



BOYS & GIRLS CLUBS
OF GREATER KANSAS CITY

FINANCIAL STATEMENTS

Year Ended December 31, 2017
with
Independent Auditors' Report

**BOYS AND GIRLS CLUBS
OF GREATER KANSAS CITY**

FINANCIAL STATEMENTS

December 31, 2017

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Keller & Owens, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors

Boys & Girls Clubs of Greater Kansas City

We have audited the accompanying consolidated financial statements of **Boys & Girls Clubs of Greater Kansas City** (the Clubs) (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

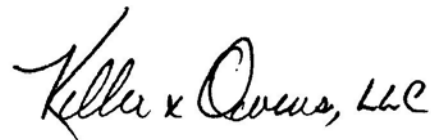
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Boys & Girls Clubs of Greater Kansas City** as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the **Boys & Girls Clubs of Greater Kansas City's** 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated August 22, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Kella x Owens, LLC". The signature is written in a cursive, flowing style.

Overland Park, Kansas
August 16, 2018

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION December 31, 2017

(With comparative totals as of December 31, 2016)

	<u>ASSETS</u>	
	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash and cash equivalents:		
Operating	\$ 141,936	\$ 735,841
Designated cash	39,494	30,154
Total Cash and Cash Equivalents	<u>181,430</u>	<u>765,995</u>
Certificates of deposit, at cost	215,493	215,139
Operating pledges current	68,750	27,807
Investments	938,194	840,952
Grants and accounts receivable	1,187,633	633,036
Note receivable - KCMO Investment Fund	-	3,726,000
Unconditional promises to give, current portion		
less allowance for uncollectibles	29,172	520,255
Prepaid expenses and deposits	<u>6,627</u>	<u>38,290</u>
Total Current Assets	2,627,299	6,767,474
Cash Restricted for Capital Improvements	381,376	152,465
Long-term Unconditional Promises to Give,		
less current portion above	14,423	25,592
Interest in Affiliated Entity	2,102,936	2,163,958
Property and Equipment, at cost,		
less accumulated depreciation	<u>10,645,095</u>	<u>11,275,767</u>
Total Assets	<u>\$ 15,771,129</u>	<u>\$ 20,385,256</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 495,110	\$ 591,135
Deferred rent	60,334	60,147
Other deferred revenue	439,156	559,744
Line of credit	300,000	-
Current portion of long-term debt	<u>11,562</u>	<u>122,534</u>
Total Current Liabilities	1,306,162	1,333,560
Long-Term Debt - New Markets	-	4,808,243
Long-Term Debt - other, less current portion above	<u>18,180</u>	<u>31,543</u>
Total Long-Term Liabilities	18,180	4,839,786
Total Liabilities	1,324,342	6,173,346
Net Assets:		
Unrestricted:		
Undesignated	12,753,202	12,392,863
Board designated	822,083	761,268
Total Unrestricted Net Assets	<u>13,575,285</u>	<u>13,154,131</u>
Temporarily restricted	864,819	1,051,096
Permanently restricted	<u>6,683</u>	<u>6,683</u>
Total Net Assets	14,446,787	14,211,910
Total Liabilities and Net Assets	<u>\$ 15,771,129</u>	<u>\$ 20,385,256</u>

See accompanying notes

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2017

(With comparative totals for the year ended December 31, 2016)

	2017			2016 Totals	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Totals
Grants and Contributions	\$ 4,683,892	\$ 68,298	\$ -	\$ 4,752,190	\$ 4,995,859
Other Support and Revenue:					
Special events:					
Special event income	1,743,896	-	-	1,743,896	1,842,475
Special event expenses	(633,908)	-	-	(633,908)	(597,796)
Net special event income	1,109,988	-	-	1,109,988	1,244,679
Membership dues and program service fees	92,837	-	-	92,837	90,337
Rental income	194,357	-	-	194,357	163,171
Investment return	83,666	31,271	-	114,937	54,169
Equity in earnings of affiliated entity	(61,022)	-	-	(61,022)	(110,347)
Summer school	1,798,841	-	-	1,798,841	589,892
Food subsidy	631,408	-	-	631,408	578,471
Forgiveness of debt NMTC	1,174,000	-	-	1,174,000	-
Other income	142,469	-	-	142,469	137,722
Net assets released from restrictions	285,846	(285,846)	-	-	-
Total Other Support and Revenue	5,452,390	(254,575)	-	5,197,815	2,748,094
Total Support and Revenue	10,136,282	(186,277)	-	9,950,005	7,743,953
Expenses:					
Program services	7,602,686	-	-	7,602,686	6,694,860
Supporting services:					
Fundraising	794,151	-	-	794,151	622,177
Management and general	1,318,291	-	-	1,318,291	1,247,591
Total Supporting Services	2,112,442	-	-	2,112,442	1,869,768
Total Expenses	9,715,128	-	-	9,715,128	8,564,628
Change in Net Assets	421,154	(186,277)	-	234,877	(820,675)
Net Assets, Beginning of Year	13,154,131	1,051,096	6,683	14,211,910	15,032,585
Net Assets, End of Year	<u>\$ 13,575,285</u>	<u>\$ 864,819</u>	<u>\$ 6,683</u>	<u>\$ 14,446,787</u>	<u>\$ 14,211,910</u>

