317	16,730,354
Depreciation and Amortization	995,521	24,576	-	1,020,097	1,054,626	19,270	-	1,073,896
Total Expenses	\$ 15,708,396	\$ 1,783,853	\$ 1,327,963	\$ 18,820,212	\$ 15,111,122	\$ 1,591,811	\$ 1,101,317	\$ 17,804,250

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u> <u>Consolidated</u>
Cash Flows from Operating Activities		
Cash received from contributors	\$ 6,658,515	\$ 5,694,798
Cash received from government agencies	1,609,927	1,233,402
Cash received from program participants	7,785,221	7,670,735
Cash received from members	375,909	370,974
Interest and other received	743,146	1,175,497
Cash paid to employees	(10,021,440)	(9,490,226)
Cash paid to vendors	(6,090,652)	(5,587,216)
Cash paid for interest	<u>(485,272)</u>	<u>(699,766)</u>
Net Cash Provided by Operating Activities	<u>575,354</u>	<u>368,198</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(234,516)	(281,660)
Issuance of notes receivable	-	(1,432,057)
Proceeds from New Market Tax Credit Unwind	869,832	-
Purchase of investments	(135,500)	(186,531)
Proceeds from sale of investments	<u>87,429</u>	<u>92,351</u>
Net Cash Provided (Used) by Investing Activities	<u>587,245</u>	<u>(1,807,897)</u>
Cash Flows from Financing Activities		
Proceeds from contribution restricted to investment in property	5,263	41,749
Proceeds from line of credit	1,107,000	2,040,000
Principal payments on line of credit	(1,662,000)	(2,345,000)
Proceeds from issuance of notes payable	-	6,855,000
Principal payments on notes payable	<u>(457,545)</u>	<u>(4,883,248)</u>
Net Cash (Used) Provided by Financing Activities	<u>(1,007,282)</u>	<u>1,708,501</u>
Change in Cash and Cash Equivalents	155,317	268,802
Cash and Cash Equivalents - beginning of year	<u>645,156</u>	<u>376,354</u>
Cash and Cash Equivalents - end of year	<u>\$ 800,473</u>	<u>\$ 645,156</u>

See notes to financial statements.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u> <u>Consolidated</u>
Reconciliation of Change in Net Assets to		
Cash Flows from Operating Activities		
Change in net assets	\$ 3,503,697	\$ (494,210)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,020,097	1,073,896
Gain on New Market Tax Credit Unwind	(4,345,723)	-
Forgiveness of debt	(916,791)	(66,300)
Contributed property and equipment	(40,898)	(28,541)
Reinvested earnings	(123,545)	(53,001)
Gain on investments	(198,229)	(121,627)
Loss on uncollectible accounts	-	121,250
Contributions restricted to reduction of long-term debt	-	(227,500)
Contributions restricted to investment in property and equipment	(5,263)	(41,749)
Decrease (increase) in		
Promises to give	824,154	154,416
Grants receivable	(14,966)	(21,118)
Contributed facilities receivable	279,174	184,573
Other receivables	144,179	(263,677)
Prepaid expenses	126,906	20,959
(Decrease) increase in		
Accounts payable	191,549	(99,550)
Accrued liabilities	133,978	182,336
Unearned revenue	(2,965)	48,041
Net Cash Provided by Operating Activities	<u>\$ 575,354</u>	<u>\$ 368,198</u>

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Boys & Girls Clubs of King County, Inc. is a nonprofit corporation organized to promote the health; life skills; and educational, vocational, and character development of youth ages 6-18. The Boys & Girls Clubs of King County's 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.

Principles of Consolidation

The financial statements for 2013 reflect a consolidation of the assets, liabilities, and activities of the Boys & Girls Clubs of King County and the Rainier Valley Boys & Girls Club. Rainier Valley Boys & Girls Club was incorporated in the State of Washington on October 24, 2007 to qualify as an eligible Qualified Active Low Income Community Business (QALICB) under the "targeted population" criteria for purposes of receiving New Markets Tax Credit Financing for the construction of the Rainier Valley Boys and Girls Club.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

As part of the Unwind as described in Note B, the Rainier Valley Boys & Girls Club dissolved as a Washington State corporation in 2014, conveying and assigning all assets and liabilities of the Rainier Valley Boys & Girls Club to the Boys & Girls Clubs of King County.

