



BOYS & GIRLS CLUBS
OF CLEVELAND

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016



SKODA MINOTTI

CPAs, BUSINESS & FINANCIAL ADVISORS

Delivering on the Promise.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
YEARS ENDED DECEMBER 31, 2017 AND 2016

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	PAGE NO.	2 – 3
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION December 31, 2017 and 2016		4
CONSOLIDATED STATEMENTS OF ACTIVITIES Years ended December 31, 2017 and 2016		5
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS Years ended December 31, 2017 and 2016		6
CONSOLIDATED STATEMENTS OF CASH FLOWS Years ended December 31, 2017 and 2016		7
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES Years ended December 31, 2017 and 2016		8
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS		9 – 21
SUPPLEMENTARY INFORMATION		
CONSOLIDATING STATEMENT OF FINANCIAL POSITION December 31, 2017		22
CONSOLIDATING STATEMENT OF ACTIVITIES Year ended December 31, 2017		23

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Boys & Girls Clubs of Cleveland and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boys & Girls Clubs of Cleveland and Subsidiary as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the consolidating statement of financial position as of December 31, 2017, and the consolidating statement of activities for the year then ended is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

SKODA MINOTTI & CO.

A handwritten signature in cursive script that reads "Skoda Minotti".

Cleveland, Ohio
June 6, 2018

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 957,300	\$ 1,015,401
Investments	1,899,051	1,741,225
Pledges receivable	388,357	662,217
Grants receivable	232,375	175,526
Prepaid expenses	59,058	25,952
	3,536,141	3,620,321
 LONG-TERM ASSETS		
Cash surrender value of life insurance	74,455	72,785
Pledges receivable - net	104,969	382,411
Property and equipment - net	3,900,424	4,076,691
	4,079,848	4,531,887
	\$ 7,615,989	\$ 8,152,208

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 183,994	\$ 45,247
Accrued expenses	126,522	121,326
	310,516	166,573
 NET ASSETS		
Unrestricted		
Operating	4,409,053	4,534,193
Board designated	1,154,926	1,086,166
Total unrestricted	5,563,979	5,620,359
Temporarily restricted	960,112	1,672,961
Permanently restricted	781,382	692,315
	7,305,473	7,985,635
	\$ 7,615,989	\$ 8,152,208

The accompanying notes are an integral part of these consolidated financial statements.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				Total
	Unrestricted		Temporarily Restricted	Permanently Restricted	
	Operating	Board Designated			
SUPPORT AND REVENUE					
Contributions and grants:					
Individuals	\$ 550,345	\$ -	\$ -	\$ 1,500	\$ 551,845
Foundations	3,286,150	12,000	135,600	10,000	3,443,750
Corporations	278,436	-	-	-	278,436
Heights Youth Club	30,000	-	-	-	30,000
Clubs and organizations	8,350	-	-	-	8,350
Government grants	295,614	-	-	-	295,614
United Way services	430,844	-	122,500	-	553,344
Special events - net	209,139	-	-	-	209,139
Other income	62,964	-	-	-	62,964
Governmental in-kind	39,549	-	-	-	39,549
Program fees	5,271	-	-	-	5,271
Investment income	441	122,813	-	77,567	200,821
Total support and revenue	5,197,103	134,813	258,100	89,067	5,679,083
Net assets released from restrictions:					
Satisfaction of restrictions through:					
Operating expenses	1,037,002	(66,053)	(970,949)	-	-
	6,234,105	68,760	(712,849)	89,067	5,679,083
Expenses before depreciation:					
Program	4,972,335	-	-	-	4,972,335
Fundraising and development	607,323	-	-	-	607,323
General and administrative	467,998	-	-	-	467,998
Total expenses before depreciation	6,047,656	-	-	-	6,047,656
Change in net assets before depreciation					
	186,449	68,760	(712,849)	89,067	(368,573)
Depreciation expenses					
Program	275,589	-	-	-	275,589
Fundraising and development	18,000	-	-	-	18,000
General and administrative	18,000	-	-	-	18,000
Total depreciation expenses	311,589	-	-	-	311,589
Change in net assets					
	\$ (125,140)	\$ 68,760	\$ (712,849)	\$ 89,067	\$ (680,162)

