

Boys & Girls Clubs of Greater Kansas City

Financial Report
December 31, 2019

Contents

Independent auditor's report	1-2
------------------------------	-----

Financial statements	
Statements of financial position	3
Statements of activities and changes in net assets	4-5
Statements of functional expenses	6-7
Statements of cash flows	8
Notes to financial statements	9-23



RSM US LLP

Independent Auditor's Report

Board of Directors
Boys & Girls Clubs of Greater Kansas City

We have audited the accompanying financial statements of Boys & Girls Clubs of Greater Kansas City, which comprise the statement of financial position as of December 31, 2019, the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the 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, 2019, 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.

Other Matter

The financial statements of Boys & Girls Clubs of Greater Kansas City as of and for the year ended December 31, 2018, were audited by other auditors, whose report dated July 30, 2019, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated ____, 2020, on our consideration of Boys & Girls Clubs of Greater Kansas City internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Boys & Girls Clubs of Greater Kansas City internal control over financial reporting and compliance.

RSM US LLP

Kansas City, Missouri
July 24, 2020

Boys & Girls Clubs of Greater Kansas City

**Statements of Financial Position
December 31, 2019 and 2018**

	2019	2018
Assets		
Cash and cash equivalents:		
Operating	\$ 228,138	\$ 500,438
Designated cash	79,059	40,046
Total cash and cash equivalents	307,197	540,484
Certificate of deposit	216,300	215,679
Investments, at fair value	1,316,418	1,091,875
Promises to give, net	819,953	1,476,545
Grants and other receivables	448,232	390,637
Cash restricted for capital improvements	2,596,177	1,632,871
Promises to give, net, restricted for capital campaign	673,916	189,516
Property and equipment, net	11,164,610	11,748,407
Other assets	45,787	15,049
Total assets	\$ 17,588,590	\$ 17,301,063
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 564,162	\$ 529,361
Deferred rent	54,501	58,452
Other deferred revenue	597,812	316,979
Long-term debt	648,450	667,500
Total liabilities	1,864,925	1,572,292
Net assets:		
Without donor restrictions:		
Undesignated	10,783,499	10,385,165
Board-designated	933,221	837,760
Total without donor restrictions	11,716,720	11,222,925
With donor restrictions	4,006,945	4,505,846
Total net assets	15,723,665	15,728,771
Total liabilities and net assets	\$ 17,588,590	\$ 17,301,063

See notes to financial statements.

Boys & Girls Clubs of Greater Kansas City

**Statement of Activities and Changes in Net Assets
Year Ended December 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	\$ 3,633,251	\$ 902,831	\$ 4,536,082
Government grants	1,753,225	-	1,753,225
Special events:			
Gross revenue	2,239,921	-	2,239,921
Cost of direct benefits to donors	(909,346)	-	(909,346)
Net special event income	1,330,575	-	1,330,575
Membership dues	97,403	-	97,403
Rental income	287,489	-	287,489
Investment return, net	26,850	139,929	166,779
Summer school	387,470	-	387,470
Other income	154,862	-	154,862
Net assets released from restrictions	1,541,661	(1,541,661)	-
	2,495,735	(1,401,732)	1,094,003
Total support and revenue	9,212,786	(498,901)	8,713,885
Expenses:			
Program services	6,639,700	-	6,639,700
Supporting services:			
Fundraising	764,815	-	764,815
Management and general	1,314,476	-	1,314,476
Total supporting services	2,079,291	-	2,079,291
Total expenses	8,718,991	-	8,718,991
Change in net assets	493,795	(498,901)	(5,106)
Net assets, beginning of year	11,222,925	4,505,846	15,728,771
Net assets, end of year	\$ 11,716,720	\$ 4,006,945	\$ 15,723,665

See notes to financial statements.