See accompanying notes

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

(With comparative totals for the year ended December 31, 2016)

	2017			Total	2016
	Program	Fundraising	Management and General		
Salaries	\$ 3,793,054	\$ 439,881	\$ 719,090	\$ 4,952,025	\$ 4,079,661
Employee benefits	671,436	126,134	168,521	966,091	901,575
Professional fees	182,390	11,977	155,850	350,217	210,197
Supplies	292,097	16,968	31,246	340,311	357,137
Telephone	36,564	4,565	9,190	50,319	47,169
Postage	2,242	1,895	2,421	6,558	5,485
Occupancy	1,033,594	40,889	42,403	1,116,886	1,025,835
Printing and subscriptions	3,500	4,339	-	7,839	72,993
Transportation	177,593	4,411	7,060	189,064	123,718
Equipment rental/maintenance	23,408	3,027	2,929	29,364	31,062
Food and beverage	358,377	627	14,563	373,567	374,399
Dues and contributions	133,676	1,934	29,915	165,525	199,817
Bank fees	1,891	9	27,810	29,710	68,530
Marketing and advertising	-	92,398	-	92,398	53,346
Training	55,952	9,376	12,069	77,397	51,270
Miscellaneous	15,740	18	3,314	19,072	20,228
Interest, fees and credit card interest	464	20	56,227	56,711	50,352
Total Expenses Before Depreciation	6,781,978	758,468	1,282,608	8,823,054	7,672,774
Depreciation	820,708	35,683	35,683	892,074	891,854
Total Functional Expenses	<u>\$ 7,602,686</u>	<u>\$ 794,151</u>	<u>\$ 1,318,291</u>	<u>\$ 9,715,128</u>	<u>\$ 8,564,628</u>

See accompanying notes

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

(With comparative totals for the year ended December 31, 2016)

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	\$ 234,877	\$ (820,675)
Adjustments to reconcile change in net assets to net cash flows (used) provided by operating activities:		
Depreciation	892,074	891,854
Donated stock	(66,323)	(64,955)
Realized and unrealized gain on investments	(107,238)	(42,341)
Operating pledges - current	(40,943)	28,443
Operating pledges - Olathe	66,581	78,166
Operating pledges - long term	-	50,000
Forgiveness of debt NMTC	(1,174,000)	-
Interest in affiliated entity	61,022	107,347
Change in operating assets and liabilities:		
Grants and accounts receivable	(554,597)	(26,938)
Prepaid expenses and deposits	31,663	21,236
Deferred rent	187	2,256
Other deferred revenue	(120,588)	150,467
Accounts payable and accrued expenses	(96,025)	90,877
Net Cash (Used) Provided by Operating Activities	(873,310)	465,737
Cash Flows from Investing Activities:		
Net capital campaign activity	435,671	34,950
Net change in certificates of deposit, at cost	(354)	(379)
Change in cash restricted for capital improvements	(228,911)	(91,639)
Purchase of property and equipment	(261,402)	(315,321)
Proceeds from sale of investments	428,129	1,009,769
Purchase of investments	(351,810)	(944,410)
Repayment of note receivable - KCMO Investment Fund	3,726,000	-
Net Cash Provided (Used) by Investing Activities	3,747,323	(307,030)
Cash Flows from Financing Activities:		
Proceeds from borrowings on line of credit	1,725,000	500,000
Repayment of borrowings on line of credit	(1,425,000)	(500,000)
Repayment of long-term debt	(32,578)	(39,118)
Repayment of long-term debt NMTC	(3,726,000)	-
Net Cash Used by Financing Activities	(3,458,578)	(39,118)
Net Change in Cash and Cash Equivalents	(584,565)	119,589
Cash and Cash Equivalents, Beginning of Year	765,995	646,406
Cash and Cash Equivalents, End of Year	\$ 181,430	\$ 765,995

See accompanying notes

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Boys and Girls Clubs of Greater Kansas City (the Clubs) is a Missouri not-for-profit corporation organized to promote educational, vocational, social, character and leadership development of youth. The aim is to help young people improve their lives by building self-esteem and developing values and skills during critical periods of growth. The Clubs' donors and program participants are mainly located in the Kansas City, Missouri metropolitan area.

