

**BOYS AND GIRLS CLUBS OF KING COUNTY**

Financial Statements

For the Year Ended June 30, 2019

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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, 2019 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, 2019, 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.

## **Effect of Adopting New Accounting Standard**

As discussed in Note 1, the Clubs adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited the Clubs' 2018 financial statements and expressed an unmodified opinion on those audited financial statements in our report dated December 20, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Clark Nuber PS*

Certified Public Accountants  
April 8, 2020

**BOYS AND GIRLS CLUBS OF KING COUNTY**

**Statement of Financial Position**

**June 30, 2019**

**(With Comparative Totals for 2018)**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 461,422	\$ 136,162
Investments	2,336,731	3,015,735
Accounts receivable	1,133,570	41,407
Promises to give, current portion	190,256	206,321
Grants receivable	743,735	494,451
Prepaid expenses and other current assets	460,817	211,192
<b>Total Current Assets</b>	<b>5,326,531</b>	<b>4,105,268</b>
Endowment investments	777,336	740,235
Promises to give, net of current portion	200,456	541,551
Contributed facilities receivable	7,899,467	8,113,290
Property and equipment, net	43,895,711	44,692,395
<b>Total Assets</b>	<b>\$ 58,099,501</b>	<b>\$ 58,192,739</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 576,397	\$ 521,360
Accrued payroll and other liabilities	842,816	1,029,535
Deferred program revenue	2,090,039	1,290,099
Capital lease obligation, current portion	79,696	81,308
Line of credit	2,500,000	2,500,000
<b>Total Current Liabilities</b>	<b>6,088,948</b>	<b>5,422,302</b>
Capital lease, net of current portion	34,150	111,131
Forgivable debt	2,547,025	2,613,325
<b>Total Liabilities</b>	<b>8,670,123</b>	<b>8,146,758</b>
<b>Net Assets:</b>		
Without donor restriction	39,907,279	40,112,658
With donor restriction	9,522,099	9,933,323
<b>Total Net Assets</b>	<b>49,429,378</b>	<b>50,045,981</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 58,099,501</b>	<b>\$ 58,192,739</b>

See accompanying notes.

**BOYS AND GIRLS CLUBS OF KING COUNTY**

**Statement of Activities and Changes in Net Assets  
For the Year Ended June 30, 2019  
(With Comparative Totals for 2018)**

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
<b>Operating Activities</b>				
<b>Public Support and Revenue:</b>				
Public support-				
Contributions	\$ 2,779,786	\$ 404,035	\$ 3,183,821	\$ 2,580,765
Grants from government agencies	2,862,021		2,862,021	2,820,353
In-kind contributions	704,306		704,306	764,821
Special events net of expenses of \$435,901 (2018 - \$411,626)	1,993,327		1,993,327	2,001,115
United Way	74,379		74,379	176,431
Net assets released from restriction	834,128	(834,128)		
<b>Total public support</b>	<b>9,247,947</b>	<b>(430,093)</b>	<b>8,817,854</b>	<b>8,343,485</b>
Revenue-				
Program service fees	11,041,005		11,041,005	9,076,385
Membership dues	532,278		532,278	369,691
Other	399,186		399,186	471,124
<b>Total revenue</b>	<b>11,972,469</b>		<b>11,972,469</b>	<b>9,917,200</b>
<b>Total Public Support and Revenue</b>	<b>21,220,416</b>	<b>(430,093)</b>	<b>20,790,323</b>	<b>18,260,685</b>
<b>Expenses:</b>				
Program services	16,249,516		16,249,516	16,633,479
Management and general	2,256,235		2,256,235	2,098,892
Fundraising	1,697,911		1,697,911	1,578,674
<b>Total expenses before depreciation</b>	<b>20,203,662</b>		<b>20,203,662</b>	<b>20,311,045</b>
Depreciation	894,019		894,019	949,617
<b>Total Expenses</b>	<b>21,097,681</b>		<b>21,097,681</b>	<b>21,260,662</b>
<b>Net Operating Activities</b>	<b>122,735</b>	<b>(430,093)</b>	<b>(307,358)</b>	<b>(2,999,977)</b>
<b>Nonoperating Activities</b>				
Investment return	39,282	18,869	58,151	124,152
Loss on impairment of land	(433,696)		(433,696)	
Gain on sale of property				1,895,299
Forgiveness of debt	66,300		66,300	1,816,300
<b>Total Nonoperating Activities</b>	<b>(328,114)</b>	<b>18,869</b>	<b>(309,245)</b>	<b>3,835,751</b>
<b>Total Change in Net Assets</b>	<b>(205,379)</b>	<b>(411,224)</b>	<b>(616,603)</b>	<b>835,774</b>
Net assets, beginning of year	40,112,658	9,933,323	50,045,981	49,210,207
<b>Net Assets, End of Year</b>	<b>\$ 39,907,279</b>	<b>\$ 9,522,099</b>	<b>\$ 49,429,378</b>	<b>\$ 50,045,981</b>