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.

Basis of presentation

In accordance with financial accounting standards, the organization is required to report information regarding its 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>2014</u>	<u>2013</u>
Contributed facility - use in future periods	\$ 8,876,513	\$ 9,155,687
Capital expenditures	964,362	359,926
Reduction of debt	707,500	602,500
Program services	<u>552,737</u>	<u>607,115</u>
	<u>\$11,101,112</u>	<u>\$10,725,228</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>2014</u>	<u>2013</u>
Capital campaign expenditures	\$ 25,827	\$ 44,492
Use of contributed facilities	279,174	184,574
Program services	<u>424,838</u>	<u>453,666</u>
	<u>\$ 729,839</u>	<u>\$ 682,732</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.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 \$14,985 and \$13,126 for the years ended June 30, 2014 and 2013, respectively.

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.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Long-term promises to give are discounted to present value using a 4.5% discount rate and are due in one to seven years. 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, 2014 and 2013, the Clubs had no conditional promises to give. Unconditional promises to give as of June 30, consist of:

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 532,333	\$ 804,154
Receivable in two to five years	604,068	1,318,491
Receivable in more than five years	<u>357,001</u>	<u>272,102</u>
	1,493,402	2,394,747
Less allowance for uncollectible accounts	(74,670)	(70,253)
Less discounts to net present value	<u>(100,080)</u>	<u>(181,688)</u>
	<u>\$ 1,318,652</u>	<u>\$ 2,142,806</u>

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 exceeding the capitalization threshold. During 2014, the capitalization threshold was raised from \$1,000 to \$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>2014</u>	<u>2013</u>
Land and improvements		\$ 4,600,127	\$ 4,600,127
Buildings	20 years	43,998,299	43,904,346
Furniture, equipment, vehicles	5 years	3,628,564	3,559,179
Leasehold improvements	15 years	<u>2,932,736</u>	<u>2,932,736</u>
		55,159,726	54,996,388
Less accumulated depreciation		<u>(10,232,535)</u>	<u>(9,291,336)</u>
		<u>\$44,927,191</u>	<u>\$45,705,052</u>

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Federal income taxes

The Internal Revenue Service has recognized Boys & Girls Clubs of King County 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.

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.

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>2014</u>	<u>2013</u>
Goods	\$ 55,893	\$ 83,570
Advertising and promotion	-	74,580
Imputed interest on non-interest bearing notes	298,238	319,442
Use of contributed facilities and equipment	848,634	759,078
Services	<u>62,820</u>	<u>11,694</u>
Total in-kind expenses	1,265,585	1,248,364
Reduction in contributed facilities receivable	(279,174)	(184,573)
Debt forgiveness	625,000	227,500
Property and equipment	<u>40,898</u>	<u>28,541</u>
Total in-kind revenue	<u>\$ 1,652,309</u>	<u>\$ 1,319,832</u>

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	<u>2014</u>	<u>2013</u>
Program services	\$ 1,132,936	\$ 1,224,326
Management and general	112,542	9,928
Fundraising	20,107	14,110
	<u>\$ 1,265,585</u>	<u>\$ 1,248,364</u>

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. The receivables will decrease each year by the following amounts:

Years ending June 30,	
2015	\$ 177,837
2016	186,212
2017	194,990
2018	204,185
2019	213,845
Thereafter	<u>7,899,444</u>
	<u>\$ 8,876,513</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 \$34,892 and \$93,892 for the years ended June 30, 2014 and 2013, respectively.

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.

Reclassifications

Certain amounts in the 2013 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, 2013.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE B - NEW MARKET TAX CREDIT FINANCING

In January 2007, CDF VIII Investment Fund, LLC (the Investment Fund), a Delaware corporation, was formed as part of New Market Tax Credit Financing for the Rainier Valley Boys & Girls Club (the Project). Community Development Funding, LLC (the CDF), a Minnesota limited liability company, was the non-managing member of the Investment Fund. U.S. Bancorp Community Development Corporation, a Minnesota corporation, had contracted with the CDF as the investing member of the Investment Fund and agreed to make capital contributions to the Investment Fund in exchange for a sole membership interest. U.S. Bancorp Community Development Corporation is a Community Development Entity and recipient of a new markets tax credit allocation from the Internal Revenue Service.