Boys and Girls Clubs New Markets, Inc. (the Markets) was formed under the laws of Missouri on December 8, 2009, to meet the necessary structuring requirements to enter into a transaction intended to qualify for the New Markets Tax Credit, as outlined in Internal Revenue Code (IRC) Section 45D.

Advertising - The Clubs expense advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2017 and 2016 was \$92,398 and \$53,346 respectively.

Basis of Accounting - The Clubs prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-210. Under FASB ASC 958-210, the Clubs are required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Board Designated Net Assets - Board designated net assets consist primarily of reserves for specific uses, including operating reserves, endowment funds and other reserves.

Cash and Cash Equivalents - For purposes of the statement of cash flows, cash consists of cash, non-interest-bearing checking accounts and short-term money market investments. Cash does not include cash restricted for long-term purposes such as capital improvements.

Comparative Information - The financial statements include certain prior year summarized information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Clubs' financial statements for the year ended December 31, 2016 from which the information is derived.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Risk – The Clubs maintain their cash and cash equivalents in three financial institutions located in the greater Kansas City, Missouri area. At times during the year, some of the Clubs' balances exceed federally insured limits. The Clubs have not experienced any losses in these accounts in the past, and management believes the Clubs are not exposed to significant credit risks as they periodically evaluate the strength of the financial institutions in which the Clubs deposits funds.

Contributions - The Clubs follow the accounting principles under FASB ASC 958-605. In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support and investment income that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the income is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Assets and Services – Donated assets and services are reflected as contributions at their estimated fair value at the date of receipt. During the year, \$70,000 of marketing and advertising, \$5,000 of printing services, \$37,274 related to special events, and supplies and other miscellaneous non-cash donations of \$90,351 were donated. Two stock donations were received during the year with fair values at the date of the gifts totaling \$66,323. In addition, a substantial number of volunteers have donated thousands of hours of their time during the years ended December 31, 2017 and 2016, which do not meet the requirements of contributions under FASB ASC 958-605 and, accordingly, are not recorded in these financial statements.

Functional Expenses – The Clubs allocate expenses on a functional basis among the various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the program or support service.

Income Taxes - The Clubs are classified as tax exempt under Section 501(c)(3) of the Internal Revenue Code and do not incur income taxes. In addition, the Clubs have been classified as a publicly-supported organization which is not a private foundation within the meaning of Section 509(a)(1) of the code.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued) – The Clubs have adopted FASB ASC 740-10 as it might apply to the Clubs’ financial transactions. The Clubs’ policy is to record a liability for any tax position that is beneficial to the Clubs, including any related interest and penalties, when it is more likely than not the position taken by management with respect to the transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of December 31, 2017 and, accordingly, no liability has been accrued.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at fair value. Unrealized gains and losses are included in investment income in the accompanying statement of activities.

Permanently Restricted Net Assets – Permanently restricted net assets consist of a single contribution of cash, the interest on which is to be used for scholarships. Amounts received during the year that are permanently restricted by donors are recorded as being permanently restricted. Earnings on permanently restricted net assets that are to be expended in accordance with the desires of donors are recorded as temporarily restricted net assets. Once expenses are incurred for their donor-restricted purpose the earnings are released from restriction.

Principles of Consolidation - The consolidated statements of the Clubs and the Markets are prepared in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profits related by common control. All material intercompany balances and transactions have been eliminated in consolidation.

Property and Equipment - Property and equipment are stated at cost at the date of acquisition or fair value at date of donation, over a nominal amount, in the case of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Maintenance and repairs are charged to expense as incurred. When items of property or equipment are sold or retired, the related cost is removed from the accounts and any gain or loss is included in the results of operations. Depreciation is provided over the estimated useful lives of the respective assets on the straight-line basis. Lives for depreciation are as follows:

Building and improvements	10 - 30 years
Furniture and equipment	3 - 10 years
Vehicles	3 - 5 years

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications – Certain accounts in the prior-year comparative financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

Subsequent Events - Management has evaluated events and transactions that have occurred since December 31, 2017 and reflected their effects, if any, in these financial statements through August 16, 2018, the date the financial statements were available to be issued.

