

BOYS AND GIRLS CLUBS OF KING COUNTY

Financial Statements

For the Year Ended June 30, 2020

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2020 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, 2020, 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

We have previously audited the Clubs' 2019 financial statements and expressed an unmodified opinion on those audited financial statements in our report dated April 8, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2021, on our consideration of the Club'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 solely 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 the effectiveness of the Club's 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 the Club's internal control over financial reporting and compliance.

Clark Nuber PS

Certified Public Accountants
March 30, 2021

BOYS AND GIRLS CLUBS OF KING COUNTY

Statement of Financial Position

June 30, 2020

(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,541,313	\$ 461,422
Investments	3,024,737	2,336,731
Accounts receivable	1,119,762	1,133,570
Promises to give, current portion	67,756	190,256
Grants receivable	787,707	743,735
Prepaid expenses and other current assets	199,781	460,817
Total Current Assets	6,741,056	5,326,531
Endowment investments	1,065,870	777,336
Promises to give, net of current portion	136,472	200,456
Contributed facilities receivable	7,710,896	7,899,467
Land held for sale	300,000	
Property and equipment, net	42,018,565	43,895,711
Total Assets	\$ 57,972,859	\$ 58,099,501
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 292,015	\$ 576,397
Accrued payroll and other liabilities	1,032,832	842,816
Deferred program revenue	2,067,395	2,090,039
Capital lease obligation, current portion	55,281	79,696
Line of credit		2,500,000
Total Current Liabilities	3,447,523	6,088,948
Capital lease, net of current portion	195,491	34,150
Paycheck Protection Program loan	2,134,900	
Forgivable debt	2,480,725	2,547,025
Total Liabilities	8,258,639	8,670,123
Net Assets:		
Without donor restriction	40,016,032	39,907,279
With donor restriction	9,698,188	9,522,099
Total Net Assets	49,714,220	49,429,378
Total Liabilities and Net Assets	\$ 57,972,859	\$ 58,099,501

See accompanying notes.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)**

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Operating Activities				
Public Support and Revenue:				
Public support-				
Contributions	\$ 4,422,966	\$ 478,472	\$ 4,901,438	\$ 3,183,821
Grants from government agencies	3,435,309		3,435,309	2,862,021
In-kind contributions	841,338		841,338	704,306
Special events net of expenses of \$218,565 (2019 - \$435,901)	1,724,698		1,724,698	1,993,327
United Way	26,388		26,388	74,379
Net assets released from restriction	629,397	(629,397)		
Total public support	11,080,096	(150,925)	10,929,171	8,817,854
Revenue-				
Program service fees	8,398,399		8,398,399	11,041,005
Membership dues	501,880		501,880	532,278
Other	350,744		350,744	399,186
Total revenue	9,251,023		9,251,023	11,972,469
Total Public Support and Revenue	20,331,119	(150,925)	20,180,194	20,790,323
Expenses:				
Program services	14,401,167		14,401,167	16,249,516
Management and general	2,119,157		2,119,157	2,256,235
Fundraising	1,409,309		1,409,309	1,697,911
Total expenses before depreciation	17,929,633		17,929,633	20,203,662
Depreciation	878,732		878,732	894,019
Total Expenses	18,808,365		18,808,365	21,097,681
Net Operating Activities	1,522,754	(150,925)	1,371,829	(307,358)
Nonoperating Activities				
Investment return	33,615	9,405	43,020	58,151
Loss on impairment of property	(1,200,000)		(1,200,000)	(433,696)
Recharacterization of net assets	(317,609)	317,609		
Gain on sale of property	3,693		3,693	
Forgiveness of debt	66,300		66,300	66,300
Total Nonoperating Activities	(1,414,001)	327,014	(1,086,987)	(309,245)
Total Change in Net Assets	108,753	176,089	284,842	(616,603)
Net assets, beginning of year	39,907,279	9,522,099	49,429,378	50,045,981
Net Assets, End of Year	\$ 40,016,032	\$ 9,698,188	\$ 49,714,220	\$ 49,429,378

