

BOYS AND GIRLS CLUBS OF KING COUNTY

Financial Statements

For the Year Ended June 30, 2018

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Independent Auditor's Report

**To the Board of Directors
Boys and Girls Clubs of King County
Seattle, Washington**

We have audited the accompanying financial statements of the Boys and Girls Clubs of King County (the Clubs), which comprise the statement of financial position as of June 30, 2018 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clubs as of June 30, 2018, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of the Clubs for the year ended June 30, 2017, were audited by other auditors who expressed an unmodified opinion on those statements on December 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants
December 20, 2018

BOYS AND GIRLS CLUBS OF KING COUNTY

Statement of Financial Position

June 30, 2018

(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 136,162	\$ 488,325
Investments	3,015,735	1,809,666
Accounts receivable	41,407	219,843
Promises to give, current portion	206,321	433,804
Grants receivable	494,451	415,417
Prepaid expenses and other current assets	<u>211,192</u>	<u>367,518</u>
Total Current Assets	4,105,268	3,734,573
Endowment investments	740,235	528,578
Promises to give, net of current portion	541,551	388,778
Contributed facilities receivable	8,113,290	8,317,474
Note receivable		60,000
Property and equipment, net	<u>44,692,395</u>	<u>45,593,304</u>
Total Assets	<u>\$ 58,192,739</u>	<u>\$ 58,622,707</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 521,360	\$ 549,825
Accrued payroll and other liabilities	1,029,535	1,021,494
Deferred program revenue	1,290,099	638,938
Capital lease obligation, current portion	81,308	77,420
Line of credit	<u>2,500,000</u>	
Total Current Liabilities	5,422,302	2,287,677
Capital lease, net of current portion	111,131	195,198
Line of credit		2,500,000
Note payable		1,750,000
Forgivable debt	<u>2,613,325</u>	<u>2,679,625</u>
Total Liabilities	8,146,758	9,412,500
Net Assets:		
Unrestricted	40,112,658	38,631,306
Temporarily restricted	9,594,363	10,239,941
Permanently restricted	<u>338,960</u>	<u>338,960</u>
Total Net Assets	<u>50,045,981</u>	<u>49,210,207</u>
Total Liabilities and Net Assets	<u>\$ 58,192,739</u>	<u>\$ 58,622,707</u>

See accompanying notes.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Operating Activities					
Public Support and Revenue:					
Public support-					
Contributions	\$ 2,249,921	\$ 330,844	\$ -	\$ 2,580,765	\$ 2,622,910
Grants from government agencies	2,820,353			2,820,353	1,953,060
In-kind contributions	764,821			764,821	2,996,441
Special events net of expenses of \$411,626 (2017 - \$331,508)	2,001,115			2,001,115	1,783,792
United Way	176,431			176,431	248,003
Net assets released from restriction	<u>1,018,074</u>	<u>(1,018,074)</u>			
Total public support	9,030,715	(687,230)		8,343,485	9,604,206
Revenue-					
Program service fees	9,076,385			9,076,385	8,990,020
Membership dues	369,691			369,691	441,984
Other	<u>471,124</u>			<u>471,124</u>	<u>424,282</u>
Total revenue	<u>9,917,200</u>			<u>9,917,200</u>	<u>9,856,286</u>
Total Public Support and Revenue	18,947,915	(687,230)		18,260,685	19,460,492
Expenses:					
Program services	16,633,479			16,633,479	16,504,014
Management and general	2,098,892			2,098,892	1,837,703
Fundraising	<u>1,578,674</u>			<u>1,578,674</u>	<u>1,422,132</u>
Total expenses before depreciation	20,311,045			20,311,045	19,763,849
Depreciation	<u>949,617</u>			<u>949,617</u>	<u>957,622</u>
Total Expenses	<u>21,260,662</u>			<u>21,260,662</u>	<u>20,721,471</u>
Net Operating Activities	(2,312,747)	(687,230)		(2,999,977)	(1,260,979)
Nonoperating Activities					
Investment return	82,500	41,652		124,152	251,323
Gain on sale of property	1,895,299			1,895,299	3,091
Forgiveness of debt	<u>1,816,300</u>			<u>1,816,300</u>	<u>1,316,300</u>
Total Nonoperating Activities	<u>3,794,099</u>	<u>41,652</u>		<u>3,835,751</u>	<u>1,570,714</u>
Total Change in Net Assets	1,481,352	(645,578)		835,774	309,735
Net assets, beginning of year	<u>38,631,306</u>	<u>10,239,941</u>	<u>338,960</u>	<u>49,210,207</u>	<u>48,900,472</u>
Net Assets, End of Year	<u>\$ 40,112,658</u>	<u>\$ 9,594,363</u>	<u>\$ 338,960</u>	<u>\$ 50,045,981</u>	<u>\$ 49,210,207</u>