Unconditional Promise to Give – Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

2. FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three-tier hierarchy of inputs is summarized in the three broad levels below:

- Level 1 - inputs are unadjusted quoted market prices in active independent markets for identical assets and liabilities;
- Level 2 - inputs are directly or indirectly observable estimates from quotes for similar but not identical assets and liabilities, market trades for identical assets not actively traded or other external independent means;
- Level 3 - inputs are unobservable and reflect assumptions on the part of the reporting entity.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

2. FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

The following table sets forth information about the level within the fair value hierarchy at which the Clubs' financial assets and liabilities are measured on a recurring basis at December 31, 2017:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u>	<u>Quoted Prices In Pooled Funds (Level 2)</u>
Assets:			
Investments:			
Cash and cash equivalents	\$ 19,014	\$ 18,915	\$ 99
Equities:			
Domestic	640,440	604,389	36,051
Fixed Income:			
Domestic	<u>278,740</u>	<u>255,118</u>	<u>23,622</u>
Total Assets, recurring basis	<u>\$ 938,194</u>	<u>\$ 878,422</u>	<u>\$ 59,772</u>

The following table sets forth information about the level within the fair value hierarchy at which the Clubs' financial assets and liabilities are measured on a recurring basis at December 31, 2016:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u>	<u>Quoted Prices In Pooled Funds (Level 2)</u>
Assets:			
Investments:			
Cash and cash equivalents	\$ 9,284	\$ 9,193	\$ 91
Equities:			
Domestic	512,126	478,558	33,568
Fixed Income:			
Domestic	<u>319,542</u>	<u>297,705</u>	<u>21,837</u>
Total Assets, recurring basis	<u>\$ 840,952</u>	<u>\$ 785,456</u>	<u>\$ 55,496</u>

The fair value of investments in pooled equity investments and pooled fixed income funds is based on their reported net asset values (NAV) per share as a practical expedient. The funds that the Clubs have invested in these accounts may be liquidated upon request and are thus classified as level 2.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

3. INVESTMENTS

Investments at December 31 consisted of the following:

	2017	2016
Exchange traded funds	\$ 640,440	\$ 512,126
Cash and cash equivalents	19,014	9,284
Fixed income securities	278,740	319,542
Total Investments	\$ 938,194	\$ 840,952

Return from investments is summarized as follows:

Interest and dividends	\$ 16,491	\$ 19,020
Net realized gains	16,753	5,222
Net unrealized gains	90,485	37,119
Management fees	(8,792)	(7,192)
Total Investment Return	\$ 114,937	\$ 54,169

4. UNCONDITIONAL PROMISES TO GIVE

Included in unconditional promises to give are unconditional promises to give to operations and capital campaigns:

Unconditional promises to give - capital campaign pledges	\$ 112,922	\$ 575,062
Less: Unamortized discount (at 4% discount)	577	1,408
	112,345	573,654
Less: Allowance for uncollectibles	-	-
Net unconditional promise to give	\$ 112,345	\$ 573,654

Amounts due in:

Years Ending December 31,

2018	\$ 97,922
2019	15,000
Total	\$ 112,922

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

5. INTEREST IN AFFILIATED ENTITY

The Clubs have entered into a joint venture with Mt. Carmel Redevelopment Corporation (MCRC), an unrelated not-for-profit organization, to construct and operate a community center in Kansas City, Kansas. During December 2004, the Clubs formalized this venture by forming Heathwood Community Center LLC (HCC), a not-for-profit organized under Internal Revenue Code Section 501(c)(3). The operating agreement provides for each entity to maintain 50% control over the project. The Clubs have accounted for their interest in HCC under the equity method of accounting and have included the value on the statement of financial position as an interest in affiliated entity. Any inter-company transactions have been eliminated. The following information summarizes the total activity of the joint venture through December 31, 2017: Total assets \$4,258,667, total liabilities \$52,795, net assets \$4,205,872, revenues \$341,751, net loss (\$122,044).

6. PROPERTY AND EQUIPMENT

Property and equipment includes the following at December 31:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 22,605,111	\$ 22,413,274
Furniture and equipment	1,423,735	1,380,865
Vehicles	<u>311,487</u>	<u>307,418</u>
	24,340,333	24,101,557
Accumulated depreciation	<u>(14,488,308)</u>	<u>(13,618,860)</u>
	9,852,025	10,482,697
Land	<u>793,070</u>	<u>793,070</u>
Total Property and Equipment	<u>\$ 10,645,095</u>	<u>\$ 11,275,767</u>

The aggregate depreciation expense charged to operations for the years ended December 31, 2017 and 2016 was \$892,074 and \$891,854, respectively.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

7. LINE OF CREDIT

	2017	2016
<p>The Clubs have a \$750,000 bank line of credit that has a variable rate of interest based on the UMB prime rate at the beginning of each quarter, with a floor of 3.25%. The interest rate at December 31, 2017 was 4.5%. The line of credit was renewed in June, 2017 and is due in June, 2018. The loan is secured by the endowment assets.</p>	<p><u>\$ 300,000</u></p>	<p><u>\$ -</u></p>