2016

Unrestricted				
Operating	Board Designated	Temporarily Restricted	Permanently Restricted	Total
\$ 370,124	\$ -	\$ -	\$ -	\$ 370,124
1,819,585	-	505,833	-	2,325,418
546,122	7,000	-	-	553,122
91,800	-	-	-	91,800
7,040	-	-	-	7,040
269,965	-	-	-	269,965
370,649	-	122,500	-	493,149
191,059	-	-	-	191,059
79,690	-	-	-	79,690
36,949	-	-	-	36,949
3,380	-	-	-	3,380
799	61,608	-	31,394	93,801
<u>3,787,162</u>	<u>68,608</u>	<u>628,333</u>	<u>31,394</u>	<u>4,515,497</u>
684,414	(62,707)	(621,707)	-	-
<u>4,471,576</u>	<u>5,901</u>	<u>6,626</u>	<u>31,394</u>	<u>4,515,497</u>
4,301,458	-	-	-	4,301,458
578,064	-	-	-	578,064
423,325	-	-	-	423,325
<u>5,302,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,302,847</u>
<u>(831,271)</u>	<u>5,901</u>	<u>6,626</u>	<u>31,394</u>	<u>(787,350)</u>
277,777	-	-	-	277,777
18,000	-	-	-	18,000
18,000	-	-	-	18,000
<u>313,777</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>313,777</u>
<u>\$ (1,145,048)</u>	<u>\$ 5,901</u>	<u>\$ 6,626</u>	<u>\$ 31,394</u>	<u>\$ (1,101,127)</u>

The accompanying notes are an integral part of these consolidated financial statements.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	Operating	Board Designated			
Net assets - January 1, 2016	\$ 5,679,241	\$ 1,080,265	\$ 1,666,335	\$ 660,921	\$ 9,086,762
Change in net assets - 2016	(1,145,048)	5,901	6,626	31,394	(1,101,127)
Net assets - December 31, 2016	4,534,193	1,086,166	1,672,961	692,315	7,985,635
Change in net assets - 2017	(125,140)	68,760	(712,849)	89,067	(680,162)
Net assets - December 31, 2017	<u>\$ 4,409,053</u>	<u>\$ 1,154,926</u>	<u>\$ 960,112</u>	<u>\$ 781,382</u>	<u>\$ 7,305,473</u>

The accompanying notes are an integral part of these consolidated financial statements.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (680,162)	\$ (1,101,127)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Add back (deduct): Items not affecting cash		
Depreciation	311,589	313,777
Pledges receivable discount amortization	(10,349)	(21,679)
Increase in cash surrender value of life insurance	(1,670)	(2,218)
Interest and dividends reinvested	(14,448)	(15,108)
Unrealized gain on investments	(155,927)	(81,605)
Realized (gain) loss on investments	(30,446)	2,912
Gain on sale of property and equipment	-	(65,121)
Permanently restricted contributions	(11,500)	-
Cash provided by (used in) changes in the following items:		
Decrease in pledges receivable	561,651	359,919
(Increase) decrease in grants receivable	(56,849)	2,648
(Increase) decrease in prepaid expenses	(33,106)	15,162
Increase (decrease) in accounts payable	138,747	(40,098)
Increase in accrued expenses	5,196	38,810
Net cash provided by (used in) operating activities	<u>22,726</u>	<u>(593,728)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(135,322)	(78,582)
Proceeds from sale of property and equipment	-	81,505
Proceeds from sale of investments	124,776	314,167
Purchases of investments	(81,781)	(257,671)
Net cash provided by (used in) investing activities	<u>(92,327)</u>	<u>59,419</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	<u>11,500</u>	<u>-</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(58,101)	(534,309)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,015,401</u>	<u>1,549,710</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 957,300</u>	<u>\$ 1,015,401</u>

