

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED JUNE 30, 2016 AND 2015



BOYS & GIRLS CLUBS OF KING COUNTY, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

January 13, 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, 2016 and 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **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, 2016 and 2015, 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.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of state financial assistance is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2017 on our consideration of Boys & Girls Club of King County, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Boys & Girls Club of King County, Inc.'s internal control over financial reporting and compliance.



Jacobson Jarvis & Co, PLLC

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 910,306	\$ 976,132
Investments	1,523,401	1,798,161
Promises to give - current portion	490,700	606,834
Grants receivable	398,138	445,710
Contributed facilities receivable - current portion	194,990	186,212
Other receivables	338,648	350,765
Note receivable - current portion	80,000	80,000
Prepaid expenses	<u>100,003</u>	<u>158,541</u>
Total Current Assets	4,036,186	4,602,355
Endowment Investments	463,716	471,972
Promises to Give, net of current portion	884,673	938,338
Contributed Facilities Receivable, net of current portion	8,317,474	8,512,464
Note Receivable	140,000	220,000
Property and Equipment, net	<u>44,400,373</u>	<u>44,723,867</u>
	<u>\$ 58,242,422</u>	<u>\$ 59,468,996</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 525,663	\$ 721,210
Accrued liabilities	974,081	915,034
Unearned revenue	619,551	659,177
Line of credit	-	390,000
Lease obligation, current portion	70,325	69,313
Notes payable, current portion	<u>-</u>	<u>539,813</u>
Total Current Liabilities	2,189,620	3,294,547
Long-term Lease, net of current portion	235,007	306,044
Long-term Line of Credit	1,171,398	-
Long-term Debt	3,000,000	3,447,500
Forgivable Debt	<u>2,745,925</u>	<u>2,812,225</u>
Total Liabilities	<u>9,341,950</u>	<u>9,860,316</u>
Net Assets		
Unrestricted	38,533,292	38,989,656
Temporarily restricted	10,028,220	10,280,064
Permanently restricted	<u>338,960</u>	<u>338,960</u>
Total Net Assets	<u>48,900,472</u>	<u>49,608,680</u>
	<u>\$ 58,242,422</u>	<u>\$ 59,468,996</u>