<p>During June 2017, the Clubs entered into a line of credit providing for a maximum borrowing of \$1,000,000, maturing in March 2018. Interest is payable monthly at a variable rate based on the UMB prime rate plus .25% (4.75% at December 31, 2017). The line of credit is secured by assets of the Clubs including real estate.</p>	<p><u>\$ -</u></p>	<p><u>\$ -</u></p>
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8. LONG-TERM DEBT

<p>Note bearing interest at 1.39%, payable in quarterly installments of \$12,914, interest only through February, 2017 at which time principal and interest payments of \$36,092 per quarter will be due. The loan matures on February 19, 2045. The loan was paid in full in February, 2017.</p>	<p>\$ -</p>	<p>\$ 3,726,000</p>
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<p>Note bearing interest at 1.39%, payable in quarterly installments of \$4,069, interest only until February, 2017 at which time quarterly interest and principal payments of \$11,371 will be due. The loan matures on February 19, 2045. The loan was paid in full in February, 2017.</p>	<p>-</p>	<p>1,174,000</p>
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<p>Note bearing interest at 3.84%, interest and principal payments of \$550 due through November, 2021 at which time any interest and remaining principal payments become due. The note is collateralized by the vehicle financed by this note.</p>	<p>23,959</p>	<p>29,521</p>
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BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

8. LONG-TERM DEBT (continued)

	2017	2016
Note bearing interest at 4.0%, interest and principal payments of \$380 due through June, 2017 at which time any interest and remaining principal payments become due. The note was paid off in June, 2017.	-	2,218
Note bearing interest at 5.0%, interest and principal payments of \$472 due through January, 2017 at which time any interest and remaining principal payments become due. The note was paid in full in January, 2017.	-	470
Note bearing interest at 3.75% payable in monthly installments of \$1,176 including interest. Final payment is due May, 2018. The note is collateralized by the computers financed by this note.	5,783	19,459
Note bearing interest at 3.75% payable in monthly installments of \$913 including interest. Final payment is due October, 2017. The note was paid in full in October, 2017.	-	10,652
	\$ 29,742	\$ 4,962,320
Current portion of long-term debt	(11,562)	(122,534)
Total Long-term Debt	\$ 18,180	\$ 4,839,786

Maturities on long-term debt are as follows:

Years Ending December 31

2018	\$	11,562
2019		6,005
2020		6,240
2021		5,935
Total	\$	29,742

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

9. ENDOWMENTS

The Board of Directors of the Clubs have interpreted the Missouri Uniform State Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Clubs classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the organization and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the organization.
7. The investment policies of the organization.

As of December 31, 2017, the Board of Directors had designated \$507,192 of unrestricted net assets as a general endowment for membership and college scholarships for kids. Since this amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets. In addition, donors had contributed an additional \$371,098 for the same purpose. These funds are classified as temporarily restricted net assets until used for the purposes the donor stipulated.

The Clubs have a combined 5% maximum spending policy of appropriating for distribution each year of the temporarily restricted portion of the endowment's fair value and of the board-designated unrestricted portion of the endowment's fair value. In establishing this policy, the Clubs considered the long-term expected investment return on its endowment. Accordingly, over the long-term, the Clubs expect the current spending policy to allow this endowment fund to grow at an average of 5% annually. This is consistent with the Clubs' objective to maintain the historic dollar value of the endowment assets as well as to provide additional growth through investment return.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

9. ENDOWMENTS (continued)

To achieve that objective, the Clubs have adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a variety of equity mutual funds that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make the annual distributions while growing the fund if possible. The Clubs have established the following ranges by investment type: equities – 40% to 70%; fixed income – 15% to 60%; cash and equivalents – 0% to 30%; and alternative assets – 0% to 15%. The Clubs expect its endowment assets, over time, to produce an average rate of return over inflation, as measured by the Consumer Price Index, of approximately 5% annually, after fees. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocations between asset classes and strategies are managed to not expose the fund to unacceptable risks.

Composition of and changes in endowment net assets for the year ended December 31, 2017 were as follows:

	<u>Board- Designated</u>	<u>Donor- Restricted</u>
Net assets, beginning of year	\$ 460,187	\$ 324,977
Contributions	-	14,849
Investment income	9,382	6,241
Net appreciation	42,692	28,402
Fees and disbursement amounts appropriated for expenditure	<u>(5,069)</u>	<u>(3,371)</u>
Net assets, end of year	<u>\$ 507,192</u>	<u>\$ 371,098</u>

Composition of and changes in endowment net assets for the year ended December 31, 2016 were as follows:

	<u>Board- Designated</u>	<u>Donor- Restricted</u>
Net assets, beginning of year	\$ 448,510	\$ 293,743
Contributions	-	21,182
Investment income	9,913	8,534
Net depreciation	5,334	4,592
Fees and disbursement amounts appropriated for expenditure	<u>(3,570)</u>	<u>(3,074)</u>
Net assets, end of year	<u>\$ 460,187</u>	<u>\$ 324,977</u>

