

Audited Consolidating Financial Statements
BOYS & GIRLS CLUBS OF GREATER
WASHINGTON, INC. & FOUNDATION
December 31, 2017

**Boys & Girls Clubs of Greater
Washington, Inc. & Foundation**

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Independent Auditor's Report

To the Boards of Directors
Boys & Girls Clubs of Greater
Washington, Inc. & Foundation

We have audited the accompanying consolidated financial statements of Boys & Girls Clubs of Greater Washington, Inc. (BGC GV) and Boys & Girls Clubs of Greater Washington Foundation (Foundation) (collectively, the Organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expense, and cash flows for the ten-month period then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating 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 consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidating 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 Organization'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 consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the financial position of Boys & Girls Clubs of Greater Washington, Inc. and Boys & Girls Clubs of Greater Washington Foundation as of December 31, 2017, and the changes in their net assets and their cash flows for the ten-month period then ended in accordance with accounting principles generally accepted in the United States of America.

To the Boards of Directors
March 6, 2019
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Other Matters

As discussed in Note L to the consolidating financial statements, prior to the ten-month period ended December 31, 2017, the Organization incurred continued losses from operations for more than ten consecutive years.

I ate 1/2 dozen

Washington, DC
March 6, 2019

Boys & Girls Clubs of Greater Washington, Inc. & Foundation

Consolidating Statement of Financial Position

December 31, 2017

Assets				
	BGCGW	Foundation	Eliminations	Total
Cash and cash equivalents	\$ 2,600,214	\$ 21,995	\$ -	\$ 2,622,209
Restricted cash	270,000	-	-	270,000
Investments	19,630	924,140	-	943,770
Receivables	187,439	-	-	187,439
Due from the Foundation	20,065	-	(20,065)	-
Loan receivable from BGCGW	-	500,000	(500,000)	-
Deposits and other assets	136,711	-	-	136,711
Prepaid rent	2,511,989	-	-	2,511,989
Property and equipment	11,576,284	-	-	11,576,284
Total assets	\$ 17,322,332	\$ 1,446,135	\$ (520,065)	\$ 18,248,402
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 708,328	\$ 9,000	\$ -	\$ 717,328
Accrued expenses and other liabilities	787,653	-	-	787,653
Due to BGCGW	-	20,065	(20,065)	-
Loan payable to the Foundation	500,000	-	(500,000)	-
Notes payable	1,863,127	-	-	1,863,127
Total liabilities	3,859,108	29,065	(520,065)	3,368,108
Net assets				
Unrestricted	86,606	839,282	-	925,888
General				
Facilities	12,225,146	-	-	12,225,146
Total unrestricted net assets	12,311,752	839,282	-	13,151,034
Temporarily restricted	1,151,472	322,131	-	1,473,603
Permanently restricted	-	255,657	-	255,657
Total net assets	13,463,224	1,417,070	-	14,880,294
Total liabilities and net assets	\$ 17,322,332	\$ 1,446,135	\$ (520,065)	\$ 18,248,402

See notes to the consolidating financial statements.