See accompanying notes.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Statement of Functional Expenses
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)**

	Program Services	Management and General	Fundraising	2020 Total	2019 Total
Salaries and wages	\$ 8,192,806	\$ 957,868	\$ 819,681	\$ 9,970,355	\$ 10,866,287
Employee benefits	801,191	82,062	96,543	979,796	576,367
Payroll taxes	671,083	132,965	61,009	865,057	957,756
Total Salaries and Related Expenses	9,665,080	1,172,895	977,233	11,815,208	12,400,410
Printing and advertising	100,266	24,134	48,723	173,123	114,995
Donor and board expenses	71	1,700	6,566	8,337	18,620
Dues and subscriptions	28,321	72,576	2,688	103,585	94,431
Equipment	56,374	5,512		61,886	56,762
Event expenses			247,496	247,496	400,936
Finance, insurance and bad debt	65,608	72,897	7,290	145,795	881,284
Interest	93,485	11,287	9,234	114,006	136,572
Occupancy	2,385,612	111,276	20,591	2,517,479	2,363,824
Professional fees	21,268	419,495		440,763	780,556
Program expenses	1,554,250	26,967	26,358	1,607,575	2,151,962
Technology and communications	198,841	168,467	40,005	407,313	419,779
Training and conferences	37,944	18,575	12,974	69,493	114,145
Vehicle expenses	194,047	13,376	10,151	217,574	269,386
Total Expenses Before Depreciation	14,401,167	2,119,157	1,409,309	17,929,633	20,203,662
Depreciation	804,030	74,702		878,732	894,019
Total Expenses From Operations	15,205,197	2,193,859	1,409,309	18,808,365	21,097,681
Add cost of direct benefits to donors at special event expenses netted with revenues on the statement of activities			218,565	218,565	435,901
Total 2020 Functional Expenses	\$ 15,205,197	\$ 2,193,859	\$ 1,627,874	\$ 19,026,930	
Total 2019 Functional Expenses	\$ 17,057,384	\$ 2,342,386	\$ 2,133,812		\$ 21,533,582

See accompanying notes.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)**

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 284,842	\$ (616,603)
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	878,732	894,019
Forgiveness of debt	(66,300)	(66,300)
Loss on investments	36,611	12,003
Gain on disposal of assets	(3,693)	
Loss on impairment of land	1,200,000	433,696
Changes in assets and liabilities:		
Accounts receivable	13,808	(1,092,163)
Promises to give	186,484	357,160
Grants receivable	(43,972)	(249,284)
Prepaid expenses and other current assets	261,036	(249,625)
Contributed facilities receivable	188,571	213,823
Accounts payable	(284,382)	55,037
Accrued payroll and other liabilities	190,016	(186,719)
Deferred program revenue	(22,644)	799,940
Net Cash Provided by Operating Activities	2,819,109	304,984
Cash Flows From Investing Activities:		
Purchases of investments	(1,079,917)	(1,103,896)
Sales of investments	66,766	1,733,796
Purchases of property and equipment	(247,121)	(531,031)
Net Cash (Used in) Provided by Investing Activities	(1,260,272)	98,869
Cash Flows From Financing Activities:		
Proceeds from Paycheck Protection Program loan	2,134,900	
Payments on line of credit	(2,500,000)	
Principal payments on capital lease obligations	(113,846)	(78,593)
Net Cash Used in Financing Activities	(478,946)	(78,593)
Change in Cash and Cash Equivalents	1,079,891	325,260
Cash and cash equivalents balance, beginning of year	461,422	136,162
Cash, Cash Equivalents Balance and Endowment Cash, End of Year	\$ 1,541,313	\$ 461,422
Supplementary Disclosure of Cash Flow Information:		
Acquisition of long-term assets through capital lease	\$ 250,772	\$ -
Cash paid during the year for interest	\$ 114,006	\$ 136,572

See accompanying notes.