See accompanying notes.

**BOYS AND GIRLS CLUBS OF KING COUNTY**

**Statement of Functional Expenses  
For the Year Ended June 30, 2019  
(With Comparative Totals for 2018)**

	Program Services	Management and General	Fundraising	2019 Total	2018 Total
Salaries and wages	\$ 9,469,251	\$ 495,632	\$ 901,404	\$ 10,866,287	\$ 11,031,114
Employee benefits	485,789	47,455	43,123	576,367	1,009,489
Payroll taxes	768,794	125,293	63,669	957,756	1,039,921
<b>Total Salaries and Related Expenses</b>	<b>10,723,834</b>	<b>668,380</b>	<b>1,008,196</b>	<b>12,400,410</b>	<b>13,080,524</b>
Printing and advertising	40,192	30,150	44,653	114,995	109,988
Donor and board expenses	443	3,557	14,620	18,620	14,747
Dues and subscriptions	22,428	70,389	1,614	94,431	106,038
Equipment	51,924	4,838		56,762	85,851
Event expenses			400,936	400,936	327,264
Finance, insurance and bad debt	303,754	544,173	33,357	881,284	352,847
Interest	114,203	11,664	10,705	136,572	193,260
Occupancy	2,217,844	123,186	22,794	2,363,824	2,390,601
Professional fees	111,551	623,684	45,321	780,556	598,993
Program expenses	2,024,963	71,838	55,161	2,151,962	2,205,477
Technology and communications	318,061	71,321	30,397	419,779	449,441
Training and conferences	79,552	18,685	15,908	114,145	102,568
Vehicle expenses	240,767	14,370	14,249	269,386	293,446
<b>Total Expenses Before Depreciation</b>	<b>16,249,516</b>	<b>2,256,235</b>	<b>1,697,911</b>	<b>20,203,662</b>	<b>20,311,045</b>
Depreciation	807,868	86,151		894,019	949,617
<b>Total Expenses From Operations</b>	<b>17,057,384</b>	<b>2,342,386</b>	<b>1,697,911</b>	<b>21,097,681</b>	<b>21,260,662</b>
Add cost of direct benefits to donors at special event expenses netted with revenues on the statement of activities			435,901	435,901	411,626
<b>Total Functional Expenses</b>	<b>\$ 17,057,384</b>	<b>\$ 2,342,386</b>	<b>\$ 2,133,812</b>	<b>\$ 21,533,582</b>	<b>\$ 21,672,288</b>

See accompanying notes.

**BOYS AND GIRLS CLUBS OF KING COUNTY**

**Statement of Cash Flows  
For the Year Ended June 30, 2019  
(With Comparative Totals for 2018)**

	<u>2019</u>	<u>2018</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (616,603)	\$ 835,774
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities-		
Depreciation	894,019	949,617
Forgiveness of debt	(66,300)	(1,816,300)
Loss (gain) on investments	12,003	(73,865)
Gain on sale of assets		(1,895,299)
Loss on impairment of land	433,696	
Changes in assets and liabilities:		
Accounts receivable	(1,092,163)	178,436
Promises to give	357,160	74,710
Grants receivable	(249,284)	(79,034)
Prepaid expenses and other current assets	(309,625)	136,326
Contributed facilities receivable	213,823	204,184
Accounts payable	55,037	(28,465)
Accrued payroll and other liabilities	(186,719)	8,041
Deferred program revenue	799,940	651,161
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>244,984</b>	<b>(854,714)</b>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sale of property and equipment		2,400,000
Payments received on note receivable	60,000	80,000
Purchases of investments	(1,103,896)	(3,135,797)
Sales of investments	1,733,796	1,791,936
Purchases of property and equipment	(531,031)	(553,409)
<b>Net Cash Provided by Investing Activities</b>	<b>158,869</b>	<b>582,730</b>
<b>Cash Flows From Financing Activities:</b>		
Principal payments on capital lease obligations	(78,593)	(80,179)
<b>Net Cash Used in Financing Activities</b>	<b>(78,593)</b>	<b>(80,179)</b>
<b>Change in Cash and Cash Equivalents</b>	<b>325,260</b>	<b>(352,163)</b>
Cash and cash equivalents balance, beginning of year	136,162	488,325
<b>Cash and Cash Equivalents Balance, End of Year</b>	<b>\$ 461,422</b>	<b>\$ 136,162</b>
<b>Supplementary Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 136,572	\$ 114,420