Boys & Girls Clubs of Greater Washington, Inc. & Foundation

Consolidating Statement of Activities

Ten-Month Period Ended December 31, 2017

Unrestricted activities	BGC GW	Foundation	Eliminations	Total
Revenue and support				
Special events	\$ 1,129,373	\$ -	\$ -	\$ 1,129,373
Costs of direct benefits to donors	(347,143)	-	-	(347,143)
Special events, net	782,230	-	-	782,230
Contributions	6,780,790	100,000	(910,000)	5,970,790
Program service fees	1,413,488	-	-	1,413,488
Government grants	934,278	-	-	934,278
Rental and other income	157,173	-	-	157,173
Membership dues	100,170	-	-	100,170
Interest and dividends	26	10,277	-	10,303
Net assets released from restrictions	333,689	11,248	-	344,937
Total revenue and support	10,501,844	121,525	(910,000)	9,713,369
Expense				
Program services	2,653,903	-	-	2,653,903
Camps	-	-	-	-
Child care	2,490,537	-	-	2,490,537
After school	1,078,313	-	-	1,078,313
Program support	-	910,000	(910,000)	-
Total program services	6,222,753	910,000	(910,000)	6,222,753
Supporting services	1,577,291	14,596	-	1,591,887
Management and general	467,643	-	-	467,643
Fund raising	2,044,934	14,596	-	2,059,530
Total supporting services	8,267,687	924,596	(910,000)	8,282,283
Total expense	2,234,157	(803,071)	-	1,431,086
Change in unrestricted net assets from operations	2,234,157	(803,071)	-	1,431,086
Net gain on investments	-	68,209	-	68,209
Transfer to temporarily restricted net assets	-	(15,950)	-	(15,950)
Change in unrestricted net assets	2,234,157	(750,812)	-	1,483,345
Temporarily restricted activities				
Contributions	760,507	-	-	760,507
Interest and dividends	-	4,209	-	4,209
Net gain on investments	-	33,273	-	33,273
Net assets released from restrictions	(333,689)	(11,248)	-	(344,937)
Transfer from unrestricted net assets	-	15,950	-	15,950
Change in temporarily restricted net assets	426,818	42,184	-	469,002
Change in net assets	2,660,975	(708,628)	-	1,952,347
Net assets, March 1, 2017	10,802,249	2,125,698	-	12,927,947
Net assets, December 31, 2017	\$ 13,463,224	\$ 1,417,070	\$ -	\$ 14,880,294

See notes to the consolidating financial statements.

Boys & Girls Clubs of Greater Washington, Inc. & Foundation

Consolidating Statement of Functional Expense Ten-Month Period Ended December 31, 2017

	Program Services					Supporting Services					Total
	BGCGW		Foundation		Eliminations	Total	BGCGW		Foundation		Total
	Camps	Child care	After school				Management and general		Fund raising		
Salaries	\$ 1,328,514	\$ 1,246,735	\$ 539,792	\$ -	\$ -	\$ 3,115,041	\$ 586,895	\$ -	\$ 286,233	\$ 873,128	\$ 3,988,169
Employee benefits	107,608	100,985	43,723	-	-	252,316	129,787	-	41,433	171,220	423,536
Payroll taxes	92,602	86,902	37,625	-	-	217,129	53,031	-	19,378	72,409	289,538
Total salaries and related	1,528,724	1,434,622	621,140	-	-	3,584,486	769,713	-	347,044	1,116,757	4,701,243
Professional fees	189,130	186,873	80,909	-	-	466,912	472,159	14,596	58,739	545,494	1,012,406
Occupancy	343,651	322,496	139,630	-	-	805,777	122,946	-	14,066	137,012	942,789
Travel	144,614	135,712	58,758	-	-	339,084	17,577	-	2,889	20,466	359,550
Supplies	86,922	81,571	35,317	-	-	203,810	2,422	-	1,027	3,449	207,289
Interest	56,551	53,070	22,978	-	-	132,599	-	-	-	-	132,599
Telephone	39,240	36,824	15,944	-	-	92,008	35,984	-	260	36,244	128,252
Bank and other related fees	14,061	13,196	5,713	-	-	32,970	38,834	-	16,272	55,106	88,076
Training, conferences, and meetings	6,794	6,375	2,760	-	-	15,929	16,463	-	-	16,463	32,392
Miscellaneous	3,064	2,875	1,245	-	-	7,184	1,581	-	22,174	23,755	30,939
Membership dues	535	502	217	-	-	1,254	29,412	-	35	29,447	30,701
Printing and publications	4,693	4,405	1,907	-	-	11,005	7,508	-	2,914	10,422	21,427
Awards and grants	9,033	8,477	3,670	-	-	21,180	-	-	-	-	21,180
Bad debt	-	-	-	-	-	-	20,679	-	-	20,679	20,679
Clothing	4,593	4,310	1,866	-	-	10,769	-	-	304	304	11,073
Rental and maintenance of equipment	2,842	2,667	1,155	-	-	6,664	-	-	-	-	6,664
Background check fees	2,154	2,022	875	-	-	5,051	26	-	46	72	5,123
Postage and shipping	561	526	228	-	-	1,315	1,351	-	373	1,724	3,039
Scholarships	107	100	43	-	-	250	-	-	1,500	1,500	1,750
Fines and penalties	49	46	20	-	-	115	-	-	-	-	115
Specific assistance	-	-	-	910,000	(910,000)	-	-	-	-	-	-
Total expense before depreciation	2,447,318	2,296,669	994,375	910,000	(910,000)	5,738,362	1,536,655	14,596	467,643	2,018,894	7,757,256
Depreciation	206,585	193,868	83,938	-	-	484,391	40,636	-	-	40,636	525,027
Total expense	\$ 2,653,903	\$ 2,490,537	\$ 1,078,313	\$ 910,000	\$ (910,000)	\$ 6,222,753	\$ 1,577,291	\$ 14,596	\$ 467,643	\$ 2,059,530	\$ 8,282,283

See notes to the consolidating financial statements.