See notes to financial statements.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	2016				2015			
	<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	\$ 3,971,888	\$ 728,357	\$ -	\$ 4,700,245	\$ 4,159,502	\$ 1,100,013	\$ -	\$ 5,259,515
Grants from government agencies	2,544,127			2,544,127	2,248,274			2,248,274
In-kind contributions	1,244,156	-		1,244,156	3,685,869	-		3,685,869
Special events, net of direct expenses of \$313,859 and \$317,385, respectively	373,778			373,778	480,485			480,485
United Way	263,752			263,752	281,666			281,666
Net assets released from restriction	972,082	(972,082)	-	-	1,921,169	(1,921,169)	-	-
Total Public Support	<u>9,369,783</u>	<u>(243,725)</u>	<u>-</u>	<u>9,126,058</u>	<u>12,776,965</u>	<u>(821,156)</u>	<u>-</u>	<u>11,955,809</u>
Revenue								
Program service fees	8,931,103			8,931,103	8,776,850			8,776,850
Membership dues	438,050			438,050	360,264			360,264
Other	537,395			537,395	577,406			577,406
Total Revenue	<u>9,906,548</u>			<u>9,906,548</u>	<u>9,714,520</u>			<u>9,714,520</u>
Total Public Support and Revenue	<u>19,276,331</u>	<u>(243,725)</u>	<u>-</u>	<u>19,032,606</u>	<u>22,491,485</u>	<u>(821,156)</u>	<u>-</u>	<u>21,670,329</u>
Expenses								
Program services	16,916,709			16,916,709	15,892,009			15,892,009
Management and general	1,469,642			1,469,642	1,523,759			1,523,759
Fundraising	1,156,214			1,156,214	1,068,703			1,068,703
Total Functional Expenses	<u>19,542,565</u>			<u>19,542,565</u>	<u>18,484,471</u>			<u>18,484,471</u>
Boys & Girls Clubs of America Dues	45,376			45,376	44,197			44,197
Total Expenses	<u>19,587,941</u>			<u>19,587,941</u>	<u>18,528,668</u>			<u>18,528,668</u>
Change in Net Assets before Gains and (Losses)	<u>(311,610)</u>	<u>(243,725)</u>	<u>-</u>	<u>(555,335)</u>	<u>3,962,817</u>	<u>(821,156)</u>	<u>-</u>	<u>3,141,661</u>
Gains and (Losses)								
Gain on insurance company distribution	114,080			114,080	-			-
(Loss) gain on investments	(148,641)	(8,119)		(156,760)	(131,363)	108		(131,255)
Loss on disposal of property	(30,014)			(30,014)	(32,680)			(32,680)
Loss on uncollectible contributions	(80,179)	-	-	(80,179)	(346,311)	-	-	(346,311)
Total Gains and (Losses)	<u>(144,754)</u>	<u>(8,119)</u>	<u>-</u>	<u>(152,873)</u>	<u>(510,354)</u>	<u>108</u>	<u>-</u>	<u>(510,246)</u>
Total Change in Net Assets	<u>(456,364)</u>	<u>(251,844)</u>	<u>-</u>	<u>(708,208)</u>	<u>3,452,463</u>	<u>(821,048)</u>	<u>-</u>	<u>2,631,415</u>
Net Assets - beginning of year	<u>38,989,656</u>	<u>10,280,064</u>	<u>338,960</u>	<u>49,608,680</u>	<u>35,537,193</u>	<u>11,101,112</u>	<u>338,960</u>	<u>46,977,265</u>
Net Assets - end 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>

See notes to financial statements.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2016 AND 2015

	2016				2015			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 8,602,731	\$ 864,076	\$ 609,768	\$ 10,076,575	\$ 7,703,548	\$ 871,822	\$ 601,425	\$ 9,176,795
Employee health and retirement benefits	738,770	74,204	52,364	865,338	620,583	69,315	48,386	738,284
Payroll taxes	788,550	79,204	55,893	923,647	719,271	80,341	56,082	855,694
Total Payroll and Related Expenses	10,130,051	1,017,484	718,025	11,865,560	9,043,402	1,021,478	705,893	10,770,773
Occupancy	2,074,321	81,774	59,739	2,215,834	1,938,019	86,856	37,149	2,062,024
Supplies and awards	1,951,922	5,415	38,743	1,996,080	1,904,930	12,168	44,500	1,961,598
Professional fees and contract services	463,360	183,928	158,828	806,116	414,444	243,764	105,780	763,988
Local transportation	324,252	13,683	11,406	349,341	322,820	13,586	6,835	343,241
Bank fees	247,602	28,727	68,675	345,004	236,082	15,442	53,806	305,330
Communications and technology	254,698	25,852	1,480	282,030	267,342	41,679	1,723	310,744
Interest	203,085	-	-	203,085	304,017	-	-	304,017
Insurance	116,092	8,362	-	124,454	93,860	19,404	-	113,264
Conferences and training	95,948	10,872	5,948	112,768	199,977	26,697	4,049	230,723
Equipment maintenance	42,150	2,792	53,861	98,803	88,527	3,938	63,520	155,985
Outside printing	18,952	19,310	30,155	68,417	58,203	13,283	31,832	103,318
Other	41,441	4,943	1,804	48,188	42,274	1,915	1,053	45,242
Advertising and promotion	19,724	5,812	4,111	29,647	38,680	2,321	7,774	48,775
Postage	9,483	3,385	3,439	16,307	11,641	1,327	4,789	17,757
Total Expenses Before Depreciation and Amortization	15,993,081	1,412,339	1,156,214	18,561,634	14,964,218	1,503,858	1,068,703	17,536,779
Depreciation and Amortization	923,628	57,303	-	980,931	927,791	19,901	-	947,692
Total Expenses	\$ 16,916,709	\$ 1,469,642	\$ 1,156,214	\$ 19,542,565	\$ 15,892,009	\$ 1,523,759	\$ 1,068,703	\$ 18,484,471