BOYS AND GIRLS CLUBS OF KING COUNTY

Notes to Financial Statements For the Year Ended June 30, 2020

Note 1 - Organization and Significant Accounting Policies

Operations - Boys & Girls Clubs of King County, Inc. (the Clubs), is a nonprofit corporation providing leadership in youth development. The Clubs' mission is to inspire and enable all young people, especially those who need us most, to realize their full potential as productive, responsible, and caring citizens. With 34 Clubs and 2 focused programs, the Clubs provide a safe, affordable, and fun place for kids and teens during critical out-of-school time. (Bainbridge Island Club is located within Kitsap County).

The Clubs' programs are designed to meet the physical, emotional, cultural, and social needs of young people. Because these core areas are integrated, it is not practical to separate expenses into program categories. Some of the programs are as follows:

Power Hour - Power Hour: Making Minutes Count provide the Clubs professionals with the strategies, activities, resources and information to create an engaging homework help and tutoring program that encourage the Clubs members of every age to become self-directed learners.

SMART Moves - SMART Moves is a prevention and education program addressing problems such as drug and alcohol use and premature sexual activity.

Triple Play - Triple Play is a comprehensive health and wellness program. It strives to improve the overall health of Club members ages by increasing daily physical activity, teaching them about good nutrition and helping them develop healthy relationships.

Keystone and Torch Clubs - Members have access to Club-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, 2020

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. An allowance for accounts or grants receivable totaling \$13,569 and \$0 was recorded as of June 30, 2020 and 2019, respectively.

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, 2020, one donor accounted for 98% of the total combined promises to give. At June 30, 2019, one donor accounted for 77% of the 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 Clubs to concentrations of credit risk primarily consisted of cash. The Clubs maintain its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Clubs have 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.

Conditional promises to give are not recognized as revenues until the conditions on which they depend have been met. Conditional contributions are conditioned upon certain performance requirements and the incurrence of qualifying expenses. Consequently, at June 30, 2020, conditional contributions approximating \$1,950,000, of which no amounts had been received in advance, or have been recognized in the accompanying financial statements.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2020**

Note 1 - Continued

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.

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>2020</u>	<u>2019</u>
Use of contributed facilities	\$ 546,854	\$ 526,151
Goods	285,726	162,272
Forgiveness of debt	66,300	66,300
Services	<u>8,758</u>	<u>15,883</u>
Total In-Kind Contributions	<u>\$ 907,638</u>	<u>\$ 770,606</u>

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

	<u>2020</u>	<u>2019</u>
In-kind donations	\$ 841,338	\$ 704,306
Forgiveness of debt	<u>66,300</u>	<u>66,300</u>
Total In-Kind Contributions	<u>\$ 907,638</u>	<u>\$ 770,606</u>

BOYS AND GIRLS CLUBS OF KING COUNTY

Notes to Financial Statements For the Year Ended June 30, 2020

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.

Property Held for Sale - Property held for sale at June 30, 2020 consisted of the Club's donated property in Pierce County.

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, 2019, from which the summarized information was derived.

Subsequent Events - The Clubs have evaluated subsequent events through March 30, 2021, 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, Mercer Island and Sammamish 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 2024 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 net assets with donor restrictions of \$7,710,896 and \$7,899,467 at June 30, 2020 and 2019, respectively.