Boys & Girls Clubs of Greater Washington, Inc. & Foundation

Consolidating Statement of Cash Flows

Ten-Month Period Ended December 31, 2017

	BGC GW	Foundation	Eliminations	Total
Cash flows from operating activities				
Change in net assets	\$ 2,660,975	\$ (708,628)	\$ -	\$ 1,952,347
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Net gain on investments	-	(101,482)	-	(101,482)
Recovery of previously written off receivables	(111,917)	-	-	(111,917)
Bad debt expense	20,679	-	-	20,679
Amortization of prepaid rent	25,360	-	-	25,360
Depreciation	525,027	-	-	525,027
Changes in assets and liabilities:				
Receivables	190,507	-	-	190,507
Due to/from the Foundation	(25,950)	-	25,950	-
Deposits and other assets	42,479	-	-	42,479
Accounts payable	(187,932)	-	-	(187,932)
Accrued expenses and other liabilities	112,553	-	-	112,553
Due to/from BGC GW	-	25,950	(25,950)	-
Total adjustments	590,806	(75,532)	-	515,274
Net cash provided by (used in) operating activities	3,251,781	(784,160)	-	2,467,621
Cash flows from investing activities				
Proceeds from sales of investments	-	984,297	-	984,297
Purchases of investments	(19,630)	(261,252)	-	(280,882)
Purchases of property and equipment	(499,852)	-	-	(499,852)
Net cash (used in) provided by investing activities	(619,482)	723,045	-	203,563
Cash flows from financing activities				
Principal payments on notes payable	(556,441)	-	-	(556,441)
Increase in restricted cash	(270,000)	-	-	(270,000)
Net cash used in financing activities	(826,441)	-	-	(826,441)
Net increase (decrease) in cash and cash equivalents	1,905,858	(61,115)	-	1,844,743
Cash and cash equivalents, March 1, 2017	694,356	83,110	-	777,466
Cash and cash equivalents, December 31, 2017	\$ 2,600,214	\$ 21,995	\$ -	\$ 2,622,209
Supplemental disclosure of cash flow information				
Cash paid during the year for interest	\$ 132,599	\$ -	\$ -	\$ 132,599
Schedule of noncash investing activities				
Donated securities	\$ 663,041	\$ -	\$ -	\$ 663,041

See notes to the consolidating financial statements.

Boys & Girls Clubs of Greater Washington, Inc. & Foundation

Notes to the Consolidating Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. Boys & Girls Clubs of Greater Washington, Inc. (BGCGW) is a District of Columbia nonprofit organization, incorporated in 1886, which is committed to helping youth of all backgrounds, with emphasis on at-risk youth, to develop the qualities needed to become productive, civic-minded, and responsible citizens and leaders.

Boys & Girls Clubs of Greater Washington Foundation (Foundation) is a District of Columbia nonprofit organization, incorporated in 1945, which is devoted to the promotion and support of BGCGW and its various individual clubs.

Fiscal year. The Board of Directors approved a change in fiscal year from February 28 to December 31, effective with the 10-month period ended December 31, 2017.

Clubs. BGCGW provides services at various sites in the following Washington, DC metropolitan areas.

District of				
Columbia	Maryland	Virginia		
4	2	6		12
				Total

Principles of consolidation. The consolidating financial statements include the accounts of BGCGW and the Foundation (collectively, the Organization). Significant intra-entity accounts and transactions have been eliminated in consolidation.

Income taxes. BGCGW is exempt from payment of income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code.

The Foundation is exempt from payment of income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation within the meaning of Section 509(a)(3) of the Internal Revenue Code.

Basis of accounting. The accompanying consolidating financial statements have been prepared on the accrual basis of accounting. Revenue, other than contributions, is recognized when earned and expense when the obligation is incurred.