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

10. OPERATING LEASES

The Clubs entered into a lease agreement for office space on August 15, 2014 and certain equipment under operating leases. Future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year are as follows:

<u>Year Ending December 31,</u>	<u>Office</u>	<u>Equipment</u>	<u>Total</u>
2018	\$ 239,183	\$ 21,780	\$ 260,963
2019	196,253	1,912	198,165
2020	138,106	-	138,106
2021	140,175	-	140,475
2022	142,244	-	142,244
Thereafter	<u>327,426</u>	<u>-</u>	<u>327,426</u>
Totals	<u>\$ 1,183,387</u>	<u>\$ 23,692</u>	<u>\$ 1,207,379</u>

Total rental expense under operating leases with terms in excess of one month amounted to \$228,866 and \$199,991 for the years ended December 31, 2017 and 2016, respectively.

11. LEASE COMMITMENTS

The Organization rents a portion of the “Thornberry Unit” to a school. The lease calls for rent in the amount of \$1.00 per month. In addition, the school is required to pay additional rent equal to the allocated expenses of the property. The lease is for 30 years but also has two optional 10-year renewal terms. Total rent received was \$194,357 and \$163,171 for the years ended December 2017 and 2016, respectively.

12. PENSION PLAN

The Clubs have a defined contribution pension plan covering substantially all full-time employees who have completed at least one year of service. The Clubs make discretionary contributions based on the participants’ qualifying wages and their contributions through compensation reduction. No discretionary contributions were made in 2017. The 401(K) match was \$74,728 and \$70,484 for the years ended December 31, 2017 and 2016, respectively.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

13. CASH FLOW DISCLOSURES

Designated cash includes funds that have been designated by the Board of Directors for specific uses, including operating reserves, and other reserves.

	<u>2017</u>	<u>2016</u>
The following is the supplemental disclosure to the statement of cash flows:		
Cash paid for interest	\$ <u>23,174</u>	\$ <u>9,625</u>

14. NEW MARKETS TAX CREDIT

In 2010, **Boys and Girls Clubs New Markets, Inc.** obtained financing through the New Market Tax Credit (NMTC) program. The proceeds of \$4,900,000 were used to rehabilitate property owned by the Clubs. The NMTC financing is provided through two loans, an "A" loan and a "B" loan. Loan A, in the amount of \$3,726,000 is at a fixed rate of 1.38639% per annum and requires quarterly interest payments of \$12,914 until February, 2017 at which time quarterly principal and interest payments of \$36,092 will be due with a maturity date of February 19, 2045. No prepayment is allowed during the first seven years. Loan B, in the amount of \$1,174,000 is at a fixed rate of 1.38639% per annum and requires quarterly interest payments of \$4,069 until February, 2017 at which time quarterly principal and interest payments of \$11,371 will be due with a maturity date of February 19, 2045. No prepayment is allowed during the first seven years.

In addition, the Clubs loaned KCMO Investment Fund I, LLC \$3,726,000 which was used as the investment into KCMO CDE I, LLC which is the Community Development Entity that loaned the funds to **Boys and Girls Clubs New Markets, Inc.** The loan term is 30 years at a rate of 1.96833% and requires quarterly principal and interest payments to the Clubs of \$46,214. This loan along with a \$1,306,500 capital investment from U.S. Bancorp Community Development Corporation funded KCMO Investment Fund I, LLC.

At the end of the seven-year term, a put/call agreement may be exercised whereby U.S. Bancorp Community Development Corporation's interest is sold to the Clubs. In 2017, the agreement was exercised, the loans were paid in full, and the assets in **Boys and Girls Clubs New Markets, Inc.** were transferred back to the Clubs.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

15. RESTRICTED NET ASSETS

Restricted net assets consist of the following for the years ended December 31:

	2017	2016
<u>Temporarily restricted net assets</u>		
Endowment funds	\$ 371,098	\$ 324,977
Campaign funds	<u>381,376</u>	<u>152,465</u>
Total purpose restrictions	752,474	477,442
Pledges receivable restricted for future periods	<u>112,345</u>	<u>573,654</u>
Total time restrictions	<u>112,345</u>	<u>573,654</u>
Total Temporarily Restricted Net Assets	<u>\$ 864,819</u>	<u>\$ 1,051,096</u>
<u>Permanently restricted net assets</u>		
Endowment funds	<u>\$ 6,683</u>	<u>\$ 6,683</u>

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donors were as follows for the years ended December 31, 2017 and 2016.