The accompanying notes are an integral part of these consolidated financial statements.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	2017							
	Program				Total	General &	Fundraising &	Total
	Academic Success	Character & Citizenship	Healthy Lifestyles	Youth Violence Reduction	Program	Administrative	Development	
Personnel costs	\$ 1,205,597	\$ 970,358	\$ 764,525	\$ 749,183	\$ 3,689,663	\$ 326,408	\$ 523,990	\$ 4,540,061
Professional and contract services	16,158	13,005	10,246	127,772	167,181	42,590	25,684	235,455
Programming	275,437	221,693	174,667	69,667	741,464	48,339	43,430	833,233
Occupancy	143,225	115,278	90,825	24,699	374,027	50,661	14,219	438,907
Total expenses before depreciation	1,640,417	1,320,334	1,040,263	971,321	4,972,335	467,998	607,323	6,047,656
Depreciation expenses	112,741	90,819	72,029	-	275,589	18,000	18,000	311,589
Total expenses	<u>\$ 1,753,158</u>	<u>\$ 1,411,153</u>	<u>\$ 1,112,292</u>	<u>\$ 971,321</u>	<u>\$ 5,247,924</u>	<u>\$ 485,998</u>	<u>\$ 625,323</u>	<u>\$ 6,359,245</u>

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	2016							
	Program				Total Program	General & Administrative	Fundraising & Development	Total
	Academic Success	Character & Citizenship	Healthy Lifestyles	Youth Violence Reduction				
Personnel costs	\$ 1,077,011	\$ 866,862	\$ 682,983	\$ 561,043	\$ 3,187,899	\$ 293,254	\$ 420,812	\$ 3,901,965
Professional and contract services	22,292	17,942	14,136	101,223	155,593	42,624	121,277	319,494
Programming	225,401	181,420	142,937	12,587	562,345	39,166	21,048	622,559
Occupancy	151,083	121,603	95,809	27,126	395,621	48,281	14,927	458,829
Total expenses before depreciation	1,475,787	1,187,827	935,865	701,979	4,301,458	423,325	578,064	5,302,847
Depreciation expenses	113,636	91,540	72,601	-	277,777	18,000	18,000	313,777
Total expenses	<u>\$ 1,589,423</u>	<u>\$ 1,279,367</u>	<u>\$ 1,008,466</u>	<u>\$ 701,979</u>	<u>\$ 4,579,235</u>	<u>\$ 441,325</u>	<u>\$ 596,064</u>	<u>\$ 5,616,624</u>

The accompanying notes are an integral part of these consolidated financial statements.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Boys & Girls Clubs of Cleveland (BGCC) is a nonprofit organization, which provides after-school and summer programs and a safe environment for youth ages 6 - 18 facing challenging life circumstances to achieve their full potential as productive, responsible and caring citizens. The Clubs' programs, including outreach programs, emphasize education, career exploration, financial literacy, character, leadership, health and life skills, arts, sports, fitness and recreation.

The Clubs responded to a community need for organizations to take a role in violence prevention. On January 12, 2016, the Clubs formed Cleveland PeaceMakers, Inc. (PeaceMakers) a nonprofit organization, which aims to lower youth violence in the surrounding communities.

Principles of Consolidation

The consolidated financial statements include the amounts of Boys & Girls Clubs of Cleveland and its subsidiary Cleveland PeaceMakers, Inc. (collectively, the Clubs). All significant intercompany transactions have been eliminated.

Program Descriptions

Academic Success - This impact area affects the Clubs' mission to enable young people who need us most to reach their full potential. Programs seek to engage youth in education, reduce high school drop out rates, and encourage high school graduation and post-secondary opportunities by teaching basic educational disciplines, technology and the arts, nurturing creativity, cultural awareness and appreciation for the arts.

Character & Citizenship - This impact area focuses on furthering the Clubs' mission by developing youth into productive, caring and responsible citizens by emphasizing interpersonal relationship-building, self-image and contribution to the community.