Use of estimates. The preparation of consolidating financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Cash and cash equivalents. For financial statement purposes, the Organization considers all highly liquid debt instruments with a maturity of three months or less at the time of purchase to be cash and cash equivalents. Temporarily and permanently restricted cash and cash equivalents are classified as investments.

Restricted cash. Restricted cash relates to the lending bank's requirement related to the notes payable, which are discussed in Note G, that BGCGW maintain a segregated cash account in the amount of \$270,000 in accordance with the terms of the notes payable agreements.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions: Contributions are recognized when unconditionally promised to or received by the Organization. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of any donor restrictions. Within temporarily restricted net assets, amounts are reclassified to unrestricted net assets when the time restriction expires or when the purpose restriction is met. Temporarily restricted contributions whose restrictions are released within the same period are recorded as unrestricted contributions. Generally, its BGCGW's policy to liquidate donated securities immediately.

Costs of direct benefits to donors: Costs of direct benefits to donors include (1) the venue, entertainment, and refreshments provided to participants at major fund-raising dinners and (2) the refreshments or other items provided to participants at other fund-raising events.

Program services: The Organization provides programming to youth in three settings: child care, camps, and after school. The following five core developmental areas are included in each of the three program service area settings.

Education & Career Development: A top priority in all clubs, programs in this core area help members succeed in school and apply their knowledge and skills to daily challenges. Through activities that are educational and engaging, club members gain the strength they need to achieve their goals.

Character & Leadership Development: Empowering youth to become leaders, the Organization provides opportunities for members to sustain meaningful relationships, develop a positive self-image, participate in the democratic process, and respect their own and others' cultural identities.

The Arts: Youth who are engaged in arts programs do better in school and in their personal lives. Participation in the Arts promotes self-expression and young people gain the confidence, self-esteem, and motivation needed to reach their full potential.

Health & Life Skills: Today's youth face overwhelming obstacles that affect their health and well-being. The Organization gives them the tools—and the strength—to engage in positive behaviors and good decision-making. Programs focus on building self-esteem, and deal with drug and violence prevention, teen pregnancy and disease prevention, fitness, and wellness. The Organization helps club members set personal goals and establish a foundation to live as self-sufficient, healthy, and wise adults.

Sports, Fitness & Recreation: The Organization sports programming gives members a way to channel their energy and enjoy opportunities to play in a safe environment. Through sports, children learn teamwork, leadership, and responsibility. They experience the rewards of hard work, develop a love for sports and exercise, and learn the benefits of friendly competition. Through recreational games, youth elevate their self-esteem and learn the importance of balancing serious and fun activities. Field trips and specialty programs provide members with opportunities to try something entirely new or different, or to gain more experiences in a specific area.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Supporting services: Supporting service descriptions follow.

Management and general: The management and general function includes activities necessary for the administrative processes of the Organization and managing its operations and financial responsibilities.

Fund raising: The fund-raising function includes activities that encourage and secure financial support for the Organization.

Functional allocation of expense: The costs of providing program and supporting services activities have been summarized on a functional basis in the accompanying consolidating financial statements. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Measure of operations: The Organization excludes from the change in net assets from operations net gain on investments and transfer from unrestricted.

B. CONCENTRATIONS

Credit risk: The Organization maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. Government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Organization.

Market value risk: The Organization invests in various types of equity securities, such as mutual funds and common stocks. Investments are exposed to market and credit risks and may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying consolidating financial statements may not be reflective of the portfolio's value during subsequent periods.

C. INVESTMENTS

In accordance with accounting principles generally accepted in the United States of America, the Organization uses the following prioritized input levels to measure fair value of investments recorded at fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.

Level 2 – Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk, such as bid/ask spreads and liquidity discounts.

Boys & Girls Clubs of Greater Washington, Inc. & Foundation

Notes to the Consolidating Financial Statements

C. INVESTMENTS - CONTINUED

Investments valued using Level 1 inputs include mutual funds and common stocks, the values for which were based on quoted prices for identical assets in active markets.