See accompanying notes.

## BOYS AND GIRLS CLUBS OF KING COUNTY

### Notes to Financial Statements For the Year Ended June 30, 2019

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#### 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 18 before-and-after-school program sites in King County, Washington (Bainbridge Island Club is located within Kitsap County). Additionally, 4 new before-and-after-school program sites were added subsequent to June 30, 2019.

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 and 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 Clubs classify net assets, revenues, gains and losses based on the existence or absence of donor-imposed restrictions. Net assets are classified as with or without donor restriction.

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category include earnings and fees, contributions without donor restriction and related expenses associated with the core activities of the Clubs. In addition to these transactions, changes in this category of net assets include contributions without donor restrictions whose donor-imposed restrictions were met during the fiscal year.

Net Assets With Donor Restrictions - Net assets restricted by donors to be used for certain purposes or for future periods, including donor-restricted endowments whose corpus is intended to be held in perpetuity.

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

**BOYS AND GIRLS CLUBS OF KING COUNTY**

**Notes to Financial Statements  
For the Year Ended June 30, 2019**

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**Note 1 - Continued**

**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 or grants receivable as of June 30, 2019 and 2018.

**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, 2019, one donor accounted for 77% of the total combined promises to give. At June 30, 2018, two donors accounted for 87% of total combined promises to give.

**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

**Concentration of Credit Risks** - Financial instruments which potentially subject the Company to concentrations of credit risk primarily consisted of cash. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

**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.

**Support With and Without Donor Restrictions** - Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the year in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restriction, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restriction are reclassified to net assets without donor restriction and reported as net assets released from restrictions.

Gifts of equipment are reported as support without donor restriction 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 support with donor restrictions. 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.

**BOYS AND GIRLS CLUBS OF KING COUNTY**

**Notes to Financial Statements  
For the Year Ended June 30, 2019**

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**Note 1 - Continued**

**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.

**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.

**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 Clubs 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>2019</u>	<u>2018</u>
Use of contributed facilities	\$ 526,151	\$ 536,239
Goods	162,272	206,262
Forgiven debt	66,300	1,816,300
Services	15,883	9,780
Imputed interest on note payable (Note 7)		<u>12,540</u>
<b>Total In-Kind Contributions</b>	<b><u>\$ 770,606</u></b>	<b><u>\$ 2,581,121</u></b>

In-kind contributions are presented on the statement of activities for the years ended June 30 as follows:

	<u>2019</u>	<u>2018</u>
In-kind donations	\$ 704,306	\$ 764,821
Forgiveness of debt	<u>66,300</u>	<u>1,816,300</u>
<b>Total In-Kind Contributions</b>	<b><u>\$ 770,606</u></b>	<b><u>\$ 2,581,121</u></b>

## BOYS AND GIRLS CLUBS OF KING COUNTY

### Notes to Financial Statements For the Year Ended June 30, 2019

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#### Note 1 - Continued

**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 functional expenses based upon the initial classification provided upon receipt of expense. Accordingly, employee related expenses have been allocated among the programs and supporting services benefitted based on certain key employees' time and cost studies of where efforts are made. Occupancy costs have been allocated based on a square footage basis. All other expenses are charged to the programs and supporting services benefitted as incurred. The total summary of functional expenses including depreciation and costs of direct benefits to donors for the year ended June 30, 2018 were program services of \$17,450,362, management and general \$2,231,626, and fundraising \$1,990,300.