Healthy Lifestyles - This impact area also furthers the Clubs' mission to enable young people to reach their full potential through encouraging youth to make smart, healthy choices for their bodies, minds and spirits (ultimately, their futures) by encouraging goal-setting, health-risk avoidance, and self-sufficiency and by developing physical and social skills, stress management and appreciation for the environment.

Youth Violence Reduction - PeaceMakers provides the residents of Cleveland with caring, committed and competent individuals equipped to offer crime prevention and conflict mediation services to youth and young adults who are at risk of, victim of, and/or perpetrators of street violence.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

Accordingly, net assets and changes therein are classified and reported as follows: Unrestricted Operating Net Assets – Net assets that are not subject to donor-imposed restrictions. Unrestricted operating net assets consist of current operating net assets and are used for general operating expenses.

Unrestricted Board Designated Net Assets – Net assets that are reserved by the Board of Trustees for the continuity of the Clubs' general activities, its exhibits and programs, and to meet emergency demands.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Clubs and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If donor-imposed restrictions are met in the same year as they are imposed, the net assets are reported as unrestricted.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained by the Clubs in perpetuity. Generally, the donors of these assets permit the Clubs to use all or part of the income earned on any related investments for general or specific purposes.

Contributions and Grants

Contributions and grants are recognized when awarded as unrestricted, temporarily restricted or permanently restricted in accordance with donor specifications. When a restriction expires through accomplishment of purpose or passage of time, the restricted net assets are reclassified to unrestricted and reported in the consolidated statements of activities as net assets released from restrictions.

Government grants are considered earned income and are recognized over the periods to which they relate. Government grants received in advance are recorded as deferred income.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The Clubs consider all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

At times during the year, the Clubs maintained funds on deposit at banks in excess of Federally insured limits. The Clubs believe that there is no significant risk with respect to these deposits. The Clubs have not experienced any losses on their deposits with financial institutions.

Investments

Investments in marketable securities are recorded at fair value based on published market prices. The difference between their cost and fair value is recorded as an unrealized gain or loss in the consolidated statement of activities. Specific-identification is used to identify securities sold.

Grants and Pledges Receivable

Grants receivable represent various amounts from governments, agencies and foundations awarded at December 31, 2017 and 2016 and have been recorded as revenue as unrestricted, temporarily restricted or permanently restricted in accordance with donor specifications. The Clubs consider all grants receivable to be fully collectible at December 31, 2017 and 2016, and, therefore, have no allowance for uncollectible accounts.

Pledges receivable represent unconditional promises to give by donors. Pledges that are to be received over a period of years are discounted to their present value assuming their respective payment terms and an appropriate discount rate. The amounts reflected in the consolidated statements of financial position are net of this discount which is amortized into contribution revenue over the term of the respective pledge agreement. The amortized discount at December 31, 2017 and 2016 was \$5,354 and \$15,703, respectively. Management provides for uncollectible accounts based on its assessment of the current status of individual accounts. There were no write offs during the years ended December 31, 2017 and 2016, respectively. Based on the Clubs' minimal write-off experience, no allowance for uncollectible accounts has been recorded at December 31, 2017 and 2016.

Depreciation

Depreciation of property and equipment is provided using the straight-line method based on the following estimated useful lives:

Buildings and improvements	30 – 39	years
Equipment	3 – 10	years
Furniture and fixtures	5 – 7	years
Vehicles	5	years

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Clubs are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state laws and operate as a public charity.

Advertising

The Clubs' policy is to expense advertising costs as incurred. Advertising expense for the years ended December 31, 2017 and 2016 was \$4,204 and \$2,800, respectively.

Contributed Services

The Clubs receive an amount of donated services (general assistance, fundraising events, telephone answering, etc.) from unpaid volunteers who assist in fund-raising and special projects. The Clubs would recognize significant contributions of services received when those services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the donation. The Clubs recognized \$0 and \$60,000 of corporate in-kind revenue from contributed services for the years ended December 31, 2017 and 2016, respectively, for which the corresponding expense is included in both fundraising and development and general and administrative expenses.

