



BOYS & GIRLS CLUBS
OF GREATER KANSAS CITY

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2018
with
Independent Auditors' Report

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

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

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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 the **Boys & Girls Clubs of Greater Kansas City** (the "Clubs") (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, 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 the **Boys & Girls Clubs of Greater Kansas City** as of December 31, 2018, 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.

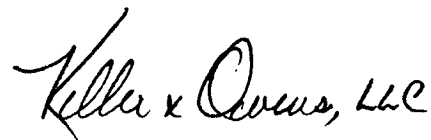
Emphases of Matters

As disclosed in Note 20 to the consolidated financial statements, the 2017 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in 2018, the Clubs adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*, as described in Note 1. This has had a material effect on the presentation of the financial statements for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the **Boys & Girls Clubs of Greater Kansas City’s** 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated August 16, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Kella x Owens, LLC".

Overland Park, Kansas
July 30, 2019

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2018

(With comparative totals as of December 31, 2017)

ASSETS

	2018	2017
Cash and Cash Equivalents:		
Operating	\$ 500,438	\$ 141,936
Cash held in escrow	40,046	39,494
Total Cash and Cash Equivalents	540,484	181,430
Certificate of Deposit, at cost	215,679	215,493
Investments, at fair value	1,091,875	938,194
Promises to Give, net	1,476,545	168,750
Grants and Other Receivables, no allowance for doubtful accounts	390,637	1,087,633
Cash Restricted for Capital Campaign	1,632,871	381,376
Promises to Give, net, restricted for capital campaign	189,516	43,595
Property and Equipment, net	11,748,407	10,645,095
Investment in Affiliated Entity	-	2,102,936
Other Assets	15,049	6,627
 Total Assets	 \$ 17,301,063	 \$ 15,771,129

LIABILITIES AND NET ASSETS

Liabilities:		
Line of credit	\$ -	\$ 300,000
Accounts payable and accrued expenses	529,361	495,110
Deferred rent	58,452	60,334
Other deferred revenue	316,979	439,156
Long-term debt	667,500	29,742
 Total Liabilities	 1,572,292	 1,324,342
Net Assets:		
Without donor restrictions		
Undesignated	10,385,165	12,153,202
Board-designated	837,760	822,083
Total Without Donor Restrictions	11,222,925	12,975,285
With donor restrictions	4,505,846	1,471,502
 Total Net Assets	 15,728,771	 14,446,787
 Total Liabilities and Net Assets	 \$ 17,301,063	 \$ 15,771,129

See accompanying notes

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

(With comparative totals for the year ended December 31, 2017)

	2018		Totals	2017 Totals
	Without Donor Restrictions	With Donor Restrictions		
Support and Revenue:				
Contributions	\$ 3,444,753	\$ 3,440,094	\$ 6,884,847	\$ 3,116,945
Government grants	1,662,925	-	1,662,925	1,816,504
Special events:				
Gross revenue	2,339,738	-	2,339,738	2,194,045
Cost of direct benefits to donors	<u>(711,889)</u>	<u>-</u>	<u>(711,889)</u>	<u>(633,908)</u>
Special events, net	1,627,849	-	1,627,849	1,560,137
Membership dues	83,428	-	83,428	92,837
Rental income	202,981	-	202,981	194,357
Investment return, net	(3,412)	(86,257)	(89,669)	114,937
Summer school	565,929	-	565,929	1,798,841
Equity in earnings of affiliated entity	(87,987)	-	(87,987)	(61,022)
Acquisition of affiliated entity	(695,391)	-	(695,391)	-
Forgiveness of debt - NMTC	-	-	-	1,174,000
Other income	99,092	-	99,092	142,469
Net assets released from restrictions	<u>319,493</u>	<u>(319,493)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>7,219,660</u>	<u>3,034,344</u>	<u>10,254,004</u>	<u>9,950,005</u>
Expenses:				
Program services	6,647,650	-	6,647,650	7,602,686
Supporting services:				
Management and general	1,239,264	-	1,239,264	1,318,291
Fundraising	<u>1,085,106</u>	<u>-</u>	<u>1,085,106</u>	<u>794,151</u>
Total Supporting Services	<u>2,324,370</u>	<u>-</u>	<u>2,324,370</u>	<u>2,112,442</u>
Total Expenses	<u>8,972,020</u>	<u>-</u>	<u>8,972,020</u>	<u>9,715,128</u>
Change in Net Assets	(1,752,360)	3,034,344	1,281,984	234,877
Net Assets, Beginning of Year				
As previously stated	13,575,285	871,502	14,446,787	14,211,910
Prior period restatement	<u>(600,000)</u>	<u>600,000</u>	<u>-</u>	<u>-</u>
As restated	<u>12,975,285</u>	<u>1,471,502</u>	<u>14,446,787</u>	<u>14,211,910</u>
Net Assets, End of Year	<u>\$ 11,222,925</u>	<u>\$ 4,505,846</u>	<u>\$ 15,728,771</u>	<u>\$ 14,446,787</u>