Note 3 - Promises to Give

Promises to give as of June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Amounts due in less than one year	\$ 67,756	\$ 190,256
Amounts due in one to five years	<u>150,000</u>	<u>229,600</u>
Total promises to give	217,756	419,856
Less allowance for uncollectible accounts	(883)	(5,988)
Less present value discount (4.5%)	<u>(12,645)</u>	<u>(23,156)</u>
Total promises to give, net	204,228	390,712
Less current portion	<u>(67,756)</u>	<u>(190,256)</u>
Long-Term Portion of Promises to Give, Net	<u>\$ 136,472</u>	<u>\$ 200,456</u>

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2020**

Note 4 - Investments and Fair Value Measurements

Investments consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash equivalents	\$ 1,004,709	\$ 1,334,592
Certificates of deposit		1,004,306
Mutual funds	3,027,781	700,301
Exchange traded funds	<u>58,117</u>	<u>74,868</u>
Total Investments	<u>\$ 4,090,607</u>	<u>\$ 3,114,067</u>

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

	<u>2020</u>	<u>2019</u>
Investments	\$ 3,024,737	\$ 2,336,731
Endowment investments	<u>1,065,870</u>	<u>777,336</u>
Total Investments	<u>\$ 4,090,607</u>	<u>\$ 3,114,067</u>

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

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 86,181	\$ 76,385
Realized gains	2,714	246
Unrealized losses	(39,327)	(12,249)
Investment fees	<u>(6,548)</u>	<u>(6,231)</u>
Total Investment Return	<u>\$ 43,020</u>	<u>\$ 58,151</u>

U.S. GAAP provides a framework for measuring fair value. To increase consistency and comparability in fair value measurements, the framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the primary or most advantageous market for the asset or liability in an orderly transaction between market participants.

The framework uses a three-level valuation hierarchy based on observable and non-observable inputs. Observable inputs consist of data obtained from independent sources. Non-observable inputs reflect industry assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2020**

Note 4 - Continued

Assets classified as Level 1 have fair values based on unadjusted quoted market prices for identical instruments in active markets. Assets and liabilities classified as Level 2 have fair values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-derived valuations whose inputs are observable. Assets and liabilities classified as Level 3 have fair values based on value drivers that are unobservable.

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, 2020 and 2019.

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.

All investments of the Clubs are valued using Level 1 inputs. The valuation methodologies used by the Clubs may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Clubs' management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 5 - Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 4,211,844	\$ 5,711,844
Buildings and building improvements	46,873,401	46,679,221
Land improvements	927,476	927,476
Furniture and equipment	3,298,825	3,353,265
Vehicles	884,269	861,263
Projects in process	<u>99,917</u>	<u>79,184</u>
	56,295,732	57,612,253
Less accumulated depreciation	<u>(14,277,167)</u>	<u>(13,716,542)</u>
Property and Equipment, Net	<u>\$ 42,018,565</u>	<u>\$ 43,895,711</u>

BOYS AND GIRLS CLUBS OF KING COUNTY

Notes to Financial Statements For the Year Ended June 30, 2020

Note 5 - Continued

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 donor restricted 20% of the sale proceeds for art programs at the Clubs. Management has determined that the value of the parcel of land held was impaired as of June 30, 2020 and 2019. Management wrote down the land to \$300,000 and \$1,500,000 for the years ended June 30, 2020 and 2019, respectively. The impairment resulted from zoning requirements imposed on the property that limited the use of the land and market conditions. The impaired value was determined based on purchase and sales agreements. The current purchase and sales agreement was dated March 18, 2021.

Subsequent to year end, on August 12, 2020, the Clubs entered into a purchase and sale agreement for the purchase of a property in North Seattle for \$833,324. Earnest money of \$20,000 was given as of September 12, 2020. This agreement is expected to close by June 1, 2022.

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 September 30, 2020. As of June 30, 2020, there was no outstanding balance. There was \$2,500,000 outstanding on this line at June 30, 2019. Subsequent to June 30, 2020 on September 30, 2020, the line of credit was extended to December 31, 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 (3.78% and 5.50% at June 30, 2020 and 2019, respectively). Management has elected to not extend the maturity date beyond December 31, 2020.

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. No amounts were outstanding at June 30, 2020 or 2019.

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 comply 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, 2020 and 2019 was \$2,480,725 and \$2,547,025, respectively.