See accompanying notes.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Statement of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)**

	Program Services	Management and General	Fundraising	2018 Total	2017 Total
Salaries and wages	\$ 9,304,023	\$ 799,497	\$ 927,594	\$ 11,031,114	\$ 10,565,744
Employee benefits	915,674	28,997	64,818	1,009,489	944,850
Payroll taxes	788,939	181,862	69,120	1,039,921	945,779
Total Salaries and Related Expenses	11,008,636	1,010,356	1,061,532	13,080,524	12,456,373
Printing and advertising	60,536	30,836	18,616	109,988	58,293
Donor and board expenses	547	2,404	11,796	14,747	5,400
Dues and subscriptions	19,529	85,294	1,215	106,038	87,359
Equipment	81,619	3,957	275	85,851	53,084
Event expenses			327,264	327,264	319,443
Banking and insurance	160,738	175,039	17,070	352,847	432,462
Interest	88,038	95,872	9,350	193,260	191,826
Occupancy	2,267,278	104,066	19,257	2,390,601	2,316,790
Professional fees	116,058	453,992	28,943	598,993	537,076
Program expenses	2,155,653	32,309	17,515	2,205,477	2,218,502
Technology and communications	353,002	55,989	40,450	449,441	676,104
Training and conferences	55,894	35,592	11,082	102,568	108,406
Vehicle expenses	265,951	13,186	14,309	293,446	302,731
Total Expenses Before Depreciation	16,633,479	2,098,892	1,578,674	20,311,045	19,763,849
Depreciation	816,883	132,734		949,617	957,622
Total Expenses From Operations	17,450,362	2,231,626	1,578,674	21,260,662	20,721,471
Add cost of direct benefits to donors at special event expenses netted with revenues on the statement of activities			411,626	411,626	331,508
Total Expenses	\$ 17,450,362	\$ 2,231,626	\$ 1,990,300	\$ 21,672,288	\$ 21,052,979

See accompanying notes.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Statement of Cash Flows
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)**

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 835,774	\$ 309,735
Adjustments to reconcile change in net assets to net cash used by operating activities-		
Depreciation	949,617	959,120
Forgiveness of debt	(1,816,300)	(1,316,300)
Contributed property and equipment		(1,954,991)
Gain on investments	(73,865)	(168,117)
Gain on sale of assets	(1,895,299)	(3,091)
Changes in assets and liabilities:		
Accounts receivable	178,436	22,133
Promises to give	74,710	489,198
Grants receivable	(79,034)	46,315
Prepaid expenses and other current assets	136,326	(90,843)
Contributed facilities receivable	204,184	194,990
Accounts payable	(28,465)	(14,031)
Accrued liabilities	8,041	47,413
Deferred program revenue	651,161	19,387
Net Cash Used by Operating Activities	(854,714)	(1,459,082)
Cash Flows From Investing Activities:		
Proceeds from sale of property and equipment	2,400,000	
Payments received on note receivable	80,000	80,000
Purchases of investments	(3,135,797)	(315,260)
Sales of investments	1,791,936	132,250
Purchases of property and equipment	(553,409)	(102,377)
Net Cash Provided by (Used in) Investing Activities	582,730	(205,387)
Cash Flows From Financing Activities:		
Principal payments on capital lease obligations	(80,179)	(86,114)
Proceeds from line of credit		1,328,602
Net Cash (Used in) Provided by Financing Activities	(80,179)	1,242,488
Change in Cash and Cash Equivalents	(352,163)	(421,981)
Cash and cash equivalents balance, beginning of year	488,325	910,306
Cash and Cash Equivalents Balance, End of Year	\$ 136,162	\$ 488,325
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 114,420	\$ 148,189
Additions to property and equipment included in accounts payable	\$ -	\$ 421,697