See accompanying notes

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018

(With comparative totals for the year ended December 31, 2017)

	2018						2017
	Program Services:			Supporting Services:			
	School Year	Summer	Total Program	Management and General	Fundraising	Total	
Salaries	\$ 1,930,747	\$ 1,019,506	\$ 2,950,253	\$ 660,119	\$ 435,881	\$ 4,046,253	\$ 4,952,025
Employee benefits	398,901	181,996	580,897	152,373	154,289	887,559	966,091
Occupancy	708,958	337,806	1,046,764	40,124	41,477	1,128,365	1,116,886
Depreciation	685,606	137,121	822,727	35,771	35,771	894,269	892,074
Professional fees	148,747	47,832	196,579	198,428	215,432	610,439	350,217
Food and beverage	223,805	98,889	322,694	17,599	4,613	344,906	373,567
Supplies	237,002	50,593	287,595	32,726	17,704	338,025	340,311
Dues and contributions	181,160	-	181,160	34,876	5,000	221,036	165,525
Transportation	97,016	48,128	145,144	9,675	11,897	166,716	189,064
Marketing and advertising	8,370	-	8,370	-	93,192	101,562	92,398
Interest, bank, and credit card fees	415	35	450	32,808	26,064	59,322	86,421
Telephone and communication	29,499	10,471	39,970	8,986	4,847	53,803	50,319
Training	28,035	1,599	29,634	7,279	5,578	42,491	77,397
Miscellaneous	26,966	8,447	35,413	8,500	33,361	77,274	62,833
	<u>4,705,227</u>	<u>1,942,423</u>	<u>6,647,650</u>	<u>1,239,264</u>	<u>1,085,106</u>	<u>8,972,020</u>	<u>9,715,128</u>
Total Expenses included in expense section on the statement of activities							
Add: expenses included with revenues on the statement of activities	-	-	-	-	711,889	711,889	633,908
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>711,889</u>	<u>711,889</u>	<u>633,908</u>
Total Expenses	<u>\$ 4,705,227</u>	<u>\$ 1,942,423</u>	<u>\$ 6,647,650</u>	<u>\$ 1,239,264</u>	<u>\$ 1,796,995</u>	<u>\$ 9,683,909</u>	<u>\$ 10,349,036</u>

See accompanying notes

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

(With comparative totals for the year ended December 31, 2017)