Investments recorded at cost include cash and cash equivalents. Investments recorded at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

The following is a summary of investments at December 31, 2017:

Investments, at fair value (Level 1)	
Mutual funds - equities	\$ 635,434
Mutual funds - fixed income	252,983
Common stocks	19,573
Investments, at cost	907,990
Cash and cash equivalents	35,780
	<u>\$ 943,770</u>

Investment income consisted of the following for the ten-month period ended December 31, 2017:

Temporarily	
Unrestricted	Restricted
Total	
Net gain on investments	\$ 68,209
Interest and dividends	10,303
	4,209
	14,512
	<u>\$ 78,512</u>
	\$ 37,482
	<u>\$ 115,994</u>

Investment management fees totaled \$4,547 and has been included in management and general expense for the ten-month period ended December 31, 2017.

D. RECEIVABLES

Grants receivable: Grants receivable consist of amounts due from federal, state, or local government agencies based on the terms of the related agreements. Management periodically reviews the status of grants receivable for collectability. Each balance is assessed based on management's knowledge of and relationship with the government agency and the age of the receivable balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful accounts had been recorded.

Unconditional promises to give: Unconditional promises to give (pledges receivable) include contributions from donors. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that were expected to be collected over several years were recorded at the present value of their estimated future cash flows. An allowance for uncollectible pledges, if necessary, is determined based on management's evaluation of potential uncollectible pledges receivable. However, management considers all pledges to be collectable. All unconditional promises to give at December 31, 2017 were due within the next year.

Receivables consisted of the following at December 31, 2017:

Grants receivable	
Unconditional promises to give	
\$ 173,666	13,773
\$ 187,439	

Intentions to give: The Organization has received notification that several donors, primarily members of the Board of Directors, have included the Organization in their wills. The bequests, which are intentions to give until each estate has completed the probate process, were provided in conjunction with the 1886 Society planned giving campaign and total approximately \$1,585,000 at December 31, 2017. Intentions to give are not recorded as contributions.

E. RELATED PARTY TRANSACTIONS

Due from the Foundation / Due to BCGGW: From time to time, BCGGW receives contributions on behalf of the Foundation. In addition, the Foundation periodically reimburses BCGGW for certain costs. The due from the Foundation / due to BCGGW totaled \$20,065 at December 31, 2017.

Loan receivable: The Foundation periodically provides interest free loans to BCGGW. During the year ended February 29, 2016, the Foundation provided a \$500,000 interest free loan to BCGGW, which remains outstanding at December 31, 2017.

Notes payable guarantee: The Foundation signed an agreement with the lending bank that provides a guarantee of BCGGW's notes payable, which totaled \$1,863,127 as of December 31, 2017. However, the balance due on BCGGW's notes payable exceeds the Foundation's unrestricted cash and investments, which approximated \$440,000 at December 31, 2017. Management does not believe that the Foundation will need to pay on the guarantee as of December 31, 2017.

Board of Directors: BCGGW received contributions from various members of the Board of Directors which totaled \$784,126 during the ten-month period ended December 31, 2017.

BCGGW support: The Foundation periodically provides cash distributions to BCGGW in support of its program activities. The Foundation's distributions totaled \$910,000 during the ten-month period ended December 31, 2017.

Contributed services: BCGGW has not provided in-kind services to the Foundation for the ten-month period ended December 31, 2017.

BGCA support: During March 2017, BCGGW accepted a \$300,000 grant from Boys & Girls Clubs of America (BGCA). In conjunction with the grant acceptance, BGCA would like to see BCGGW implement the following:

1. Reduce operating expenses by 15% to 20%.

2. Initiate a campaign to raise an additional \$3,000,000 in excess of budgeted revenue.

In order to comply with the BGCA grant, BCGGW launched a fund raising effort, the goal of which was to raise \$6,000,000.

F. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$3,000 are capitalized. Property and equipment, other than donated property are stated at cost. Donated property is valued at fair market value at the date of the gift. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets: buildings and improvements – 5 to 50 years; furniture, fixtures, and equipment – 3 to 10 years; and automotive equipment – 5 years.

Property and equipment consisted of the following at December 31, 2017:

Land	\$ 416,851
Buildings and improvements	18,392,830
Furniture, fixtures, and equipment	1,394,879
Automotive equipment	607,232
Less accumulated depreciation	20,811,792
	<u>(9,235,508)</u>
	<u>\$ 11,576,284</u>

Financed property and equipment: As described in Note G, BGCGW has two notes payable related to financing for the Hyllton and the Martin K. Alloy Club of Manassas club facilities. Net book value related to the Hyllton club's buildings and improvements totaled \$1,771,796 at December 31, 2017. Net book value related to the buildings and improvements of the Martin K. Alloy Club of Manassas totaled \$2,376,225 at December 31, 2017. The Organization also owns four clubs that do not have a note payable associated with them. The net book value of the land and building at these four clubs was \$6,425,410 at December 31, 2017.