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from contributors	\$ 5,635,399	\$ 5,691,220
Cash received from government agencies	2,525,399	1,971,056
Cash received from program participants	8,833,977	8,703,281
Cash received from members	438,050	360,264
Interest and other received	566,697	449,091
Cash paid to employees	(11,806,513)	(10,593,171)
Cash paid to vendors	(5,987,668)	(6,154,533)
Cash paid for interest	<u>(47,947)</u>	<u>(33,904)</u>
Net Cash Provided by Operating Activities	<u>157,394</u>	<u>393,304</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(831,272)	(439,031)
Payments received on note receivable	80,000	100,000
Purchase of investments	(99,268)	(240,964)
Proceeds from sale of investments	<u>349,905</u>	<u>78,162</u>
Net Cash Used by Investing Activities	<u>(500,635)</u>	<u>(501,833)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted to investment in property	105,855	25,000
Proceeds from contributions restricted to debt reduction	-	50,000
Proceeds from line of credit	950,000	1,093,000
Proceeds from notes payable	2,391,193	-
Principal payments on line of credit	(1,340,000)	(703,000)
Principal payments on notes payable	<u>(1,829,633)</u>	<u>(180,812)</u>
Net Cash Provided by Financing Activities	<u>277,415</u>	<u>284,188</u>
Change in Cash and Cash Equivalents	(65,826)	175,659
Cash and Cash Equivalents - beginning of year	<u>976,132</u>	<u>800,473</u>
Cash and Cash Equivalents - end of year	<u>\$ 910,306</u>	<u>\$ 976,132</u>
<b>Noncash Investing and Financing Activities</b>		
Purchase of equipment through issuance of capital lease obligation		<u>\$ 297,500</u>

See notes to financial statements.



BOYS & GIRLS CLUBS OF KING COUNTY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Reconciliation of Change in Net Assets to</b>		
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (708,208)	\$ 2,631,415
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	980,931	947,692
Forgiveness of debt	(513,800)	(2,621,300)
Contributed property and equipment	(16,100)	(212,806)
Reinvested earnings	(124,381)	(129,815)
Loss on investments	156,760	131,255
Loss on disposal of property and equipment	30,014	32,680
Contributions restricted to investment in property and equipment	(105,855)	(25,000)
Decrease (increase) in		
Promises to give	169,799	(276,520)
Grants receivable	47,572	(210,918)
Contributed facilities receivable	186,212	177,837
Other receivables	12,117	(30,651)
Prepaid expenses	58,538	90,320
(Decrease) increase in		
Accounts payable	(35,626)	(126,428)
Accrued liabilities	59,047	89,112
Unearned revenue	<u>(39,626)</u>	<u>(73,569)</u>
Net Cash Provided by Operating Activities	<u>\$ 157,394</u>	<u>\$ 393,304</u>

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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, 2016 AND 2015

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>2016</u>	<u>2015</u>
Contributed facility - use in future periods	\$ 8,512,463	\$ 8,698,675
Capital expenditures	168,339	101,319
Program services	<u>1,347,418</u>	<u>1,480,070</u>
	<u>\$ 10,028,220</u>	<u>\$ 10,280,064</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>2016</u>	<u>2015</u>
Capital campaign expenditures	\$ 38,835	\$ 35,543
Debt reduction	-	852,500
Use of contributed facilities	186,212	177,837
Program services	<u>747,035</u>	<u>855,289</u>
	<u>\$ 972,082</u>	<u>\$ 1,921,169</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, 2016 AND 2015

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 \$16,082 and \$17,522 for the years ended June 30, 2016 and 2015, 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.