See accompanying notes.

BOYS AND GIRLS CLUBS OF KING COUNTY

Notes to Financial Statements For the Year Ended June 30, 2018

Note 1 - Organization and Significant Accounting Policies

Operations - 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 work stations 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.

Basis of Presentation - The Clubs' financial statements have been prepared on the accrual basis of accounting. The Club classifies net assets, revenues, gains and losses based on the existence or absence of donor-imposed restrictions. Net assets are classified as unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category include earnings and fees, unrestricted contributions and related expenses associated with the core activities of the Clubs. In addition to these transactions, changes in this category of net assets include restricted contributions whose donor-imposed restrictions were met during the fiscal year.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Clubs and/or the passage of time.

Permanently Restricted Net Assets - Support received from donors in the form of endowment funds are considered permanently restricted.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2018**

Note 1 - Continued

Cash and Cash Equivalents - Cash and cash equivalents consist of checking and savings accounts.

Accounts and Grants Receivable - Receivables are stated at their net realizable value and consist of amounts due from corporations and government agencies to fund after-school programs for children from low-to-moderate income families. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts or grants receivable. There is no allowance for accounts and grants receivable as of June 30, 2018 and 2017.

Promises to Give - Unconditional promises to give are stated at net realizable value. In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period the pledge is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At June 30, 2018 and 2017, two donors accounted for 87% and 84% of total combined promises to give, respectively.

Property and Equipment - Property and equipment are stated at cost for purchased assets or at fair value on the date of donation for donated assets. Property and equipment that exceed \$5,000 are capitalized as assets. Depreciation is provided using the straight-line method over the estimated useful life. The costs of repairs and maintenance are expensed as incurred.

The estimated useful lives of property and equipment are as follows:

Buildings and building improvements	15 - 55 years
Leasehold improvements	Life of lease
Furniture and equipment	3 - 10 years
Vehicles	1 - 10 years

Program Revenue Recognition - Revenues received in exchange for participation in programs or other services are deferred and recognized when the program occurs, or the services are provided.

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.

Income Taxes - The Internal Revenue Service has recognized the Clubs as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an entity described in Section 501(c)(3) and not as a private foundation.

BOYS AND GIRLS CLUBS OF KING COUNTY

Notes to Financial Statements For the Year Ended June 30, 2018

Note 1 - Continued

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) require 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.

Reclassifications - Certain balances in the financial statements for the fiscal year ended June 30, 2017 have been reclassified to conform to the presentation for the fiscal year ended June 30, 2018. These reclassifications had no effect on previously reported total assets, liabilities, net assets or change in net assets.

Donated Materials and Services - Donated materials and equipment are recorded as contributions at their estimated fair value at the date of receipt. In accordance with U.S. GAAP, the financial statements reflect only those contributed services requiring specific expertise or which are for constructing a fixed asset, which the organization would otherwise need to purchase. Contributed services are recorded at rates that would have been paid for similar services in an arms-length transaction.