G. NOTES PAYABLE

Hylton: BGCW has a loan in the original amount of \$1,600,000 which is secured by a deed of trust on the improvements made at the Hylton club facility located in Woodbridge, Virginia. The maturity date of the note, under the current terms, is June 2019. Payments of principal and interest, at a rate of 6.75%, are due monthly. In June 2017, a second loan modification agreement was signed. As a part of the agreement, additional principal payments of \$200,000 in June 2017 and \$265,000 in December 2017 were required. BGCW made both payments during the ten-month period ended December 31, 2017, but the bank attributed the \$200,000 payment to the Manassas note payable which is described below. In addition, the agreement required that BGCW establish a Payment Reserve Account totaling \$270,000 and stipulated that BGCW may not access the cash in the account during the term of the note payable. On March 6, 2019, a third loan modification agreement was signed which extended the due date to June 2, 2019.

Martin K. Alloy Club of Manassas: BGCW has a loan in the original amount of \$2,000,000 which is secured by a deed of trust on the improvements made at the Martin K. Alloy Club of Manassas facility located in Manassas, Virginia. The maturity date of the note, under the current terms, is June 2019. Payments of principal and interest, at a rate of 6.05%, are due monthly. As a part of the first loan modification, a one-time, principal only payment of \$300,000 and related fees was paid in July 2016. In June 2017, a second loan modification agreement was signed. On March 6, 2019, a third loan modification agreement was signed which extended the due date to June 2, 2019.

Guarantee of notes payable: As a part of the first loan modification, the Foundation signed an agreement with the lending bank to guarantee the notes payable. In conjunction with the second loan modification, the Foundation confirmed the guarantee of the notes payable.

Covenants: The terms of both notes require compliance with certain financial and non-financial covenants, as stipulated in the loan documents. The financial covenants stipulated in the loan documents are as follows:

1. BGCW and the Foundation will maintain a consolidated minimum cash flow coverage of 1.15 times debt service at all times. Cash flow is defined as earnings before taxes, plus depreciation, amortization, and interest. Debt service is defined as prior year's current maturities of long-term debt plus interest expense. The Organization was in compliance with this covenant at December 31, 2017.
2. BGCW and the Foundation will maintain a consolidated minimum liquidity of ten times debt service. Debt service is defined as the prior year's current maturities of long-term debt plus interest expense. The Organization was in compliance with this covenant at December 31, 2017.
3. BGCW will not report a net operating deficit that exceeds \$726,000 for a year. The Organization was in compliance with this covenant for the ten-month period ended December 31, 2017.

Future maturities of principal on the notes payable were as follows at December 31, 2017:

Year Ending December 31,				
	Hylton	Manassas	Total	
2018	\$ 69,474	\$ 79,379	\$ 148,853	
2019	765,471	948,803	1,714,274	
	\$ 834,945	\$ 1,028,182	\$ 1,863,127	

Boys & Girls Clubs of Greater Washington, Inc. & Foundation

Notes to the Consolidating Financial Statements

H. NET ASSETS

Unrestricted: Unrestricted net assets include those net assets whose use is not restricted by donors. The Organization has no board-designated net assets. However, within the consolidating statement of financial position, unrestricted net assets are segregated between general and facilities. The facilities category includes prepaid rent and property and equipment, which has been presented net of notes payable. However, BGCGW anticipates paying the notes payable through general unrestricted net assets rather than through facilities unrestricted net assets. If the general unrestricted net assets had been presented net of the notes payable and restricted cash, BGCGW would have reported deficit in general unrestricted net assets of approximately \$1.5 million at December 31, 2017.