Time restricted funds	\$ 14,182	\$ 194,408
Funds restricted for pool	-	81,200
Funds restricted for salary and operating	<u>271,664</u>	<u>358,044</u>
Net Assets Released from Restrictions	<u>\$ 285,846</u>	<u>\$ 633,652</u>

16. NEW ACCOUNTING PRONOUNCEMENTS

ASU 2014-09, Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date of the new revenue recognition standard for one year. The new standard is effective for fiscal years beginning after December 15, 2018. Early application is permitted.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

16. NEW ACCOUNTING PRONOUNCEMENTS (continued)

ASU 2016-14, Not-for-Profit Entities

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*, to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The amendments in this ASU are to be applied retrospectively, and are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, with early adoption permitted.

ASU 2016-02, Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this ASU are to be applied using a modified retrospective approach. The amendments are effective for annual financial statements issued for fiscal years beginning after December 15, 2019, with early adoption permitted.

The Clubs are evaluating the effect that these standards will have on its financial statements and related disclosures.

SUPPLEMENTAL INFORMATION

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2017

(With comparative totals as of December 31, 2016)

ASSETS

	2017				2016
	Boys & Girls Clubs of Greater Kansas City	Boys & Girls Clubs New Markets, Inc.	Eliminations	Total	
	Current Assets:				
Cash and cash equivalents:					
Operating	\$ 141,936	\$ -	\$ -	\$ 141,936	\$ 735,841
Designated cash	39,494	-	-	39,494	30,154
Total Cash and Cash Equivalents	181,430	-	-	181,430	765,995
Certificates of deposit, at cost	215,493	-	-	215,493	215,139
Operating pledges current	68,750	-	-	68,750	27,807
Investments	938,194	-	-	938,194	840,952
Grants and accounts receivable	1,187,633	-	-	1,187,633	633,036
Note receivable - KCMO Investment Fund	-	-	-	-	3,726,000
Unconditional promises to give, current portion					
less allowance for uncollectibles	29,172	-	-	29,172	520,255
Prepaid expenses and deposits	6,627	-	-	6,627	38,290
Total Current Assets	2,627,299	-	-	2,627,299	6,767,474
Cash Restricted for Capital Improvements	381,376	-	-	381,376	152,465
Long-term Unconditional Promises to Give,					
less current portion above	14,423	-	-	14,423	25,592
Interest in Affiliated Entity	2,102,936	-	-	2,102,936	2,163,958
Property and Equipment, at cost,					
less accumulated depreciation	10,645,095	-	-	10,645,095	11,275,767
Total Assets	\$ 15,771,129	\$ -	\$ -	\$ 15,771,129	\$ 20,385,256

LIABILITIES AND NET ASSETS

Current Liabilities:					
Accounts payable and accrued expenses	\$ 495,110	\$ -	\$ -	\$ 495,110	\$ 591,135
Deferred rent	60,334	-	-	60,334	60,147
Other deferred revenue	439,156	-	-	439,156	559,744
Line of credit	300,000	-	-	300,000	-
Current portion of long-term debt	11,562	-	-	11,562	122,534
Total Current Liabilities	1,306,162	-	-	1,306,162	1,333,560
Long-Term Debt - New Markets	-	-	-	-	4,808,243
Long-Term Debt - other, less current portion above	18,180	-	-	18,180	31,543
Total Long-Term Liabilities	18,180	-	-	18,180	4,839,786
Total Liabilities	1,324,342	-	-	1,324,342	6,173,346
Net Assets:					
Unrestricted:					
Undesignated	12,753,202	-	-	12,753,202	12,392,863
Board designated	822,083	-	-	822,083	761,268
Total Unrestricted Net Assets	13,575,285	-	-	13,575,285	13,154,131
Temporarily restricted	864,819	-	-	864,819	1,051,096
Permanently restricted	6,683	-	-	6,683	6,683
Total Net Assets	14,446,787	-	-	14,446,787	14,211,910
Total Liabilities and Net Assets	\$ 15,771,129	\$ -	\$ -	\$ 15,771,129	\$ 20,385,256

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2017

(With comparative totals for the year ended December 31, 2016)