In-kind contributions for the year ended June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Goods	\$ 206,262	\$ 389,097
Use of contributed facilities	536,239	545,435
Services	9,780	38,218
Land and property		1,954,991
Imputed interest on note payable (Note 7)	12,540	68,700
Forgiven debt (Note 7)	<u>1,816,300</u>	<u>1,316,300</u>
Total In-Kind Contributions	<u>\$ 2,581,121</u>	<u>\$ 4,312,741</u>

Functional Allocation of Expenses - The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Summarized Information for Prior Year - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Clubs' financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Subsequent Events - The Clubs have evaluated subsequent events through December 20, 2018, the date on which the financial statements were available to be issued.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2018**

Note 2 - Contributed Facilities Receivable

The Clubs receive donated facilities for their Federal Way, Rotary Club, Sammamish and two Mercer Island sites under long-term lease agreements. The Federal Way and Sammamish lease agreements each include options to extend the lease terms for four 10-year terms, provided certain conditions are met. The lease agreements expire at various dates in 2019 through 2059, which includes the option terms for the Federal Way and Sammamish leases.

The promised use of facilities inherent in the lease agreements was recorded at the estimated fair value as contributed revenue and a receivable at the commencement of each lease. The remaining receivable balances outstanding are reported on the statement of financial position as a receivable and temporarily restricted net assets of \$8,113,290 and \$8,317,474 at June 30, 2018 and 2017, respectively.

Note 3 - Promises to Give

Promises to give as of June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Amounts due in less than one year	\$ 206,321	\$ 433,804
Amounts due in one to five years	457,000	272,200
Amounts due thereafter	<u>200,000</u>	<u>250,000</u>
Total promises to give	863,321	956,004
Less allowance for uncollectible accounts	(23,165)	(47,800)
Less present value discount (4.5%)	<u>(92,284)</u>	<u>(85,622)</u>
Total promises to give, net	747,872	822,582
Less: current portion	<u>(206,321)</u>	<u>(433,804)</u>
Long-term Portion of Promises to Give, Net	<u>\$ 541,551</u>	<u>\$ 388,778</u>

Note 4 - Investments and Fair Value Measurements

Investments consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Cash equivalents	\$ 3,017,384	\$ 308,862
Mutual funds	665,777	2,029,382
Exchange traded funds	<u>72,809</u>	<u></u>
Total Investments	<u>\$ 3,755,970</u>	<u>\$ 2,338,244</u>

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2018**

Note 4 - Continued

Investments return consisted of the following for the year ended June 30:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 50,287	\$ 83,206
Realized gains	257,997	971
Unrealized gains and losses	<u>(184,132)</u>	<u>167,146</u>
Total Investment Return	<u>\$ 124,152</u>	<u>\$ 251,323</u>

U.S. GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3 - Unobservable inputs that are significant to the fair value measurement.

All investments held by the Clubs are valued using Level 1 inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Cash Equivalents - Consist primarily of money market funds and are valued at the closing price reported on the active markets in which the securities are traded at fiscal year end.

Mutual Funds and Exchange Traded Funds - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the Organization at fiscal year end.

BOYS AND GIRLS CLUBS OF KING COUNTY

Notes to Financial Statements For the Year Ended June 30, 2018

Note 5 - Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 6,145,540	\$ 6,151,540
Buildings and building improvements	46,398,510	47,027,725
Land improvements	927,476	951,867
Furniture and equipment	3,225,297	3,205,554
Vehicles	785,643	789,144
Projects in process	<u>33,185</u>	<u>30,392</u>
	57,515,651	58,156,222
Less accumulated depreciation	<u>(12,823,256)</u>	<u>(12,562,918)</u>
Property and Equipment, Net	<u>\$ 44,692,395</u>	<u>\$ 45,593,304</u>

On December 30, 2016, the Clubs' received a donation of land in Pierce County with a fair market value of \$1,890,000. As a condition of receipt of the donation the Clubs cannot sell the land prior to December 2019. The Clubs' intent to sell the land in the next two to five years. The donor has restricted 20% of the sale proceeds for art programs at the Clubs.