Temporarily restricted: Temporarily restricted net assets include those net assets whose use has been donor restricted by specified purpose or time limitations. Temporarily restricted net assets consisted of the following at December 31, 2017:

BGCGW	Purpose	\$ 1,121,501
	Time	29,971
Subtotal BGCGW		1,151,472
Foundation		
Endowment funds		201,258
Purpose (non-endowment)		120,873
Subtotal Foundation		322,131
		<u>\$ 1,473,603</u>

Net assets are released from restriction when specified purposes have been fulfilled or when time restrictions expire. Net assets released from restriction consisted of the following for the ten-month period ended December 31, 2017:

BGCGW	Purpose	\$ 200,356
	Time	133,333
Subtotal BGCGW		333,689
Foundation		
Endowment funds		833
Purpose (non-endowment)		10,415
Subtotal Foundation		11,248
		<u>\$ 344,937</u>

Permanently restricted: Permanently restricted net assets are restricted by donors to be maintained in perpetuity. Note I includes information regarding the Organization's endowment funds.

I. ENDOWMENTS

The Foundation's endowments include several traditional donor-restricted endowment funds, which are classified within permanently restricted net assets. Permanently restricted net assets are required by donor stipulation to be maintained in perpetuity by the Foundation and, in some instances, the donors of these funds have restricted the income for specific uses and these are considered purpose restricted. Certain other permanently restricted contributions were received from various sources without restrictions as to the use of income and these are considered time restricted until appropriated for use by the Board of Directors.

Interpretation of Relevant Law

The Board of Directors has interpreted the District of Columbia Uniform Prudent Management of Institutional Funds Act of 2007 (DCUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by DCUPMIFA.

Return Objectives and Risk Parameters

The Foundation's Board of Directors has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the Board of Directors, endowment assets are invested in a manner that is intended to produce returns higher than specified market indices while assuming a moderate level of risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year certain amounts as approved by its Board of Directors in the budget. In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Boys & Girls Clubs of Greater Washington, Inc. & Foundation

Notes to the Consolidating Financial Statements

I. ENDOWMENTS - CONTINUED

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor originally contributed as an endowment fund to the Foundation. The Foundation had no funds with deficiencies at December 31, 2017.

Endowment net assets by donor-restricted fund consisted of the following at December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Purpose restricted				
Harry F. Duncan Foundation, Inc.	\$ -	\$ 86,915	\$ 50,000	\$ 136,915
Charles E. Smith Trust *	-	26,448	27,974	54,422
Henry Parsons Erwin Scholarship Fund	-	14,294	11,000	25,294
Sidney L. Hechinger Scholarship Fund	-	4,003	2,885	6,888
Time restricted	-	131,660	91,859	223,519
F. Elwood Davis Fund	-	25,465	89,406	114,871
Harry F. Duncan Foundation, Inc.	-	29,662	50,000	79,662
William R. Winslow Trust	-	13,052	22,000	35,052
Franklin Marsh Fund	-	1,034	1,744	2,778
Ernest E. Norris Fund	-	385	648	1,033
	-	69,598	163,798	233,396
	\$ -	\$ 201,258	\$ 255,657	\$ 456,915

* The Charles E. Smith Trust established an endowment fund to support Camp Brown, which was sold in February 2016. The Foundation planned to communicate with the donor to request that the fund be released to unrestricted net assets for use in the Foundation's operations. However, the Foundation has not yet contacted the donor.

Changes in endowment net assets consisted of the following for the ten-month period ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowments, March 1, 2017	\$ -	\$ 178,125	\$ 255,657	\$ 433,782
Investment return	-	-	-	-
Interest and dividends	-	2,800	-	2,800
Net gain on investments	-	21,166	-	21,166
Investment fees	-	(833)	-	(833)
	-	23,133	-	23,133
Endowments, December 31, 2017	\$ -	\$ 201,258	\$ 255,657	\$ 456,915

J. IN-KIND CONTRIBUTIONS

Recorded amounts: Donated services are recognized as contributions and expensed in accordance with generally accepted accounting principles, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Donated goods are recorded at the estimated fair value of the goods provided to the Organization. Donated long-lived assets are recognized as contributions and capitalized within property and equipment.

However, the Organization had no recorded in-kind contributions for the ten-month period ended December 31, 2017.

Unrecorded amounts: The Organization uses certain club facilities on a rent-free basis. Management has determined that no objective basis is available to measure the fair value of the rental of such facilities. Thus, an amount for donated facilities has not been recorded.