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% 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, 2016 and 2015, the Clubs had no conditional promises to give.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 490,700	\$ 606,834
Receivable in two to five years	569,633	702,434
Receivable in more than five years	<u>476,617</u>	<u>362,890</u>
	1,536,950	1,672,158
Less allowance for uncollectible accounts	(68,514)	(61,745)
Less discounts to net present value	<u>(93,063)</u>	<u>(65,241)</u>
	<u>\$ 1,375,373</u>	<u>\$ 1,545,172</u>

As of June 30, 2016, 62% 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>2016</u>	<u>2015</u>
Land and improvements		\$ 4,600,127	\$ 4,600,127
Buildings	20 years	44,644,298	44,305,357
Furniture, equipment, vehicles	5 years	3,888,641	3,699,030
Leasehold improvements	15 years	<u>2,940,715</u>	<u>2,932,736</u>
		56,073,781	55,537,250
	Less accumulated depreciation	<u>(11,673,408)</u>	<u>(10,813,383)</u>
		<u>\$ 44,400,373</u>	<u>\$ 44,723,867</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, 2016 AND 2015

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>2016</u>	<u>2015</u>
Goods	\$ 66,282	\$ 51,651
Imputed interest on non-interest bearing notes	155,138	270,113
Use of contributed facilities and equipment	740,424	740,424
Services	<u>4,924</u>	<u>33,712</u>
Total in-kind expenses	966,768	1,095,900
Reduction in contributed facilities receivable	(186,212)	(177,837)
Debt forgiveness	447,500	2,555,000
Property and equipment	<u>16,100</u>	<u>212,806</u>
Total in-kind revenue	<u>\$ 1,244,156</u>	<u>\$ 3,685,869</u>

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

	<u>2016</u>	<u>2015</u>
Program services	\$ 961,844	\$ 1,091,659
Management and general	4,160	4,241
Fundraising	<u>764</u>	<u>-</u>
	<u>\$ 966,768</u>	<u>\$ 1,095,900</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.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The receivables will decrease each year by the following amounts:

Years ending June 30,	
2017	\$ 194,990
2018	204,185
2019	213,553
2020	188,571
2021	170,706
Thereafter	<u>7,540,459</u>
	<u>\$ 8,512,464</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 \$29,647 and \$48,775 for the years ended June 30, 2016 and 2015, 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.

NOTE B - 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.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE C - 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, 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>
As of June 30, 2015:				
Mutual funds	\$ 1,825,187	\$ -	\$ -	\$ 1,825,187
Money market funds	<u>444,946</u>	<u>-</u>	<u>-</u>	<u>444,946</u>
Total assets shown at fair value	<u>\$ 2,270,133</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,270,133</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 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, 2016 AND 2015

NOTE D - 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, 2016, there was a deficiency of \$100.

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, 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 assets 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	\$ -	\$ 133,012	\$ 338,960	\$ 471,972
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>

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE D - ENDOWMENT (Continued)

Endowment net assets by fund type as of June 30, 2015:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
Ballard Club Endowment	\$ -	\$ 3,378	\$ 12,956	\$ 16,334
Southwest Club Endowment	-	118,329	187,557	305,886
Finkbeiner Scholarship (Kirkland)	-	10,877	108,533	119,410
Arlene Brooks-Bull Scholarship	-	428	29,914	30,342
Total endowment funds	<u>\$ -</u>	<u>\$ 133,012</u>	<u>\$ 338,960</u>	<u>\$ 471,972</u>

Change in Endowment Net Asset for the year ended June 30, 2015:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ -</u>	<u>\$ 152,904</u>	<u>\$ 338,960</u>	<u>\$ 491,864</u>
Additions				
Investment return:				
Investment income	-	37,580	-	37,580
Net losses	-	(37,472)	-	(37,472)
Total investment return	-	108	-	108
Appropriated for expenditure	-	(20,000)	-	(20,000)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 133,012</u>	<u>\$ 338,960</u>	<u>\$ 471,972</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 \$17,087 during the year ended June 30, 2016. No employer contributions to the plan were made during the year ended June 30, 2015.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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, 2016, there was \$1,171,398 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, 2016, available credit was \$1,089,748 with no amounts outstanding on this line.