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,281,984	\$ 234,877
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	894,269	892,074
Donated stock	(177,045)	(66,323)
Net realized and unrealized losses (gains)	140,966	(107,238)
Contributions restricted to capital campaign	(2,179,350)	(54,280)
Equity in earnings of affiliated entity	87,987	61,022
Fair value of net assets from purchase of affiliated entity	695,391	-
Forgiveness of debt - NMTC	-	(1,174,000)
Gain on disposal of property and equipment	(6,433)	-
Donated vehicle	29,000	-
(Increase) decrease in:		
Promises to give	(1,307,795)	9,057
Grants and other receivables	696,996	(604,597)
Other assets	(8,422)	31,663
Increase (decrease) in:		
Accounts payable and accrued expenses	(175)	(96,025)
Deferred rent	(1,882)	187
Other deferred revenue	(122,177)	(120,588)
Net Cash Provided (Used) by Operating Activities	23,314	(994,171)
Cash Flows from Investing Activities:		
Purchases of certificates of deposit	(215,679)	(215,493)
Redemptions of certificates of deposit	215,493	215,139
(Additions to) cash restricted to capital campaign	(1,251,495)	(228,911)
Purchases of investments	(527,964)	(351,810)
Proceeds from sales of investments	410,362	428,129
Purchases of property and equipment	(220,148)	(261,402)
Net cash received from purchase of affiliated entity	221,484	-
Collection of note receivable - KCMO Investment Fund	-	3,726,000
Net Cash (Used) Provided by Investing Activities	(1,367,947)	3,311,652
Cash Flows from Financing Activities:		
Collections of contributions restricted to capital campaign	2,033,429	556,532
Proceeds from borrowings on line of credit	900,000	1,725,000
Repayment of borrowings on line of credit	(1,200,000)	(1,425,000)
Repayment of borrowings on long-term debt	(29,742)	(32,578)
Repayment of long-term debt - NMTC	-	(3,726,000)
Net Cash Provided (Used) by Financing Activities	1,703,687	(2,902,046)
Net Change in Cash and Cash Equivalents	359,054	(584,565)
Cash and Cash Equivalents, Beginning of Year	181,430	765,995
Cash and Cash Equivalents, End of Year	\$ 540,484	\$ 181,430
<u>Supplementary Cash Flow Disclosure:</u>		
Interest Paid	\$ 21,429	\$ 23,174

See accompanying notes

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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’s toughest neighborhoods, serving nearly 8,000 disadvantaged kids ages 5 to 18. The long-term goal of the Clubs’ programs is to ensure members have the skills they need to graduate high school and pursue college, vocational training, or a career. The Clubs’ comprehensive programs fall into four core areas: education and career development, including the arts; public speaking, character and leadership development; healthy lifestyles; and technology. The Clubs have programs available during the school year as well as in the summer. In the summer, the Clubs are open more hours of the day, including contracting with the local school districts to expand certain programs using certified teachers.

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. The Markets filed articles of dissolution effective June 20, 2017.

Advertising – The Clubs expense advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2018 and 2017 were \$101,562 and \$92,398 respectively.

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

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 with current maturities of three months or less. Cash does not include cash restricted for long-term purposes or from capital campaigns.

Certificate of Deposit – A certificate of deposit of approximately \$216,000 was held by the Clubs at December 31, 2018 and 2017. It is carried at cost in the consolidated statement financial position, having an original maturity of 210 days and interest rate of 0.25% at December 31, 2018. On January 31, 2019, the Clubs renewed its certificate of deposit for an additional 210 days.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

Change in Accounting Principle – During the year ended December 31, 2018, the Clubs adopted the provisions of FASB ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. This ASU amends the current reporting model for not-for-profit organizations and enhances their required disclosures. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new quantitative and qualitative disclosures are added regarding the liquidity and availability of resources; Board-designated net assets are listed by purpose; investment returns are reported net of related expenses; and the methodology and allocation information related to the functional allocation of expenses is expanded.

Comparative Financial Information – The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class and expenses presented separately by nature and function but not both. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (“GAAP”). Accordingly, such information should be read in conjunction with the Clubs’ financial statements for the year ended December 31, 2017 from which the summarized information is derived.

Concentration of Credit Risk – The Clubs maintain its cash and cash equivalents in 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 deposit funds.

Donated Goods and Services – A substantial number of volunteers have donated thousands of hours of their time during the years ended December 31, 2018 and 2017, which do not meet the requirements of contributions under FASB ASC 958-605 and, accordingly, are not recorded in these financial statements. Donated use of facilities, materials, and services, and assets are reflected as contributions at their estimated fair value at the date of receipt. No significant contributions of such goods or services were received during the years ended December 31, 2018 and 2017.

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.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

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, requiring allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, employee benefits, occupancy, depreciation, which are allocated on the basis of estimates of time and effort.

Grants and Other Receivables – Grants and other receivables is stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. There was no allowance recorded at December 31, 2018 or 2017.

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.

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, 2018 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 return in the accompanying consolidated statement of activities. The Clubs report investment return restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

Net Assets – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor or certain grantor restrictions. They also include any designations by the governing board.

Net assets with donor restrictions – Net assets subject to donor- or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Clubs report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Principles of Consolidation – The consolidated statements of the Clubs and the Markets are prepared in accordance with U.S. GAAP applicable to not-for-profits related by common control. All material intercompany balances and transactions have been eliminated in consolidation.