**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, 2018, from which the summarized information was derived.

**New Accounting Pronouncement** - During the year ended June 30, 2019, the Clubs adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - *Not-for-Profit Entities Topic 958: Presentation of Financial Statements of Not-for-Profit Entities* required for the Clubs year ended September 30, 2019. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity and availability of financial assets has also been added (Note 14).

**Subsequent Events** - The Clubs have evaluated subsequent events through April 8, 2020, the date on which the financial statements were available to be issued.

#### 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. As of October 2019, the Sammamish lease was converted to a month to month lease.

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 net assets with donor restrictions of \$7,899,467 and \$8,113,290 at June 30, 2019 and 2018, respectively.

**BOYS AND GIRLS CLUBS OF KING COUNTY**

**Notes to Financial Statements  
For the Year Ended June 30, 2019**

**Note 3 - Promises to Give**

Promises to give as of June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Amounts due in less than one year	\$ 190,256	\$ 206,321
Amounts due in one to five years	229,600	457,000
Amounts due thereafter		<u>200,000</u>
Total promises to give	419,856	863,321
Less allowance for uncollectible accounts	(5,988)	(23,165)
Less present value discount (4.5%)	<u>(23,156)</u>	<u>(92,284)</u>
Total promises to give, net	390,712	747,872
Less current portion	<u>(190,256)</u>	<u>(206,321)</u>
<b>Long-Term Portion of Promises to Give, Net</b>	<b><u>\$ 200,456</u></b>	<b><u>\$ 541,551</u></b>

**Note 4 - Investments and Fair Value Measurements**

Investments consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Cash equivalents	\$ 1,334,592	\$ 3,017,384
Certificates of deposit	1,004,306	
Mutual funds	700,301	665,777
Exchange traded funds	<u>74,868</u>	<u>72,809</u>
<b>Total Investments</b>	<b><u>\$ 3,114,067</u></b>	<b><u>\$ 3,755,970</u></b>

Investments are presented on the statement of financial position for the years ended June 30 as follows:

	<u>2019</u>	<u>2018</u>
Investments	\$ 2,336,731	\$ 3,015,735
Endowment investments	<u>777,336</u>	<u>740,235</u>
<b>Total Investments</b>	<b><u>\$ 3,114,067</u></b>	<b><u>\$ 3,755,970</u></b>

## BOYS AND GIRLS CLUBS OF KING COUNTY

### Notes to Financial Statements For the Year Ended June 30, 2019

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#### Note 4 - Continued

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

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 76,390	\$ 58,958
Realized gains	246	257,997
Unrealized losses	(12,254)	(184,132)
Investment fees	<u>(6,231)</u>	<u>(8,671)</u>
<b>Total Investment Return</b>	<b><u>\$ 58,151</u></b>	<b><u>\$ 124,152</u></b>

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, 2019 and 2018.

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.

Certificates of Deposit - Valued at cost plus accrued interest, which approximates fair value.

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 Clubs at fiscal year end.

## BOYS AND GIRLS CLUBS OF KING COUNTY

### Notes to Financial Statements For the Year Ended June 30, 2019

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#### Note 5 - Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 5,711,844	\$ 6,145,540
Buildings and building improvements	46,679,221	46,398,510
Land improvements	927,476	927,476
Furniture and equipment	3,353,265	3,225,297
Vehicles	861,263	785,643
Projects in process	<u>79,184</u>	<u>33,185</u>
	57,612,253	57,515,651
Less accumulated depreciation	<u>(13,716,542)</u>	<u>(12,823,256)</u>
<b>Property and Equipment, Net</b>	<b><u>\$ 43,895,711</u></b>	<b><u>\$ 44,692,395</u></b>

On December 30, 2016, the Clubs received a donation of land in Pierce County with a fair market value of \$1,933,696. As a condition of receipt of the donation the Clubs cannot sell the land prior to December 2019. The Clubs intend to sell the land in the next one to four years. The donor has restricted 20% of the sale proceeds for art programs at the Clubs.

Subsequent to June 30, 2019, management determined the value of a parcel of land held was impaired as of the date of the statement of financial position and wrote down the assets to \$1,500,000. The impairment was a result of zoning requirements imposed on the property that limited the use of the land. The land's impaired value was determined based on a purchase and sales agreement signed subsequent to the date of the statement of financial position.