Note 6 - Lines of Credit

Wells Fargo Line of Credit - The Clubs have a secured line from Wells Fargo, entered into on October 1, 2015 for three years with an available borrowing limit of \$2,500,000 for operating purposes. As of June 30, 2017 and 2018, there was \$2,500,000 outstanding on this line. The line's interest is payable monthly at a rate of 5.0%. The line matured on September 30, 2018 and was subsequently extended to mature on February 28, 2019.

Morgan Stanley Line of Credit - The Clubs have a secured line (against the value of securities held on account) from Morgan Stanley entered into in April 2014. Available credit on the line is based on a percentage of the underlying securities that's serves 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, 2018, available credit was \$825,497 with no amounts outstanding on this line.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2018**

Note 7 - Debt

Forgivable Debt - The Clubs entered into a forgivable note with the City of Seattle Department of Parks and Recreation for \$3,315,000. The note is a noninterest bearing loan. 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. The note is secured by the Rainer Valley property. The remaining outstanding balance at June 30, 2018 and 2017 was \$2,613,325 and \$2,679,625, respectively.

Note Payable - The Clubs had a note payable to an anonymous party or parties in the original amount of \$6,855,00. The note is a noninterest bearing loan with a term of five years. The amended and restated loan agreement specifies programmatic, operational, organizational and financial metrics that, if met, will result in loan forgiveness of \$447,500, \$1,250,000, and \$1,750,000 effective June 30, 2016, 2017 and 2018, respectively. The note was forgiven as scheduled. Loan forgiveness income of \$1,750,000 and \$1,250,000 was recorded for the year ended June 30, 2018 and 2017, respectively, and there is no remaining balance due on the note as of June 30, 2018.

Imputed interest on the note payable has been recorded at a market rate of 4.3%. Interest of \$74,375 and \$135,000, respectively, have been recorded as in-kind contributions for the years ended June 30, 2018 and 2017. Total interest expense for the years ended June 30, 2018 and 2017, including interest on the line of credit described in Note 6, was \$193,260 and \$191,826, respectively.

Note 8 - Capital Lease Obligation

The Clubs have two noncancelable capital leases with a total recorded cost of \$350,900 and related accumulated depreciation at June 30, 2018 of \$194,143. Total monthly payments are \$7,072, including interest at 1.45% per annum. Scheduled lease payment on these lease for the years ending June 30 are as follows:

For the Year Ending June 30,

2019	\$	84,864
2020		84,864
2021		26,740
2022		<u>10,571</u>
Total scheduled lease payments		207,039
Less portion of payments representing interest		<u>(14,600)</u>
Capital lease obligation		192,439
Less current portion		<u>(81,308)</u>
Long-term Portion of Capital Lease Obligation	\$	<u>111,131</u>

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2018**

Note 9 - Operating Lease Commitments

At June 30, 2018, the Clubs were obligated to make payments under several noncancelable operating lease agreements for vehicles, equipment, and buildings. Rent expense under these commitments was \$194,143 and \$192,243, respectively, for the years ended June 30, 2018 and 2017. Future minimum lease commitments under these agreements are as follows:

For the Year Ending June 30,

2019	\$ 132,283
2020	93,855
2021	97,036
2022	100,335
2023	103,746
Thereafter	<u>189,763</u>
	<u><u>\$ 717,018</u></u>

Note 10 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 were available as follows:

	<u>2018</u>	<u>2017</u>
Program services	\$ 870,480	\$ 1,101,363
Capital expenditures	582,313	631,486
Endowment accumulated earnings	28,280	189,618
Contributed facility receivable (Note 2)	<u>8,113,290</u>	<u>8,317,474</u>
Total Temporarily Restricted Net Assets	<u><u>\$ 9,594,363</u></u>	<u><u>\$ 10,239,941</u></u>

Note 11 - Endowment

The Clubs' endowment contains four donor-restricted funds and one board-designated fund established to support a variety of program areas.