Promises to Give – The Clubs record unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumption market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statement of activities.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. At December 31, 2018, no allowance was considered to be needed.

Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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 donor-restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as net assets without donor restrictions. 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

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. There was no impact on previously-reported change in net assets.

Revenue Recognition – Revenue is recognized when earned. Government grants and summer school revenue are recognized primarily under cost-reimbursable contracts in the applicable period in which the underlying expenditures are incurred. Amounts received for special events are deferred to the applicable period in which the related events occurs.

Subsequent Events – Management has evaluated events and transactions that have occurred since December 31, 2018 and reflected their effects, if any, in these financial statements through July 30, 2019, the date the financial statements were available to be issued.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

2. LIQUIDITY AND AVAILABILITY OF RESOURCES

	<u>2018</u>	<u>2017</u>
Total financial assets	\$ 3,065,220	\$ 2,591,500
Less: assets held in perpetuity	(6,683)	(6,683)
Less: assets held in escrow	(255,725)	(254,987)
Less: investments donor-restricted for scholarships	(377,538)	(216,341)
Less: investments Board-designated for scholarships	<u>(519,071)</u>	<u>(507,192)</u>
Financial Assets Available to Meet Cash For General Expenditures within One Year	<u>\$ 1,906,203</u>	<u>\$ 1,606,297</u>

Total financial assets includes cash and cash equivalents except that pertaining to the capital campaign, the certificate of deposit, and investments. The Clubs receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Clubs manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Clubs have cash flow fluctuations with heavy receipts in the first and fourth quarters of the calendar year, while the expenses are heaviest in the second and third quarters. In order to meet these ongoing needs, the Clubs have a reserve fund and a line of credit to draw upon during any shortfalls. These resources are approximately 20% of the Clubs' operating budget.

3. FAIR VALUE MEASUREMENTS

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, 2018

3. FAIR VALUE MEASUREMENTS (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:

2018	Level 1	Level 2	Total
Assets:			
Investments:			
Money market funds	\$ 22,995	\$ -	\$ 22,995
Common stock	8,972	-	8,972
Mutual funds – equity:			
Domestic large cap	109,751	-	109,751
Domestic mid & small cap	319,132	-	319,132
International	236,862	-	236,862
Mutual funds – fixed income			
by interest rate sensitivity:			
Low/limited	93,022	-	93,022
Mid/Moderate	116,263	-	116,263
High/Moderate	130,924	-	130,924
Beneficial interest in community foundation	-	53,954	53,954
Total Assets & Investments	\$ 1,037,921	\$ 53,954	\$ 1,091,875
2017	Level 1	Level 2	Total
Assets:			
Investments:			
Money market funds	\$ 18,915	\$ -	\$ 18,915
Mutual funds – equity:			
Domestic large cap	134,540	-	134,540
Domestic mid & small cap	255,247	-	255,247
International	214,602	-	214,602
Mutual funds – fixed income			
by interest rate sensitivity:			
Low/limited	48,644	-	48,644
Mid/Moderate	206,474	-	206,474
Beneficial interest in community foundation	-	59,772	59,772
Total Assets & Investments	\$ 878,422	\$ 59,772	\$ 938,194

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

3. FAIR VALUE MEASUREMENTS (continued)

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.

The following is a description of the valuation methodology used for Level 2 fair value measurements. There have been no changes in the methodology used at December 31, 2018 or 2017.

Beneficial interest in community foundation– Net asset value provided by the community foundation, taking into account the Clubs’ proportionate net asset share in investment pools. The value of the pools is derived from the fair value of investments within those pools, which are valued using a combination of various methodologies depending upon the type of investment within the pool. As allowed by FASB ASC 820-10-35-54B, the entire interest is classified within Level 2 of the fair value hierarchy as the Organization has the ability to immediately redeem its investment in the beneficial interest in assets held by others in the near term, as a request to liquidate the entire balance of the beneficial interest could take up to only ninety days to liquidate the balance.