Paycheck Protection Program Loan - In response to the COVID-19 pandemic, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. On April 17, 2020, the Clubs obtained a loan under the PPP with a principal balance of \$2,134,900 and an annual interest rate of 1%. Forgiveness may be applied for up to 10 months after the covered period, otherwise payments are due between then and the maturity date of April 17, 2025. All or a portion of the PPP Loan may be forgiven if certain terms and conditions of the program are met.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2020**

Note 7 - Continued

To complete the loan forgiveness process management must submit a loan forgiveness application to the lender and then the lender and the Small Business Administration (SBA) must review and approve the application. A risk exists that the lender or the SBA may reject some or all of the requested forgiveness amount during the review process, in which case the Clubs will be required to repay the amount that is not forgiven. For the year ended June 30, 2020, management has concluded that the Clubs have incurred the qualifying expenditures and will apply for forgiveness.

Principal maturities on the PPP loan are as follows:

For the Year Ending June 30,

2021	\$	-
2022		481,463
2023		580,651
2024		583,826
2025		<u>488,960</u>
	\$	<u>2,134,900</u>

Total interest expense for the years ended June 30, 2020 and 2019, including interest on the line of credit described in Note 6, was \$114,006 and \$136,572, respectively.

Subsequent to year end the Clubs entered into a second PPP loan on March 12, 2021, with principal balance of \$2,000,000, an annual interest rate of 1% and a loan maturity date of March 12, 2026. All or a portion of the PPP Loan may be forgiven if certain terms and conditions of the program are met.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2020**

Note 8 - Capital Lease Obligation

The Clubs have one noncancelable capital lease with a total recorded cost of \$250,772 and no related accumulated depreciation at June 30, 2020. Total monthly payments are \$2,628, including interest at 1.45% per annum. Included in the capital lease obligation on the statement of financial position and the schedule of future lease payments below are \$93,067 of initial direct costs that have been capitalized as part of the lease and are payable in 12 quarterly payments of \$7,756. Scheduled lease payment on these leases for the years ending June 30 are as follows:

For the Year Ending June 30,

2021	\$	56,612
2022		62,049
2023		62,356
2024		35,586
2025		31,541
Thereafter		<u>7,885</u>
Total scheduled lease payments		256,029
Less portion of payments representing interest		<u>(5,257)</u>
Capital lease obligation		250,772
Less current portion		<u>(55,281)</u>
Long-Term Portion of Capital Lease Obligation	\$	<u><u>195,491</u></u>

Note 9 - Commitments

Operating Leases - At June 30, 2020, the Clubs were obligated to make payments under several noncancelable operating lease agreements for vehicles, equipment, and buildings. Rent expense under these commitments was \$387,444 and \$292,983, respectively, for the years ended June 30, 2020 and 2019. Future minimum lease commitments under these agreements are as follows:

For the Year Ending June 30,

2021	\$	308,678
2022		210,322
2023		211,996
2024		161,399
2025		<u>82,490</u>
	\$	<u><u>974,885</u></u>

Purchases Commitments - The Clubs have entered into a contract for parking lot repairs for fiscal year 2021. The total of the contract is \$204,000.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2020**

Note 10 - Net Assets With Donor Restriction

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

	<u>2020</u>	<u>2019</u>
Program services	\$ 788,500	\$ 761,030
Capital expenditures	486,596	475,655
Endowment accumulated earnings	69,543	46,987
Contributed facility receivable (Note 2)	<u>7,710,896</u>	<u>7,899,467</u>
Total Subject to the Passage of Time or Expenditure for Specified Purpose	9,055,535	9,183,139
Endowment corpus	<u>642,653</u>	<u>338,960</u>
Total Net Assets With Donor Restrictions	<u>\$ 9,698,188</u>	<u>\$ 9,522,099</u>

Note 11 - Endowment

The Clubs' endowment contains five 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 Clubs consider 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.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2020**

Note 11 - Continued

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, 2020 or 2019.