	2017				2016
	Boys & Girls Clubs of Greater Kansas City	Boys & Girls Clubs New Markets, Inc.	Eliminations	Totals	
Grants and Contributions	\$ 8,308,792	\$ 36,000	\$ (3,592,602)	\$ 4,752,190	\$ 4,995,859
Other Support and Revenue:					
Special events:					
Special event income	1,743,896	-	-	1,743,896	1,842,475
Special event expenses	(633,908)	-	-	(633,908)	(597,796)
Net special event income	1,109,988	-	-	1,109,988	1,244,679
Membership dues and program service fees	92,837	-	-	92,837	90,337
Rental income	194,357	-	-	194,357	163,171
Investment return	114,937	-	-	114,937	54,169
Equity in earnings of affiliated entity	(61,022)	-	-	(61,022)	(110,347)
Summer school	1,798,841	-	-	1,798,841	589,892
Food subsidy	631,408	-	-	631,408	578,471
Forgiveness of debt - NMTC	-	1,174,000	-	1,174,000	-
Other income	142,469	-	-	142,469	137,722
Total Other Support and Revenue	4,023,815	1,174,000	-	5,197,815	2,748,094
Total Support and Revenue	12,332,607	1,210,000	(3,592,602)	9,950,005	7,743,953
Expenses:					
Program services	7,571,026	3,624,262	(3,592,602)	7,602,686	6,694,860
Supporting services:					
Fundraising	791,283	2,868	-	794,151	622,177
Management and general	1,287,622	30,669	-	1,318,291	1,247,591
Total Supporting Services	2,078,905	33,537	-	2,112,442	1,869,768
Total Expenses	9,649,931	3,657,799	(3,592,602)	9,715,128	8,564,628
Change in Net Assets	2,682,676	(2,447,799)	-	234,877	(820,675)
Net Assets, Beginning of Year	11,764,111	2,447,799	-	14,211,910	15,032,585
Net Assets, End of Year	\$ 14,446,787	\$ -	\$ -	\$ 14,446,787	\$ 14,211,910

See accompanying notes

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

CONSOLIDATING STATEMENT OF CASH FLOWS Year Ended December 31, 2017

(With comparative totals for the year ended December 31, 2016)

	2017				2016
	Boys & Girls Clubs of Greater Kansas City	Boys & Girls Clubs New Markets, Inc.	Eliminations	Total	
Cash Flows From Operating Activities:					
Change in net assets	\$ 2,682,676	\$ (2,447,799)	\$ -	\$ 234,877	\$ (820,675)
Adjustments to reconcile change in net assets to net cash flows (used) provided by operating activities:					
Depreciation	820,586	71,488	-	892,074	891,854
Donated stock	(66,323)	-	-	(66,323)	(64,955)
Forgiveness of debt - New Markets Tax Credit (NMTC)	-	(1,174,000)	-	(1,174,000)	-
Realized and unrealized gain on investments	(107,238)	-	-	(107,238)	(42,341)
Operating pledges - current	(40,943)	-	-	(40,943)	28,443
Operating pledges - Olathe	66,581	-	-	66,581	78,166
Operating pledges - long term	-	-	-	-	50,000
Interest in affiliated entity	61,022	-	-	61,022	107,347
Change in operating assets and liabilities:					
Grants and accounts receivable	(554,597)	-	-	(554,597)	(26,938)
Prepaid expenses and deposits	31,663	-	-	31,663	21,236
Deferred rent	187	-	-	187	2,256
Other deferred revenue	(120,588)	-	-	(120,588)	150,467
Accounts payable and accrued expenses	(96,025)	-	-	(96,025)	90,877
Net Cash (Used) Provided by Operating Activities	2,677,001	(3,550,311)	-	(873,310)	465,737
Cash Flows from Investing Activities:					
Net capital campaign activity	435,671	-	-	435,671	34,950
Net change in certificates of deposit, at cost	(354)	-	-	(354)	(379)
Change in cash restricted for capital improvements	(228,911)	-	-	(228,911)	(91,639)
Transfer of assets to B&GCKC	(7,274,201)	7,274,201	-	-	-
Purchase of property and equipment	(261,402)	-	-	(261,402)	(315,321)
Proceeds from sale of investments	428,129	-	-	428,129	1,009,769
Purchase of investments	(351,810)	-	-	(351,810)	(944,410)
Repayment of Note Receivable - KCMO Investment Fund	3,726,000	-	-	3,726,000	-
Net Cash Provided (Used) by Investing Activities	(3,526,878)	7,274,201	-	3,747,323	(307,030)
Cash Flows from Financing Activities:					
Proceeds from borrowings on line of credit	1,725,000	-	-	1,725,000	500,000
Repayment of borrowings on line of credit	(1,425,000)	-	-	(1,425,000)	(500,000)
Repayment of long-term debt	(32,578)	-	-	(32,578)	(39,118)
Repayment of long-term debt NMTC	-	(3,726,000)	-	(3,726,000)	-
Net Cash Used by Financing Activities	267,422	(3,726,000)	-	(3,458,578)	(39,118)
Net Change in Cash and Cash Equivalents	(582,455)	(2,110)	-	(584,565)	119,589
Cash and Cash Equivalents, Beginning of Year	763,885	2,110	-	765,995	646,406
Cash and Cash Equivalents, End of Year	\$ 181,430	\$ -	\$ -	\$ 181,430	\$ 765,995