In February 2014, pursuant to the original Project documents, all management and servicing agreements between the parties were terminated. Simultaneously, the Boys & Girls Clubs of King County purchased (for \$1,000) U.S. Bancorp Community Development Corporation's interest in the Investment Fund under a "put" option as provided for under the original Project documents, thereby becoming the sole member of the Investment Fund. As a result of these events (the Unwind), the Boys & Girls Clubs of King County received net cash payment in the amount of \$869,832.

In conjunction with the termination and Unwind of the Project, the Rainier Valley Boys & Girls Club dissolved as a Washington State corporation, conveying and assigning all assets and liabilities of the Rainier Valley Boys & Girls Club to the Boys & Girls Clubs of King County (in its capacity as the sole member of the Rainier Valley Boys & Girls Club). As a result of this dissolution, the notes payable of \$14,520,000 and notes receivable of \$11,044,109 between the parties were forgiven. The resulting gain on Unwind (net of \$8,164 in other income and fees) was \$4,353,887 as shown on the statement of activities.

NOTE C - LINES OF CREDIT

The Clubs have two lines of credit. The first is a secured line from US Bank for operating purposes. The line's interest is payable monthly at a rate of 3.4% and is renewed annually with an expiration date of March 31. Upon the March 31, 2014 expiration and renewal, the line was increased from \$1,400,000 to \$2,200,000. As of June 30, 2014, there were no amounts 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, 2014, available credit was \$1,476,140 with no amounts outstanding on this line.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE D - LONG TERM DEBT

	<u>2014</u>	<u>2013</u>
Long term debt consists of the following as of June 30,		
Note payable to US Bank bearing interest at 3.5% plus 1 month LIBOR (3.687% at June 30, 2014). Principal and interest are payable monthly through May 2015. The debt is secured by the Mercer Island Club property.	\$ 623,554	\$ 876,403
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 is five years and carries an interest rate of zero percent. The loan is payable in two installments of \$3,455,000 and \$3,400,000, due on June 30, 2015 and 2017, respectively. The loan agreement specifies annual fundraising thresholds ranging from \$455,000 to \$2,500,000, that if met, result in loan forgiveness of fifty percent of the year's fundraising threshold, with a maximum forgiveness of fifty percent of the loan. As of June 30, 2014 the amount forgiven was \$852,500 reducing the amount due June 30, 2015 to \$2,602,500.	 6,002,500	 6,855,000
In 2013, the Clubs obtained bridge loans from six Board members and/or donors for the purpose of paying a portion of the construction costs of the Sammamish EX3 Teen and Recreation Center. The loans are non-interest bearing and repayment is scheduled over a four year period, based on the receipt of payments for capital campaign pledges. The loans were repaid in full in May 2014.	 -	 171,399
Note payable by Rainier Valley Boys & Girls Club to CDF VIII for \$14,520,000 bearing interest at 4.118%. Monthly payments of interest only are due beginning January 2008 through February 2014. The loan was forgiven as part of the New Market Tax Credit Unwind. See Note B.	 -	 14,520,000
	<u>6,626,054</u>	<u>22,422,802</u>
Less current portion	<u>3,226,054</u>	<u>409,838</u>
	<u>\$ 3,400,000</u>	<u>\$22,012,964</u>

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE D - LONG TERM DEBT (Continued)

Future principal reductions of long term debt are as follows for the years ending June 30:

2015	\$ 3,226,054
2016	-
2017	<u>3,400,000</u>
	<u>\$ 6,626,054</u>

Imputed interest expense on non-interest bearing notes payable has been recorded at a market rate of 4.5%. Interest of \$298,238 and \$319,442 have been recorded as in-kind interest expense and in-kind donations for the years ended June 30, 2014 and 2013, respectively. Interest expense incurred for the years ended June 30, 2014 and 2013 totaled \$783,510 and \$1,019,208, respectively.