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' 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 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		2020 Total	2019 Total
		Accumulated Earnings	Endowment Corpus		
Ballard Club Endowment	\$ -	\$ 7,104	\$ 12,956	\$ 20,060	\$ 19,461
Southwest Club Endowment		27,697	187,557	215,254	210,803
Finkbeiner Scholarship (Kirkland)		16,523	108,533	125,056	122,170
Arlene Brooks-Bull Scholarship		4,303	29,914	34,217	33,513
VINE fund		13,916	303,693	317,609	
Board-designated endowment for Rotary Club	353,674			353,674	391,389
Total Endowment Funds	\$ 353,674	\$ 69,543	\$ 642,653	\$ 1,065,870	\$ 777,336

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2020**

Note 11 - Continued

Changes to endowment net assets for the year ended June 30, 2020 and 2019, are as follows:

	Net Assets Without Donor Restrictions	<u>Net Assets With Donor Restriction</u>		
		Accumulated Earnings	Endowment Corpus	Total
Endowment net assets, July 1, 2018	\$ 372,994	\$ 28,281	\$ 338,960	\$ 740,235
Investment return	<u>18,395</u>	<u>18,706</u>		<u>37,101</u>
Endowment Net Assets, June 30, 2019	391,389	46,987	338,960	777,336
Recharacterization of net assets		13,916	303,693	317,609
Appropriation of endowment earnings for expenditure	(41,431)			(41,431)
Investment return	<u>3,716</u>	<u>8,640</u>		<u>12,356</u>
Endowment Net Assets, June 30, 2020	<u>\$ 353,674</u>	<u>\$ 69,543</u>	<u>\$ 642,653</u>	<u>\$ 1,065,870</u>

During the year ended June 30, 2020, the Clubs formalized an agreement with a donor that stipulated that a portion of contributions given to the Clubs in prior years should establish as a separate endowment fund to be held in perpetuity. As a result of the agreement reached with the donor, the Clubs have recharacterized \$317,609 in net assets formerly included in net assets without donor restrictions, to net assets with donor restrictions.

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 \$21,580 and \$33,525, respectively for the years ended June 30, 2020 and 2019.

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, 2020 and 2019, the Clubs had \$145,398 and \$81,013, respectively, on deposit with the Trust to fund these obligations. This deposit is included in prepaid expenses and other current assets 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.

BOYS AND GIRLS CLUBS OF KING COUNTY

**Notes to Financial Statements
For the Year Ended June 30, 2020**

Note 14 - Continued

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 statement of financial position date, consisted of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,541,313	\$ 461,422
Investments	4,090,607	3,114,067
Accounts receivable	1,119,762	1,133,570
Promises to give, current portion	67,756	190,256
Grants receivable	<u>787,707</u>	<u>743,735</u>
 Total financial assets	 7,607,145	 5,643,050
 Endowment investments	 (1,065,870)	 (777,336)
Donor-restricted for specific programs or capital expenditures	<u>(1,275,096)</u>	<u>(1,236,685)</u>
 Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	 <u>\$ 5,266,179</u>	 <u>\$ 3,629,029</u>

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 Morgan Stanley line of credit (Note 6).

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, 2020. 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 are 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.

BOYS AND GIRLS CLUBS OF KING COUNTY

Notes to Financial Statements For the Year Ended June 30, 2020

Note 15 - Continued

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 comply 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 into 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.

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.

Note 17 - Coronavirus Pandemic

On March 11, 2020, the World Health Organization ("WHO") recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy. The initial wave of the COVID-19 outbreak caused disruption to the Club's business operations. 24 of the 34 Clubs remained open with limited programming for youth to support full day remote learning and other programming. The remaining 10 locations were not re-opened due to school district decisions. Management has taken measures to reduce costs and to maintain adequate liquidity. However, due to the rapidly changing business environment, unprecedented market volatility, and other circumstances resulting from the COVID-19 pandemic, management is currently unable to fully determine the extent of COVID-19's financial impact on the Clubs. Management continues to monitor events and conditions as they unfold and has established strategies to respond accordingly.