4. PROMISES TO GIVE

Promises to give consisted of the following unconditional promises to give at December 31:

	2018	2017
Capital campaign	\$ 204,516	\$ 44,172
Restricted to future periods	1,528,545	168,750
	1,733,061	212,922
Less: unamortized discount	(67,000)	(577)
Total Promises to Give, net	\$ 1,666,061	\$ 212,345
Amounts due in:		
Less than one year	\$ 933,145	\$ 147,922
One to five years	799,916	65,000
Total	\$ 1,733,061	\$ 212,922

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

4. PROMISES TO GIVE (continued)

Discount rates ranged from 2.78% to 3.30% for the year ended December 31, 2018. The discount rate at December 31, 2017 was 4.00%.

Conditional promises to give consisted of the following as of December 31:

	2018	2017
Promise to give conditioned upon meeting various donor stipulations and allowing the donor to unilaterally revoke the grant	\$ 267,000	\$ -
Total Conditional Promises to Give	\$ 267,000	\$ -

5. GRANTS AND OTHER RECEIVABLES

Grants and other receivables consisted of the following at December 31:

Summer school program	\$ 224,945	\$ 890,159
Government grants	132,944	143,834
Other receivables	32,748	53,640
Total Grants and Other Receivables	\$ 390,637	\$ 1,087,633

6. PROPERTY AND EQUIPMENT

Property and equipment included the following at December 31:

Land and improvements	\$ 1,063,070	\$ 793,070
Buildings and improvements	24,267,876	22,605,111
Furniture and equipment	1,456,940	1,423,735
Vehicles	309,349	311,487
	27,097,235	25,133,403
Less: accumulated depreciation	(15,348,828)	(14,488,308)
Total Property and Equipment, net	\$ 11,748,407	\$ 10,645,095

Total depreciation expense was \$894,269 and \$892,074 for the years ended December 31, 2018 and 2017, respectively.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

7. INTEREST IN AFFILIATED ENTITY & BUSINESS COMBINATION

Until December 21, 2018, the Clubs were joint owners of not-for-profit entity Heathwood Community Center, LLC (“HCC”), in partnership with Mt. Carmel Redevelopment Corporation (“MCRC”), an unrelated not-for-profit organization. The purpose of the joint venture was to construct and operate a community center in Kansas City, Kansas. The Clubs were entitled to 50% of the earnings and equity in HCC and therefore recorded its interest in HCC on the equity basis of accounting.

The following summarizes the activity of HCC for the years ended December 31:

	2018	2017
Total assets	\$ -	\$ 4,258,667
Total liabilities	-	(52,795)
Net assets	\$ -	\$ 4,205,872
 Net loss	 \$ (175,974)	 \$ (122,044)
The Clubs’ interest:		
Investment in HCC	\$ -	\$ 2,102,936
Equity in earnings of HCC	\$ (87,987)	\$ (61,022)

Effective December 21, 2018, the Clubs purchased MCRC’s equity interest in HCC for a total purchase price of \$667,500. Therefore, the fair value of assets and liabilities of HCC were combined with that of the Clubs. The following table summarizes the fair value of assets and liabilities of HCC as of the combination date.

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	\$ 228,984
Land	270,000
Building	1,530,000
Accounts payable	(41,926)
Long-term debt	(667,500)
Equity investment in HCC – elimination	(2,014,949)
Fair Value of Net Assets from Purchase of Affiliated Entity	\$ (695,391)

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December 31, 2018

8. LINE OF CREDIT

The Clubs have a \$750,000 line of credit with a financial institution, secured by endowment assets. Borrowings under the line bear interest at the UMB prime rate (5.25% at December 31, 2018). The variable rate resets at the beginning of each calendar quarter. All outstanding principal and interest is due upon maturity at June 5, 2019. The line was renewed until June 5, 2020, with no other terms changed.

The Clubs had a second line of credit that expired in March 2018 that was not renewed. There was no outstanding balance at December 31, 2017.

9. LONG-TERM DEBT

In December 2018, the Clubs entered into a \$667,500 promissory note with a financial institution, secured by real estate. Principal and interest payments of \$4,534 are due monthly at a fixed interest rate of 5.270% until maturity on December 19, 2023, at which a balloon payment is due. The balance of the loan at December 31, 2018 was \$667,500.