#### Note 6 - Lines of Credit

**Wells Fargo Line of Credit** - The Clubs have a secured line from Wells Fargo, with an available borrowing limit of \$2,500,000 and expiration date of December 31, 2019. As of June 30, 2019, and 2018, there was \$2,500,000 outstanding on this line. Subsequent to June 30, 2019 on December 19, 2019, the line of credit was extended to September 30, 2020. The line's interest is payable monthly and bears a variable rate of either a fluctuating rate per annum equal to the Prime Rate in effect, or at a fixed rate per annum determined by Bank to be three and a quarter percent above LIBOR (5.50% and 5.00% at June 30, 2019 and 2018, respectively).

**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 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, 2019, available credit was \$850,014, with no amounts outstanding on this line.

**BOYS AND GIRLS CLUBS OF KING COUNTY**

**Notes to Financial Statements  
For the Year Ended June 30, 2019**

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**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 intend 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, 2019 and 2018 was \$2,547,025 and \$2,613,325, respectively.

**Note Payable** - The Clubs had a note payable to an anonymous party or parties in the original amount of \$6,855,000. The note was fully forgiven as of June 30, 2018. Loan forgiveness income of \$1,750,000 was recorded for the year ended June 30, 2018.

Imputed interest on the note payable has been recorded at a market rate of 4.3%. Interest of \$78,840 had been recorded as in-kind contributions for the year ended June 30, 2018.

Total interest expense for the years ended June 30, 2019 and 2018, including interest on the line of credit described in Note 6, was \$136,572 and \$193,260, 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, 2019 of \$253,639. Total monthly payments are \$7,072, including interest at 1.45% per annum. Scheduled lease payment on these leases for the years ending June 30 are as follows:

For the Year Ending June 30,

2020	\$	84,864
2021		26,740
2022		<u>10,572</u>
Total scheduled lease payments		122,176
Less portion of payments representing interest		<u>(8,330)</u>
Capital lease obligation		113,846
Less current portion		<u>(79,696)</u>
<b>Long-Term Portion of Capital Lease Obligation</b>	<b>\$</b>	<b><u><u>34,150</u></u></b>

**BOYS AND GIRLS CLUBS OF KING COUNTY**

**Notes to Financial Statements  
For the Year Ended June 30, 2019**

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**Note 9 - Operating Lease Commitments**

At June 30, 2019, the Clubs were obligated to make payments under several noncancelable operating lease agreements for vehicles, equipment, and buildings. Rent expense under these commitments was \$292,983 and \$194,143, respectively, for the years ended June 30, 2019 and 2018. Future minimum lease commitments under these agreements are as follows:

For the Year Ending June 30,

2020	\$	306,432
2021		307,834
2022		208,585
2023		103,746
2024		107,274
Thereafter		82,490
		<u>          </u>
	<b>\$</b>	<b><u>1,116,361</u></b>

**Note 10 - Net Assets With Donor Restriction**

Net assets with donor restriction at June 30 were available as follows:

	<u>2019</u>	<u>2018</u>
Program services	\$ 761,030	\$ 870,480
Capital expenditures	475,655	582,313
Endowment accumulated earnings	46,987	28,280
Contributed facility receivable (Note 2)	<u>7,899,467</u>	<u>8,113,290</u>
<b>Total Subject to the Passage of Time or Expenditure for Specified Purpose</b>	<b>9,183,139</b>	<b>9,594,363</b>
Endowment corpus	<u>338,960</u>	<u>338,960</u>
<b>Total Net Assets With Donor Restrictions</b>	<b><u>\$ 9,522,099</u></b>	<b><u>\$ 9,933,323</u></b>

## BOYS AND GIRLS CLUBS OF KING COUNTY

### Notes to Financial Statements For the Year Ended June 30, 2019

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#### 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 to the contrary. As a result of this determination, the Clubs classify as net assets with donor restriction to be held in perpetuity (a) the original value of 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.

The remaining portion of the donor-restricted endowment fund representing accumulated earnings is held as net assets with donor restriction until those amounts are appropriated for expenditure by the Clubs in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Society 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. These deficiencies result from unfavorable market fluctuations that occur after the investment of new endowment contributions and continued appropriation for certain programs as deemed prudent by the Board of Directors. There were no such deficiencies at June 30, 2019 or 2018.