NOTE H - LONG TERM DEBT

Long term debt consists of the following as of June 30,

	<u>2016</u>	<u>2015</u>
Note payable to US Bank bearing interest at 3.5% plus 1 month LIBOR was paid in full in September 2015.	\$ -	\$ 539,813

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, the amount forgiven was \$852,500, reducing the amount due 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, result in additional loan forgiveness of \$447,500, \$1,250,000, and \$1,750,000 effective June 30, 2016, 2017 and 2018, respectively.

	<u>3,000,000</u>	<u>3,447,500</u>
	3,000,000	3,987,313
Less current portion	-	539,813
	<u>\$ 3,000,000</u>	<u>\$ 3,447,500</u>

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE H - LONG TERM DEBT (Continued)

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

2017	\$	-
2018		<u>3,000,000</u>
	\$	<u><u>3,000,000</u></u>

Imputed interest expense on non-interest bearing notes payable has been recorded at a market rate of 4.5%. Interest of \$155,138 and \$270,113 have been recorded as in-kind interest expense and in-kind donations for the years ended June 30, 2016 and 2015, respectively. Total interest expense incurred for the years ended June 30, 2016 and 2015 was \$203,085 and \$304,017, 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.

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, 2016, \$2,745,925 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, 2016 of \$61,389. Total monthly payments are \$6,191, including interest at 1.45% per annum. Scheduled lease payments for the years ending June 30 are as follows:

2017	\$	74,295
2018		74,295
2019		74,295
2020		74,295
Thereafter		<u>18,574</u>
		315,754
Less interest		<u>(10,422)</u>
		305,332
Less current portion		<u>(70,325)</u>
	\$	<u><u>235,007</u></u>

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE K - OPERATING LEASE COMMITMENTS

At June 30, 2016, 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 \$191,139 and \$124,715 for the years ended June 30, 2016 and 2015, respectively. Future minimum lease commitments under these agreements are as follows:

Years ending June 30,	
2017	\$ 192,243
2018	194,131
2019	129,713
2020	93,855
2021	97,036
Thereafter	<u>393,845</u>
	<u>\$ 1,100,823</u>

NOTE L - 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.

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.

BOYS & GIRLS CLUBS OF KING COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE L - COMMITMENTS (Continued)

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, 2016 AND 2015

**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, 2016 through January 13, 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, 2016, including the estimates inherent in the processing of financial statements.

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 one to five years. The donor has restricted 20% of the sales proceeds for art programs in the Clubs.

SUPPLEMENTARY INFORMATION



BOYS & GIRLS CLUBS OF KING COUNTY, INC.

SCHEDULE OF STATE FINANCIAL ASSISTANCE

YEAR ENDED JUNE 30, 2016

**Grantor**

<i>Pass-through Grantor</i>		<b>State</b>		
<u>Program Name</u>	<u>Period</u>	<u>Grant No.</u>	<u>Grant Award</u>	<u>Expenditures</u>
<b>Washington Student Achievement Council</b>				
Washington State Work Study	July 1, 2015 - June 30, 2016	n/a	\$ 444	\$ 444
<b>Washington State Department of Early Learning</b>				
<i>Child Care Resources</i>				
Early Achievers	July 1, 2015 - June 30, 2016	n/a	15,000	15,000
<b>Washington State Department of Commerce</b>				
Capital Programs Unit Grant Agreement	July 1, 2013 - 14-93204-002 June 30, 2017	14-93219-016	1,105,800	<u>535,017</u>
<b>Total State Financial Assistance</b>				<u>\$ 550,461</u>

INDEPENDENT AUDITOR'S REPORT  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

January 13, 2017

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Boys & Girls Club of King County, Inc., which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 13, 2017.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



Jacobson Jarvis & Co, PLLC