The Clubs are subject to certain covenants contained in the loan agreement. At December 31, 2018, the Clubs were in compliance with those covenants. However, the financial institution required audited financials to be submitted within 90 days of calendar year-end, for which the Clubs obtained a waiver applicable to all of 2019.

The Clubs paid off two loans during 2018. Their balances at December 31, 2017 totaled \$29,742.

Maturities on long-term debt are as follows:

Years Ending December 31,

2019	\$ 19,703
2020	20,767
2021	21,888
2022	23,070
2023	<u>582,072</u>
Total	<u>\$ 667,500</u>

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NOTES TO FINANCIAL STATEMENTS

December 31, 2018

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Held in perpetuity:		
Scholarships for club memberships and college	\$ 6,683	\$ 6,683
Time-restricted:		
Promises to give	1,426,545	68,750
Next year operations	<u>600,000</u>	<u>500,000</u>
	2,026,545	568,750
Time and purpose-restricted:		
Healthy lifestyles	50,000	100,000
Capital campaign – Great Futures	5,000	43,595
Capital campaign – Legacy	<u>184,516</u>	<u>-</u>
	239,516	143,595
Purpose-restricted:		
Scholarships for club memberships and college	377,538	216,341
General operations and salaries	132,303	154,757
Capital campaign – Great Futures	150,478	381,376
Capital campaign – Legacy	1,482,393	-
Youth Police Initiative	<u>90,390</u>	<u>-</u>
	2,233,102	752,474
Total Net Assets with Donor Restrictions	<u>\$ 4,505,846</u>	<u>\$ 1,471,502</u>

The sources of net assets released from net assets with 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:

Expiration of time restrictions	\$ 38,595	\$ 14,182
Funds restricted for healthy lifestyles	50,000	50,000
Funds restricted for capital campaign	230,898	-
Funds restricted for salary and operating	<u>-</u>	<u>271,664</u>
Net Assets Released from Restrictions	<u>\$ 319,493</u>	<u>\$ 335,846</u>

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

11. BOARD-DESIGNATED NET ASSETS

Board-designated net assets consist of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Scholarships for club memberships and college	\$ 519,071	\$ 507,192
Operating reserve	62,964	59,904
Replacement reserves and deposits held for others	<u>255,725</u>	<u>254,987</u>
Total Board-Designated Net Assets	<u>\$ 837,760</u>	<u>\$ 822,083</u>

12. ENDOWMENTS

The Organization's endowment consists of a donor-restricted fund and a Board-designated fund, both held for the purpose of providing membership dues and college scholarships. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Clubs' Board of Directors has interpreted the Missouri-enacted version of Uniform State Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2018 and 2017, there were no such donor stipulations. As a result of this interpretation, the Clubs retain in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment, and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Clubs in a manner consistent with the standard of prudence prescribed by UPMIFA. The Clubs consider 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

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NOTES TO FINANCIAL STATEMENTS

December 31, 2018

12. ENDOWMENTS (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 6,683	\$ 6,683
Board-designated endowment funds	<u>519,071</u>	<u>-</u>	<u>519,071</u>
 Total Funds	 <u>\$ 519,071</u>	 <u>\$ 6,683</u>	 <u>\$ 525,754</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 6,683	\$ 6,683
Board-designated endowment funds	<u>507,192</u>	<u>-</u>	<u>507,192</u>
 Total Funds	 <u>\$ 507,192</u>	 <u>\$ 6,683</u>	 <u>\$ 513,875</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 507,192	\$ 6,683	\$ 513,875
Investment return, net	(2,990)	-	(2,990)
Other changes:			
Transfers to create board- designated endowment funds	50,000	-	50,000
Distribution from board-designated endowment pursuant to spending policy	<u>(35,131)</u>	<u>-</u>	<u>(35,131)</u>
 Endowment net assets, end of year	 <u>\$ 519,071</u>	 <u>\$ 6,683</u>	 <u>\$ 525,754</u>

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

12. ENDOWMENTS (continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 460,187	\$ 6,683	\$ 466,870
Investment return, net	<u>47,005</u>	<u>-</u>	<u>47,005</u>
 Endowment net assets, end of year	 <u>\$ 507,192</u>	 <u>\$ 6,683</u>	 <u>\$ 513,875</u>

Spending Policy – The Clubs have a combined 5% maximum spending policy of appropriating for distribution each year of the donor-restricted portion of the endowment’s fair value and of the board-designated 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.