**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.

**BOYS AND GIRLS CLUBS OF KING COUNTY**

**Notes to Financial Statements  
For the Year Ended June 30, 2019**

**Note 11 - Continued**

**Spending Policy and How the Investment Objectives Relate to the Spending Policy** - The Clubs current spending policy allows management to spend the realized gains and income earned each year from each endowment fund on the purpose of that fund as long as the corpus does not fall below the original principal balance. The calculation of the earnings is performed on December 31<sup>st</sup> of each year and management may decide not to draw down an investment income on any given year.

Endowment net assets by fund type as of June 30:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restriction Accumulated Earnings	Endowment Corpus	2019 Total	2018 Total
Ballard Club Endowment	\$ -	\$ 6,505	\$ 12,956	\$ 19,461	\$ 18,654
Southwest Club Endowment		23,246	187,557	210,803	200,493
Finkbeiner Scholarship (Kirkland)		13,637	108,533	122,170	116,229
Arlene Brooks-Bull Scholarship		3,599	29,914	33,513	31,865
Board-designated endowment for Rotary Club	391,389			391,389	372,994
<b>Total Endowment Funds</b>	<b>\$ 391,389</b>	<b>\$ 46,987</b>	<b>\$ 338,960</b>	<b>\$ 777,336</b>	<b>\$ 740,235</b>

Changes to endowment net assets for the year ended June 30, 2019 and 2018, are as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restriction Accumulated Earnings	Endowment Corpus	Total
Endowment net assets, July 1, 2018	\$ -	\$ 189,618	\$ 338,960	\$ 528,578
Creation of board-designated endowment	349,578			349,578
Investment return	23,416	41,587		65,003
Appropriated for expenditure		(202,924)		(202,924)
<b>Endowment Net Assets, June 30, 2018</b>	<b>372,994</b>	<b>28,281</b>	<b>338,960</b>	<b>740,235</b>
Investment return	18,395	18,706		37,101
<b>Endowment Net Assets, June 30, 2019</b>	<b>\$ 391,389</b>	<b>\$ 46,987</b>	<b>\$ 338,960</b>	<b>\$ 777,336</b>

## BOYS AND GIRLS CLUBS OF KING COUNTY

### Notes to Financial Statements For the Year Ended June 30, 2019

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#### 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 \$33,250 and \$35,417, respectively for the years ended June 30, 2019 and 2018.

#### 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, 2019 and 2018, the Club had \$81,013 and \$11,850, 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.

#### Note 14 - Liquidity and Availability of Financial Assets

**Liquidity** - As part of the Clubs' liquidity management, financial assets are structured to be available as its general expenditures, liabilities and other obligations come due. In addition, the Clubs invest cash in excess of daily requirements in short-term (cash equivalent) investments. To help manage unanticipated liquidity needs, the Clubs have a line of credit with an available balance in the amount of \$850,014 as of June 30, 2019 (Note 6), which it could draw upon. Additionally, the Clubs hold current investments which are available to be spent on operations if deemed prudent by management.

**Availability of Financial Assets** - Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 461,422	\$ 136,162
Investments	3,114,067	3,755,970
Accounts receivable	1,133,570	41,407
Promises to give, current portion	190,256	206,321
Grants receivable	<u>743,735</u>	<u>494,451</u>
Total financial assets	5,643,050	4,634,311
Endowment investments	(777,336)	(740,235)
Donor-restricted for specific programs or capital expenditures	<u>(1,236,685)</u>	<u>(1,452,793)</u>
<b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	<b><u>\$ 3,629,029</u></b>	<b><u>\$ 2,441,283</u></b>

Cash and cash equivalents consist of checking and savings accounts. Investments consist of certificates of deposit and publicly traded equity securities that are convertible to cash in the normal market trading cycle. A portion of investments are pledged as security for the line of credit (Note 6).

## BOYS AND GIRLS CLUBS OF KING COUNTY

### Notes to Financial Statements For the Year Ended June 30, 2019

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#### Note 15 - 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, 2019. 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.

**BOYS AND GIRLS CLUBS OF KING COUNTY**

**Notes to Financial Statements  
For the Year Ended June 30, 2019**

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**Note 16 - Contingencies**

The Clubs are involved, from time to time, in various claims, regulatory audits and other legal issues arising in the normal course of business. Management believes that any uninsured costs that may be incurred in the settlement of such claims would not be material to the Clubs' financial position.