Boys & Girls Clubs of Greater Kansas City

**Statement of Activities and Changes in Net Assets
Year Ended December 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	\$ 3,444,753	\$ 3,440,094	\$ 6,884,847
Government grants	1,662,925	-	1,662,925
Special events:			
Gross revenue	2,339,738	-	2,339,738
Cost of direct benefits to donors	(711,889)	-	(711,889)
Net special event income	1,627,849	-	1,627,849
Membership dues	83,428	-	83,428
Rental income	202,981	-	202,981
Investment return, net	(3,412)	(86,257)	(89,669)
Summer school	565,929	-	565,929
Equity in earnings of affiliated entity	(87,987)	-	(87,987)
Acquisition of affiliated entity	(695,391)	-	(695,391)
Other income	99,092	-	99,092
Net assets released from restrictions	319,493	(319,493)	-
	484,133	(405,750)	78,383
Total support and revenue	7,219,660	3,034,344	10,254,004
Expenses:			
Program services	6,647,650	-	6,647,650
Supporting services:			
Fundraising	1,085,106	-	1,085,106
Management and general	1,239,264	-	1,239,264
Total supporting services	2,324,370	-	2,324,370
Total expenses	8,972,020	-	8,972,020
Change in net assets	(1,752,360)	3,034,344	1,281,984
Net assets, beginning of year			
As previously stated	13,575,285	871,502	14,446,787
Prior period restatement	(600,000)	600,000	-
As restated	12,975,285	1,471,502	14,446,787
Net assets, end of year	\$ 11,222,925	\$ 4,505,846	\$ 15,728,771

See notes to financial statements.

Boys & Girls Clubs of Greater Kansas City

**Statement of Functional Expenses
Year Ended December 31, 2019**

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 2,799,120	\$ 745,701	\$ 385,097	\$ 3,929,918
Employee benefits	519,673	159,552	100,678	779,903
Occupancy	1,349,758	52,118	40,671	1,442,547
Depreciation	884,545	18,428	18,428	921,401
Professional fees	222,260	123,892	163,456	509,608
Food and beverage	274,409	41,993	951	317,353
Supplies	244,442	35,584	6,927	286,953
Dues and contributions	38,042	2,973	2,526	43,541
Transportation	115,815	16,145	14,506	146,466
Postage	1,249	1,246	1,117	3,612
Printing and publications	727	2,095	4,217	7,039
Equipment rental/maintenance	11,357	3,502	3,569	18,428
Marketing and advertising	5,823	-	10,813	16,636
Interest, bank and credit card fees	701	95,914	-	96,615
Telephone and communication	35,017	8,930	7,934	51,881
Training	112,979	5,712	3,812	122,503
Miscellaneous	23,783	691	113	24,587
Total expenses included in expense section on the statement of activities	6,639,700	1,314,476	764,815	8,718,991
Add expenses included with revenues on the statement of activities	-	-	909,346	909,346
Total expenses	\$ 6,639,700	\$ 1,314,476	\$ 1,674,161	\$ 9,628,337

See notes to financial statements.

Boys & Girls Clubs of Greater Kansas City

**Statement of Functional Expenses
Year Ended December 31, 2018**

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 2,950,253	\$ 660,119	\$ 435,881	\$ 4,046,253
Employee benefits	580,897	152,373	154,289	887,559
Occupancy	1,046,764	40,124	41,477	1,128,365
Depreciation	822,727	35,771	35,771	894,269
Professional fees	196,579	198,428	215,432	610,439
Food and beverage	322,694	17,599	4,613	344,906
Supplies	287,595	32,726	17,704	338,025
Dues and contributions	181,160	34,876	5,000	221,036
Transportation	145,144	9,675	11,897	166,716
Marketing and advertising	8,370	-	93,192	101,562
Interest, bank and credit card fees	450	32,808	26,064	59,322
Telephone and communication	39,970	8,986	4,847	53,803
Training	29,634	7,279	5,578	42,491
Miscellaneous	35,413	8,500	33,361	77,274
Total expenses included in expense section on the statement of activities	6,647,650	1,239,264	1,085,106	8,972,020
Add expenses included with revenues on the statement of activities	-	-	711,889	711,889
Total expenses	\$ 6,647,650	\$ 1,239,264	\$ 1,796,995	\$ 9,683,909

See notes to financial statements.