NOTE E - CAPITAL LEASE OBLIGATION

The Clubs lease certain office equipment under non-cancelable capital leases, with a total recorded cost of \$172,252 and related accumulated depreciation at June 30, 2014 and 2013 of \$71,803 and \$37,354, respectively. Total monthly payments are \$3,137 including interest from 5% per annum. Scheduled lease payments for the years ending June 30 are as follows:

2015	\$ 37,647
2016	37,647
2017	30,863
2018	<u>13,365</u>
	119,522
Less interest	<u>(9,425)</u>
	110,097
Less current portion	<u>(33,716)</u>
	<u>\$ 76,381</u>

NOTE F - FORGIVABLE DEBT

In 2007, Boys & Girls Clubs of King County 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. The note is to be forgiven over a 50-year period ending in 2057 provided that Boys & Girls Clubs of King County 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.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE F - FORGIVABLE DEBT (Continued)

The management of Boys & Girls Clubs of King County fully intends to comply with the terms of the loan agreement. The annual amount forgiven is \$66,300. As of June 30, 2014, \$2,878,525 was outstanding under the terms of this note.

NOTE G - 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 H - RETIREMENT PLAN

The Clubs participate in a defined contribution plan covering all employees with one year and 1,000 hours of service. No employer contributions to the plan were made during the years ended June 30, 2014 or 2013.

NOTE I - GREENBRIDGE RENOVATION PROJECT

In 2007, Boys & Girls Clubs of King County received \$1,601,668 from the Department of Housing and Urban Development and the State of Washington Department of Community, Trade and Economic Development for use in the renovation of the Greenbridge Community Center (the Center). In order to secure sufficient financial resources to redevelop the Center to serve children and families of Greenbridge and the White Center community, Greenbridge Foundation, a 501(c)(3) organization, was formed to help raise funding. The Center is owned by King County Housing Authority. On December 1, 2006, Boys & Girls Clubs of King County entered into a 7-year lease agreement with Greenbridge Foundation, which leases the Center property from King County Housing Authority. This lease expired in December 2013.

NOTE J - SALE OF PROPERTY

In November 2007, Boys & Girls Clubs of King County sold the building and land associated with the Mercer Island Club. As part of the sale, Boys & Girls Clubs of King County 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 Boys & Girls Clubs of King County, up to the maximum additional consideration of \$1 million.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE K - LEASE COMMITMENTS

At June 30, 2014, 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 \$150,875 and \$168,555 for the years ended June 30, 2014 and 2013, respectively. Future minimum lease commitments under these agreements are as follows:

Years ending June 30,	
2015	\$ 96,602
2016	76,502
2017	9,809
2018	3,746
2019	1,224
	<u>\$ 187,883</u>

NOTE L - COMMITMENTS

Boys & Girls Clubs of King County received funds from the State of Washington Department of Community, Trade and Economic Development for use in the construction of the Federal Way Teen Center. A requirement of this funding is that Boys & Girls Clubs of King County 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 2015. In the event that Boys & Girls Clubs of King County is found to be out of compliance with this requirement Boys & Girls Clubs of King County would be obligated to repay funds in the amount of \$392,250 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 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 Boys & Girls Clubs of King County 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 Boys & Girls Clubs of King County is found to be out of compliance with this requirement, Boys & Girls Clubs of King County 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, 2014 AND 2013

NOTE L - COMMITMENTS (Continued)

Boys & Girls Clubs of King County 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 Boys & Girls Clubs of King County 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 Boys & Girls Clubs of King County is found to be out of compliance with this requirement, Boys & Girls Clubs of King County 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, Boys & Girls Clubs of King County 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 Boys & Girls Clubs of King County 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, Boys and Girls Clubs of King County 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, Boys & Girls Clubs of King County 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 as 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 Boys & Girls Clubs of King County are found to be out of compliance with this requirement, both 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, 2014 AND 2013

NOTE M - 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, 2014:				
Mutual funds	\$ 1,903,036	\$ -	\$ -	\$ 1,903,036
Money market funds	205,735	-	-	205,735
Total assets shown at fair value	<u>\$ 2,108,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,108,771</u>
As of June 30, 2013:				
Mutual funds	\$ 1,637,610	\$ -	\$ -	\$ 1,637,610
Money market funds	101,316	-	-	101,316
Total assets shown at fair value	<u>\$ 1,738,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,738,926</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 N - 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, 2014 AND 2013

NOTE N - ENDOWMENT (Continued)

Occasionally, the fair value of the assets associated with donor-restricted endowment funds may fall below the amount recorded as permanently restricted net assets. Future appreciation of investments generally restores the value to the required level. As of June 30, 2014, there were no such deficiencies.