The Organization receives donated services from the District of Columbia Metropolitan Police Department in the form of police officers acting as program staff at a number of the Organization's DC club facilities. Although such services are important to the mission of the Organization, the services donated by the police officers do not require specialized skills as defined by generally accepted accounting principles and are, therefore, not recorded in the consolidating financial statements.

The Organization relies on contributions of both time and expertise from its pool of adult volunteers. In particular, volunteers work on the Organization's programs and fund-raising activities. The Organization's volunteers donate many hours of service, the total value of which cannot be easily calculated or estimated, yet these volunteers contribute significantly to the work, impact, and success of the Organization. These volunteer services have not been reflected in the accompanying consolidating financial statements because the volunteer services provided do not meet the criteria necessary for recognition.

K. RETIREMENT PLANS

Defined contribution savings plan: BCGGW has adopted the Boys & Girls Club of America Master Pension Plan and Trust Standardized Plan (the Plan). The Plan is a defined contribution savings plan for employees who meet age and length of service requirements. BCGGW contributes 5% of eligible employees' salaries to the Plan. BCGGW's contributions to the Plan totaled \$100,773 for the ten-month period ended December 31, 2017. The assets of the Plan are held in a trust for the benefit of participants and are not included in the consolidating financial statements.

403(b) elective deferral only retirement plan: BCGGW also maintains a 403(b) elective deferral only retirement plan, which covers all eligible employees. The plan is entirely employee funded through elective deferrals. The assets of the plan are held in a trust for the benefit of participants and are not included in the consolidating financial statements.

L. COMMITMENTS AND CONTINGENCIES

Losses from operations: Prior to the ten-month period ended December 31, 2017, the Organization had reported losses from operations for more than ten consecutive years. Specifically, the Organization's cumulative net losses approximated \$9.6 million between the year ended June 30, 2006 and December 31, 2017. During the same span of time, the Organization sold 5 clubs and Camp Brown which resulted in gains on real estate sales of approximately \$21.8 million. Excluding the gains on real estate sales, the Organization's cumulative net loss from 2006 to 2017 approximated \$31.3 million.

Operating lease: BGCGW leases club space within the Town Hall Entertainment Arts Recreation Center (THE ARC) in Washington, DC. The lease expires in 2101 and the lease agreement stipulates that the landlord will maintain and care for the property over the term of the lease. At the beginning of the lease, BGCGW prepaid the total rent due in accordance with the term of the lease. As a result, no future minimum lease payments are required under the terms of the lease. Rent expense (base rental and operating expense) for the operating lease totaled \$166,597 for the ten-month period ended December 31, 2017. Prepaid rent of \$2,511,989 at December 31, 2017 has been recorded to reflect the future benefit over the term of the lease.

Government grants: Amounts received or receivable from government agencies under various grants are subject to audit and adjustment by the government agencies. The amount of expenditures which may be potentially disallowed cannot be determined at this time, and management expects such amounts, if any, to be immaterial. Since total federal expenditures were less than \$750,000, the single audit requirement in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) was not applicable for the ten-month period ended December 31, 2017.

Litigation: On occasion, BGCGW may be named as a defendant in a lawsuit resulting from activities related to its normal operations. In the opinion of management, resolution of such matters will not have a material adverse effect on the consolidating financial statements of the Organization.

Geographic diversity: BGCGW operates programs and facilities in the District of Columbia, Maryland, and Virginia. The geographic diversity of BGCGW's operations is impacted by certain localized events, such as economic hardship or changes in population demographics that may occur faster than BGCGW can adapt to such conditions.

**Boys & Girls Clubs of Greater
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Notes to the Consolidating Financial Statements

M. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 6, 2019, which is the date the consolidating financial statements were available to be issued.

In relation to the fund raising effort, BGCGW has received contributions from donors approximating \$3,561,000 from January 1, 2018 through January 31, 2019.

During the year ended December 31, 2018, BGCGW opened 3 new sites, with 1 in Virginia and 2 in Maryland. The new sites fall under either donated facilities where rent is free or BGCGW will pay periodic fees but has made no long-term commitments such as an operating lease.

The unaudited internal financial statements of BGCGW as of December 31, 2018 and for the year then ended reported a net loss of approximately \$125,000.

In January 2019, BGCGW acquired four new buses for approximately \$226,000. These buses were distributed to two sites in the District of Columbia and two sites in Virginia.