Boys & Girls Clubs of Greater Kansas City

Statements of Cash Flows Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (5,106)	\$ 1,281,984
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	921,401	894,269
Donated stock	-	(177,045)
Net realized and unrealized (gain) loss on investments	(252,704)	140,966
Equity in earnings of affiliated entity	-	87,987
Fair value of net assets from purchase of affiliated entity	-	695,391
Gain on disposal of property and equipment	-	(6,433)
Donated vehicle	-	29,000
(Increase) decrease in:		
Certificates of deposit	(621)	-
Promises to give	172,192	(1,307,795)
Grants and other receivables	(57,595)	696,996
Other assets	(30,738)	(8,422)
Increase (decrease) in:		
Deferred rent	(3,951)	(1,882)
Other deferred revenue	280,833	(122,177)
Accounts payable and accrued expenses	34,801	(175)
Net cash provided by operating activities	1,058,512	2,202,664
Cash flows from investing activities:		
Purchases of certificates of deposit	-	(215,679)
Redemptions of certificates of deposits	-	215,493
Purchases of investments	(196,777)	(527,964)
Proceeds from sale of investments	224,938	410,362
Purchase of property and equipment	(337,604)	(220,148)
Net cash received from purchase of affiliated entity	-	221,484
Net cash used by investing activities	(309,443)	(116,452)
Cash flows from financing activities:		
Proceeds from borrowings on line of credit	725,000	900,000
Repayment of borrowings on line of credit	(725,000)	(1,200,000)
Repayment of long-term debt	(19,050)	(29,742)
Net cash used in financing activities	(19,050)	(329,742)
Net change in cash and cash equivalents	730,019	1,756,470
Cash and cash equivalents, beginning of year	2,173,355	416,885
Cash and cash equivalents, end of year	\$ 2,903,374	\$ 2,173,355
Supplemental disclosures of cash flow information:		
Interest paid	\$ 33,381	\$ 21,429
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 307,197	\$ 540,484
Restricted cash (assets restricted for long-term purposes or from capital campaigns)	2,596,177	1,632,871
Total cash, cash equivalents and restricted cash	\$ 2,903,374	\$ 2,173,355

See notes to financial statements.

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization: Boys & Girls Clubs of Greater Kansas City (the Clubs) is a Missouri nonprofit 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.

Advertising: The Clubs expense advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2019 and 2018, were \$16,636 and \$101,562, respectively.

Basis of accounting: The Clubs prepare their financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cash and cash equivalents: For purposes of the statements of cash flows, cash consists of cash, cash restricted for long term purposes or from capital campaigns, non-interest-bearing checking accounts and short-term money market investments with current maturities of three months or less.

Certificate of deposit: A certificate of deposit of approximately \$216,000 was held by the Clubs at December 31, 2019. It is carried at cost in the statement of financial position, having an original maturity of 210 days and interest rate of 0.25% at December 31, 2019. On January 31, 2020, the Clubs renewed their certificate of deposit for an additional 210 days.

Concentration of credit risk: The Clubs maintain their 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, 2019 and 2018, which do not meet the requirements of contributions under ASC Subtopic 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, 2019 and 2018.

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Estimates: The preparation of financial statements in conformity with U.S. GAAP 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.

Functional expenses: The Clubs allocate expenses on a functional basis among the various programs and supporting 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 supporting service, requiring allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, employee benefits, occupancy and depreciation, which are allocated on the basis of estimates of time and effort.

Grants and other receivables: Grants and other receivables are 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, 2019 or 2018.

Income taxes: The Clubs are classified as tax-exempt under section 501(c)(3) of the Internal Revenue Code (the 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 ASC Subtopic 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 that the position taken by management with respect to the transaction or class of that transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of December 31, 2019 and 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 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.

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 are available for use in general operations and not subject to donor or certain grantor restrictions. They also include any designations by the governing board.

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Net assets with donor restrictions: Net assets are 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 statements of activities as net assets released from restrictions.

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 that market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities.

Management determines the allowance for uncollectible 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, 2019 and 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 is 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 an item of property or equipment is 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:

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

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Revenue recognition: The Clubs earn revenues predominantly through contributions, government grants and special events. In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-19, *Revenue from Contracts with Customers (Topic 606)*. This 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 the customers. The standard replaced most existing revenue recognition guidance under U.S. GAAP. This standard also requires expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The Clubs adopted the new standard effective for the year ended December 31, 2019, using the modified retrospective transition approach. Based on the Clubs' review of their contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard. Due to the nonreciprocal nature of contributions and the Clubs' current government grants, these revenue streams are not considered contracts with customers and therefore do not fall under the guidance of ASC 606. See below for additional disclosures.

Revenue from contracts with customer is derived primarily from tickets and sponsorships purchased for special events. The related performance obligation is satisfied at a point in time when the event occurs. As of December 31, 2019 and 2018 gross special event revenue was \$2,239,921 and \$2,339,738, respectively. Amounts received for special events are deferred to the applicable period in which the related event occurs and are classified as liabilities on the statements of financial position. At December 31, 2019 and 2018, there was \$476,250 and \$237,500, respectively, of deferred revenue related to special events. Associated accounts receivable for special events as of December 31, 2019 and 2018, were \$100,833 and \$80,500, respectively, and allowance for doubtful accounts for special events was \$0 at December 31, 2019 and 2018.