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, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
Ballard Club Endowment	\$ -	\$ 2,913	\$ 12,956	\$ 15,869
Southwest Club Endowment	-	138,374	187,557	325,931
Finkbeiner Scholarship (Kirkland)	-	11,098	108,533	119,631
Arlene Brooks-Bull Scholarship	-	519	29,914	30,433
Total endowment funds	<u>\$ -</u>	<u>\$ 152,904</u>	<u>\$ 338,960</u>	<u>\$ 491,864</u>

Change in endowment net assets for the year ended June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (13,655)	\$ 97,916	\$ 338,960	\$ 423,221
Additions				
Investment return:				
Investment income	4,779	32,207	-	36,986
Net gains	8,876	43,163	-	52,039
Total investment return	<u>13,655</u>	<u>75,370</u>	<u>-</u>	<u>89,025</u>
Appropriated for expenditure	-	(20,382)	-	(20,382)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 152,904</u>	<u>\$ 338,960</u>	<u>\$ 491,864</u>

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE N - ENDOWMENT (Continued)

Endowment net assets by fund type as of June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
Ballard Club Endowment		\$ 53	\$ 12,956	\$ 13,009
Southwest Club Endowment	-	97,853	187,557	285,410
Finkbeiner Scholarship (Kirkland)	(13,655)	-	108,533	94,878
Arlene Brooks-Bull Scholarship	-	10	29,914	29,924
Total endowment funds	<u>\$ (13,655)</u>	<u>\$ 97,916</u>	<u>\$ 338,960</u>	<u>\$ 423,221</u>

Change in Endowment Net Asset for the year ended June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ (15,388)</u>	<u>\$ 72,518</u>	<u>\$ 338,360</u>	<u>\$ 395,490</u>
Additions			600	600
Investment return:				
Investment income	4,661	13,046	-	17,707
Net losses	<u>2,572</u>	<u>22,152</u>	<u>-</u>	<u>24,724</u>
Total investment return	7,233	35,198	-	42,431
Appropriated for expenditure	<u>(5,500)</u>	<u>(9,800)</u>	<u>-</u>	<u>(15,300)</u>
Endowment net assets, end of year	<u>\$ (13,655)</u>	<u>\$ 97,916</u>	<u>\$ 338,960</u>	<u>\$ 423,221</u>

NOTE O - PRIOR PERIOD RESTATEMENT

During the year ended June 30, 2014, the Clubs discovered that the in-kind lease for the Rotary Boys and Girls Club had been renegotiated and a new lease signed effective July 2010. The existence of the revised lease was not properly communicated and therefore, the financial statements reflected the original lease term. Upon discovery of this error, the financial statements were restated to properly reflect the revised lease terms as of the effective date of the new lease. The effect of the corrections on the 2013 financial statements are as follows:

	<u>Previously Reported</u>	<u>Change</u>	<u>Restated</u>
Statement of Financial Position			
Contributed facilities receivable	\$ 8,280,608	\$ 875,079	\$ 9,155,687
Temporarily restricted net assets	\$ 9,850,149	\$ 875,079	\$ 10,725,228

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

NOTE O - PRIOR PERIOD RESTATEMENT (Continued)

	<u>Previously Reported</u>	<u>Change</u>	<u>Restated</u>
Statement of Activities			
In-kind contributions	\$ 1,278,519	\$ 41,313	\$ 1,319,832
Net assets released from restriction	\$ 733,105	\$ (50,373)	\$ 682,732
Program services - Occupancy	\$ 15,120,182	\$ (9,060)	\$ 15,111,122
Net assets - beginning of year			
Temporarily restricted	\$ 9,193,108	\$ 824,706	\$ 10,017,814

NOTE P - RELATED PARTY

During fiscal 2014, the Clubs entered into a contract with a Board member to provide consulting services for marketing and advertising. As of June 30, 2014, \$137,647 of expenses were incurred.

NOTE Q - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to June 30, 2014 through December 18, 2014, 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, 2014, including the estimates inherent in the processing of financial statements.