Interpretation of Relevant Law - The Board of Directors of the Clubs has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations on the contrary. As a result of this determination, the Clubs classify as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2018**

Note 11 - Continued

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

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

Funds With Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or PMIFA requires the Clubs to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported as unrestricted net assets. There were no deficiencies of this nature as of June 30, 2018 and 2017.

Return Objectives and Risk Parameters - 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.

Strategies Employed for Achieving Objectives - 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.

Spending Policy and How the Investment Objectives Relate to the Spending Policy - The Clubs do not currently have a formal spending policy.

Endowment net assets by fund type as of June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Ballard Club Endowment	\$ -	\$ 5,698	\$ 12,956	\$ 18,654	\$ 17,158
Southwest Club Endowment		12,935	187,557	200,492	343,496
Finkbeiner Scholarship (Kirkland)		7,696	108,533	116,229	133,928
Arlene Brooks-Bull Scholarship		1,951	29,914	31,865	33,996
Board-designated endowment for Rotary Club	<u>372,994</u>			<u>372,994</u>	
Total Endowment Funds	<u><u>\$ 372,994</u></u>	<u><u>\$ 28,280</u></u>	<u><u>\$ 338,960</u></u>	<u><u>\$ 740,234</u></u>	<u><u>\$ 528,578</u></u>

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2018**

Note 11 - Continued

Changes to endowment net assets for the year ended June 30, 2018 and 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2017	\$ (100)	\$ 124,856	\$ 338,960	\$ 463,716
Investment return-				
Interest and dividends		26,184		26,184
Realized and unrealized gains	100	42,564		42,664
Total investment return	100	68,748		68,848
Appropriated for expenditure		(3,986)		(3,986)
Endowment Net Assets, June 30, 2017		189,618	338,960	528,578
Creation of board-designated endowment	349,578			349,578
Investment return-				
Interest and dividends	20,702	21,330		42,032
Realized and unrealized gains	2,714	20,256		22,970
Total investment return	23,416	41,586		65,002
Appropriated for expenditure		(202,924)		(202,924)
Endowment Net Assets, June 30, 2018	<u>\$ 372,994</u>	<u>\$ 28,280</u>	<u>\$ 338,960</u>	<u>\$ 740,234</u>

Note 12 - Retirement Plan

The Clubs participate in a defined contribution pension plan under IRC Section 403(b) covering all eligible employees with one year of service and 1,000 hours of service. Employer contributions to the plan were \$35,417 and \$33,617, respectively for the years ended June 30, 2018 and 2017.

Note 13 - 501(c) Agencies Trust Reserve

The Clubs are a member of the 501(c) Agencies Trust (the Trust). The Trust facilitates the utilization by member agencies using the reimbursement financing method of meeting obligations under State Unemployment Insurance Statutes. At June 30, 2018 and 2017, the Club had \$11,850 and \$50,046, respectively, on deposit with the Trust to fund these obligations. This deposit is included in prepaid expenses and deposits in the statement of financial position.

BOYS AND GIRLS CLUBS OF KING COUNTY

Notes to Financial Statements For the Year Ended June 30, 2018

Note 14 - Contingently Repayable Property Liabilities

The Clubs have received governmental funding for property-related expenditures. This government funding may be required to be repaid if certain terms and conditions are not met during the terms of the related agreements. The management of the Clubs fully intends to comply with the requirements of these various agreements and so no liability has been recorded for any of these obligations as of June 30, 2018. Following is a summary of each agreement.

Ballard Club - The Clubs received funds from the State of Washington Department of Commerce for use in their 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.

Mercer Island Club - 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.

Federal Way Teen Center - In 2006, the Clubs entered into a \$340,517 noninterest 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.

Auburn PRAB - 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 9119th 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 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 power 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.