Adopted accounting pronouncement: In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which requires that restricted cash be included with cash and cash equivalents when reconciling beginning and ending cash and cash equivalents on the statement of cash flows and requires disclosure of what is included in restricted cash. The Clubs adopted ASU 2016-18 during the year ended December 31, 2019, with retroactive application. The adoption of ASU 2016-18 resulted in an increase to cash flows from operating activities of \$781,907 for the year ended December 31, 2018.

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 2. Liquidity and Availability of Resources

The Clubs regularly monitor liquidity to meet their annual operating needs and other commitments while also striving to maximize the return on investment of their funds not required for annual operations. As of December 31, 2019 and 2018, the following financial assets are available to meet annual operating needs of the 2019 and 2020 fiscal years:

	December 31	
	2019	2018
Assets at year-end:		
Cash and cash equivalents	\$ 307,197	\$ 540,484
Certificates of deposit, at cost	216,300	215,679
Investments, at fair value	1,316,418	1,091,875
Promises to give, net	819,953	1,476,545
Grants and other receivables, no allowance for doubtful accounts	448,232	390,637
Cash restricted for capital improvements	2,596,177	1,632,871
Promises to give, net, restricted for capital campaign	673,916	189,516
Property and equipment, net	11,164,610	11,748,407
Other assets	45,787	15,049
Total assets	17,588,590	17,301,063
Less amounts not available to be used within one year:		
Nonfinancial assets:		
Prepaid expense	21,460	15,049
Property and equipment, net	11,164,610	11,748,407
Total assets	11,186,070	11,763,456
Contractual or donor-imposed restrictions:		
Promises to give, net, restricted for capital campaign	673,916	189,516
Cash restricted for capital improvements	2,596,177	1,632,871
Assets held in perpetuity	6,683	6,683
Assets held in escrow	295,359	255,725
Investments donor-restricted for scholarships	517,466	377,538
Total contractual or donor-imposed restrictions	4,089,601	2,462,333
Board reserve and foundation funds not authorized for expenditure within one year:		
Investments Board-designated for scholarships	580,241	519,071
Total Board-designated not authorized for expenditure within one year	580,241	519,071
Financial assets not available to be used within one year	15,855,912	14,744,860
Financial assets available to meet general expenditures within one year	\$ 1,732,678	\$ 2,556,203

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 2. Liquidity and Availability of Resources (Continued)

The Clubs receive significant contributions restricted by donors and consider contributions restricted for programs which are ongoing, major and central to their annual operations to be available to meet cash needs for general expenditures. The Clubs manage their 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.

Note 3. 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.

Fair value on a recurring basis: The tables below present the balances of assets measured at fair value on a recurring basis at December 31, 2019 and 2018:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	\$ 93,945	\$ -	\$ -	\$ 93,945
Mutual funds—equity	827,676	-	-	827,676
Mutual funds—fixed income	337,176	-	-	337,176
Beneficial interest in community foundation	-	57,621	-	57,621
	<u>\$ 1,258,797</u>	<u>\$ 57,621</u>	<u>\$ -</u>	<u>\$ 1,316,418</u>
	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	\$ 22,995	\$ -	\$ -	\$ 22,995
Common stock	8,972	-	-	8,972
Mutual funds—equity	665,745	-	-	665,745
Mutual funds—fixed income	340,209	-	-	340,209
Beneficial interest in community foundation	-	53,954	-	53,954
	<u>\$ 1,037,921</u>	<u>\$ 53,954</u>	<u>\$ -</u>	<u>\$ 1,091,875</u>

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 3. Fair Value Measurements of Assets and Liabilities (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 for the years ended December 31, 2019 and 2018.

Beneficial interest in community foundation: NAV is 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 ASC Subtopic 820-10-35-54B, the entire interest is classified within Level 2 of the fair value hierarchy as the Clubs have the ability to immediately redeem their 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 90 days to liquidate the balance.