Investment Return Objectives, Risk Parameters and Strategies – 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.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

13. LEASE COMMITMENTS (THE CLUBS AS LESSEE)

The Clubs has operating lease agreements for office space expiring March 2025 and for certain office equipment expiring December 2023. Future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year are as follows:

<u>Years Ending December 31,</u>	<u>Office</u>	<u>Equipment</u>	<u>Total</u>
2019	\$ 196,253	\$ 15,708	\$ 211,961
2020	138,106	15,708	153,814
2021	140,175	15,708	155,883
2022	142,243	15,708	157,951
2023	144,318	15,053	159,371
Thereafter	<u>183,108</u>	<u>-</u>	<u>183,108</u>
Totals	<u>\$ 944,203</u>	<u>\$ 77,885</u>	<u>\$ 1,022,088</u>

Total rental expense under operating leases with terms in excess of one month amounted to \$261,618 and \$228,866 for the years ended December 31, 2018 and 2017, respectively.

14. LEASE COMMITMENTS (THE CLUBS AS LESSOR)

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 \$202,981 and \$194,357 for the years ended December 2018 and 2017, respectively.

15. DEFINED CONTRIBUTION PLAN

The Clubs have a defined contribution plan covering substantially all full-time employees who have completed at least one year of service. In addition to matching participants’ contributions 100% up to 5% based on qualifying wages, the Clubs may make additional discretionary matching. No discretionary contributions were made in 2018 or 2017. The 401(k) match was \$87,761 and \$74,728 for the years ended December 31, 2018 and 2017, respectively.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

16. EMPLOYMENT AGREEMENT

In May 2018, the Clubs entered into an employment agreement with the current Chief Executive Officer, with no fixed expiration date other than requiring proper notice. The contract defines various compensation and termination benefits.

17. NEW MARKETS TAX CREDIT

In 2010, the Markets 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 was provided through two loans, an "A" loan and a "B" loan: Loan A, in the amount of \$3,726,000, and Loan B in the amount of \$1,174,000.

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 the Markets. 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 could be exercised whereby U.S. Bancorp Community Development Corporation's interest could be sold to the Clubs. In 2017, this agreement was exercised, the loans were paid in full, and the assets in the Markets were transferred back to the Clubs.

18. 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.

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December 31, 2018

18. NEW ACCOUNTING PRONOUNCEMENTS (continued)

ASU 2018-08, Not-for-Profit Entities

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU are to be applied on a modified prospective basis. Retrospective application is permitted. For transactions in which the entity serves as the resource recipient, the amendments should be applied for fiscal years beginning after December 15, 2018. For transactions in which the entity serves as the resource provider, the amendments should be applied for fiscal years beginning after December 15, 2019. Early adoption is 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.

19. RELATED PARTY TRANSACTIONS

Upon his retirement in May 2018, the Clubs entered into three contracts with the former CEO of the Clubs for the purpose of providing transitional CEO services, providing capital campaign fundraising services, and overseeing a program new to the Clubs in 2018. Total amounts incurred in relation to these contracts was approximately \$108,000 in 2018.

BOYS AND GIRLS CLUBS OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

20. PRIOR PERIOD RESTATEMENTS

At and prior to December 31, 2017, recorded amounts related to net assets with and without donor restrictions were incorrect; therefore, these balances as of December 31, 2017 have been restated. The effects of these restatements on the financial statements at December 31, 2017 were as follows.

	<u>As Reported, Dec 31, 2017</u>	<u>Adjustments</u>	<u>As Restated, Dec 31, 2017</u>
Net Assets:			
Without Donor Restrictions	\$ 13,575,285	\$ (600,000)	\$ 12,975,285
With Donor Restrictions	871,502	600,000	1,471,502

21. SUBSEQUENT EVENTS

Effective February 1, 2019, the Clubs entered into a lease agreement to rent a portion of one of its facilities to a third party tenant. The lease expires on January 31, 2022. Anticipated revenues from monthly base rental payments over the lease term are \$332,289.

In May 2019 and June 2019, the Clubs received \$1,050,000 in promises to give from three donors in support of the Legacy capital campaign, of which \$250,000 is conditional.