Note 4. Promises to Give

Promises to give consisted of the following unconditional promises to give at December 31, 2019 and 2018:

	December 31	
	2019	2018
Capital campaign	\$ 730,666	\$ 204,516
Restricted to future periods	837,503	1,528,545
	1,568,169	1,733,061
Less unamortized discount	(74,300)	(67,000)
Total promises to give, net	\$ 1,493,869	\$ 1,666,061
Amounts due in:		
Less than one year	\$ 1,026,853	\$ 933,145
One to five years	541,316	799,916
Total	\$ 1,568,169	\$ 1,733,061

Discount rates ranged from 2.78% to 3.30% for the years ended December 31, 2019 and 2018

Conditional promises to give consisted of the following as of December 31, 2019 and 2018:

	December 31	
	2019	2018
Promises to give conditioned upon meeting various donor stipulations and allowing the donor to unilaterally revoke the grant	\$ 133,000	\$ 267,000
Total conditional promises to give	\$ 133,000	\$ 267,000

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 5. Grants and Other Receivables

Grants and other receivables consisted of the following at December 31, 2019 and 2018:

	December 31	
	2019	2018
Summer school program	\$ 201,107	\$ 224,945
Government grants	142,106	132,944
Other receivables	105,019	32,748
Total grants and other receivables	<u>\$ 448,232</u>	<u>\$ 390,637</u>

Note 6. Property and Equipment

Property and equipment includes the following at December 31, 2019 and 2018:

	December 31	
	2019	2018
Land and land improvements	\$ 1,063,070	\$ 1,063,070
Buildings and improvements	24,424,832	24,267,876
Furniture and equipment	1,467,620	1,456,940
Vehicles	401,123	309,349
Construction in progress	78,194	-
	<u>27,434,839</u>	<u>27,097,235</u>
Accumulated depreciation	(16,270,229)	(15,348,828)
Total property and equipment	<u>\$ 11,164,610</u>	<u>\$ 11,748,407</u>

Total depreciation expense was \$921,401 and \$894,269 for the years ended December 31, 2019 and 2018, respectively.

Note 7. Interest in Affiliated Entity and Business Combination

Until December 21, 2018, the Clubs were joint owners of nonprofit entity Heathwood Community Center, LLC (HCC), in partnership with Mt. Carmel Redevelopment Corporation (MCRRC), an unrelated nonprofit 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.

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 7. Interest in Affiliated Entity and Business Combination (Continued)

The following summarizes the activity of HCC for the year ended December 31, 2018:

	<u>2018</u>
Total assets	\$ -
Total liabilities	-
Net assets	<u>\$ -</u>
Net loss	<u>\$ (175,974)</u>
The Clubs' interest:	
Investment in HCC	<u>\$ -</u>
Equity in earnings of HCC	<u>\$ (87,987)</u>

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:

	<u>2018</u>
Cash	\$ 228,984
Land	270,000
Building	1,530,000
Accounts payable	(41,926)
Long-term debt	(667,500)
Equity investment in HCC—elimination	<u>(2,014,949)</u>
Fair value of net assets from purchase of affiliated entity	<u>\$ (695,391)</u>

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 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 Bank prime rate (4.75% at December 31, 2019). The variable rate resets at the beginning of each calendar quarter. All outstanding principal and interest was due upon maturity at June 5, 2019. The line was renewed on June 5, 2019, with no other terms changed.

Note 9. Long-Term Debt

The Organization's long-term debt consists of the following:

	December 31	
	2019	2018
Promissory note dated December 19, 2018, secured by real estate principal and interest payments of \$4,534 due monthly until December 2023; interest rate of 5.270%.	\$ 648,450	\$ 667,500
Long-term debt	\$ 648,450	\$ 667,500

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

Maturities on long-term debt are as follows:

Years ending December 31:	
2020	\$ 19,595
2021	20,689
2022	21,845
2023	586,321
Total	<u>\$ 648,450</u>

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 10. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following for the years ended December 31, 2019 and 2018:

	December 31	
	2019	2018
Held in perpetuity:		
Scholarships for club memberships and college	\$ 6,683	\$ 6,683
Time-restricted:		
Promises to give	819,953	1,426,545
Next-year operations	-	600,000
	<u>819,953</u>	<u>2,026,545</u>
Time- and purpose-restricted:		
Healthy lifestyles	-	50,000
Capital campaign—Great Futures	-	5,000
Capital campaign—Legacy	673,916	184,516
	<u>673,916</u>	<u>239,516</u>
Purpose-restricted:		
Scholarships for club memberships and college	517,466	377,538
General operations and salaries	111,064	132,303
Capital campaign—Great Futures	-	150,478
Capital campaign—Legacy	1,877,863	1,482,393
Youth Police Initiative	-	90,390
	<u>2,506,393</u>	<u>2,233,102</u>
Total net assets with donor restrictions	<u>\$ 4,006,945</u>	<u>\$ 4,505,846</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 year ended December 31:

	December 31	
	2019	2018
Expiration of time restrictions	\$ 1,245,792	\$ 38,595
Funds restricted for healthy lifestyles	55,000	50,000
Funds restricted for capital campaign	240,869	230,898
Net assets released from restrictions	<u>\$ 1,541,661</u>	<u>\$ 319,493</u>

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 11. Board-Designated Net Assets

Board-designated net assets consist of the following for the years ended December 31, 2019 and 2018:

	December 31	
	2019	2018
Scholarships for club memberships and college	\$ 580,241	\$ 519,071
Operating reserve	79,059	62,964
Replacement reserves and deposits held for others	273,921	255,725
Total Board-designated net assets	<u>\$ 933,221</u>	<u>\$ 837,760</u>

Note 12. Endowments

The Clubs' 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 U.S. 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, 2019 and 2018, 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

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 12. Endowments (Continued)

Endowment net asset composition by type of fund as of December 31, 2019 and 2018, are as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 6,683	\$ 6,683
Board-designated endowment funds	580,241	-	580,241
Total funds	\$ 580,241	\$ 6,683	\$ 586,924

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 6,683	\$ 6,683
Board-designated endowment funds	519,071	-	519,071
Total funds	\$ 519,071	\$ 6,683	\$ 525,754

Changes in endowment net assets for the years ended December 31, 2019 and 2018, are as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 519,071	\$ 6,683	\$ 525,754
Investment return, net	81,213	-	81,213
Other changes:			
Transfers to create Board-designated endowment funds	720	-	720
Distribution from Board-designated endowment pursuant to spending policy	(20,763)	-	(20,763)
Endowment net assets, end of year	\$ 580,241	\$ 6,683	\$ 586,924

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
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	(35,131)	-	(35,131)
Endowment net assets, end of year	\$ 519,071	\$ 6,683	\$ 525,754

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 12. Endowments (Continued)

Spending policy: The Clubs have a combined 4% 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 their 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.

Note 13. Lease Commitments (The Clubs as Lessee)

The Clubs have 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 noncancelable lease terms in excess of one year are as follows:

	Office	Equipment	Total
Years ending December:			
2020	\$ 138,106	\$ 135,708	\$ 273,814
2021	140,175	35,708	175,883
2022	142,243	15,708	157,951
2023	144,318	14,399	158,717
2024	146,382	-	146,382
Thereafter	36,725	-	36,725
Totals	<u>\$ 747,949</u>	<u>\$ 201,523</u>	<u>\$ 949,472</u>

Total rental expense under operating leases with terms in excess of one month amounted to \$335,793 and \$261,618 for the years ended December 31, 2019 and 2018, respectively.

Note 14. Lease Commitments (The Clubs as Lessor)

The Clubs rent 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 \$287,489 and \$202,981 for the years ended December 31, 2019 and 2018, respectively.

Boys & Girls Clubs of Greater Kansas City

Notes to Financial Statements

Note 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 match. No discretionary contributions were made in 2019 or 2018. The 401(k) match was \$84,521 and \$87,761 for the years ended December 31, 2019 and 2018, respectively.

Note 16. Recent Accounting Pronouncement

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in ASC Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal year 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Clubs are currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Note 17. 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 \$104,000 and \$108,000 in 2019 and 2018, respectively.

Note 18. Subsequent Events

The Clubs evaluated subsequent events through July 24, 2020, which is the date the financial statements were available to be issued. The below item was noted as a subsequent event.

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic, which continues to spread throughout the United States and around the world. As of July 24, 2020, the Clubs are aware of changes in their business as a result of COVID-19 but uncertain of the impact of those changes on their financial position, results of operations, or cash flows. Management believes any disruption, when and if experienced, could be temporary; however, there is uncertainty around when any disruption might occur, the duration and hence the potential impact. As a result, management of the Clubs are unable to estimate the potential impact on their business as of the date of this report.

The Organization received a Paycheck Protection Plan (PPP) loan for approximately \$832,300 on April 12, 2020. The loan bears interest at 1.00% and matures on June 12, 2022. The Organization intends to use funds for operations of the organization and intends to apply for loan forgiveness of principal and interest.