Subsequent Events

The Clubs evaluated subsequent events through June 6, 2018, the date these consolidated financial statements were available to be issued. Other than the matter described in Note 12, there were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. INVESTMENTS

Investments under the control of the Clubs are stated at fair value and consist of the following at December 31:

	2017		
	Cost	Fair Value	Cumulative Unrealized Gain
Mutual funds	\$ 1,523,106	\$ 1,812,101	\$ 288,995
Money market funds	73,010	86,950	13,940
	<u>\$ 1,596,116</u>	<u>\$ 1,899,051</u>	<u>\$ 302,935</u>
	2016		
	Cost	Fair Value	Cumulative Unrealized Gain
Mutual funds	\$ 1,554,324	\$ 1,699,077	\$ 144,753
Money market funds	42,148	42,148	-
	<u>\$ 1,596,472</u>	<u>\$ 1,741,225</u>	<u>\$ 144,753</u>

The following schedules summarize the components of investment income in the consolidated statements of activities for the years ended December 31:

	2017	2016
Interest and dividend income	\$ 14,448	\$ 15,108
Realized gains (losses)	30,446	(2,912)
Unrealized gains	155,927	81,605
Net investment income	<u>\$ 200,821</u>	<u>\$ 93,801</u>

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FAIR VALUE MEASUREMENTS

GAAP requires disclosure of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following three broad categories:

- Level 1 - Quoted unadjusted prices for identical instruments in active markets to which the Clubs have access at the date of measurement.
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists, or in instances where prices vary substantially over time or among brokered market makers.
- Level 3 - Model derived valuations in which one or more significant inputs of significant value drivers are unobservable. Unobservable inputs are those inputs that reflect the Clubs' own assumptions that market participants would use to price the assets or liabilities based on the best available information.

Fair value measurement of all financial assets at December 31, 2017 and 2016 consisted of Level 1 investments at quoted prices in active markets for identical assets.

4. PROPERTY AND EQUIPMENT

Property and equipment purchased by the Clubs are recorded at cost. Donated items are recorded at fair value when received. Maintenance and repairs are charged to expense as incurred. Renewals and betterments are capitalized. Property and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 539,400	\$ 505,000
Buildings and improvements	6,291,809	6,250,808
Equipment	659,904	650,952
Furniture and fixtures	565,234	514,265
Vehicles	<u>213,768</u>	<u>213,768</u>
	8,270,115	8,134,793
Less: Accumulated depreciation	<u>(4,369,691)</u>	<u>(4,058,102)</u>
	<u>\$ 3,900,424</u>	<u>\$ 4,076,691</u>

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31:

	2017			
	Beginning Net Assets	Contributions & Investment Income	Net Assets Released from Restriction	Ending Net Assets
United Way	\$ 122,500	\$ 122,500	\$ (122,500)	\$ 122,500
Future programs	1,550,461	135,600	(848,449)	837,612
	<u>\$ 1,672,961</u>	<u>\$ 258,100</u>	<u>\$ (970,949)</u>	<u>\$ 960,112</u>
	2016			
	Beginning Net Assets	Contributions & Investment Income	Net Assets Released from Restriction	Ending Net Assets
United Way	\$ 122,500	\$ 122,500	\$ (122,500)	\$ 122,500
Future programs	1,543,835	505,833	(499,207)	1,550,461
	<u>\$ 1,666,335</u>	<u>\$ 628,333</u>	<u>\$ (621,707)</u>	<u>\$ 1,672,961</u>

6. ENDOWMENT DISCLOSURES

The Clubs' endowment funds consist of a board designated fund and three donor restricted funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board designated fund is unrestricted, but intended for the long term support of the Clubs. All income and principal may be expended upon approval of the Board.

The Leff and O'Neil permanently restricted funds are composed of contributions whereby the principal must remain intact while the income thereon may be used in general operations.

The board designated fund, the Leff fund and the O'Neil fund are invested in a pooled account. Under current law and GAAP, all income in the fund is considered unrestricted.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. ENDOWMENT DISCLOSURES (continued)

The GAR permanently restricted fund is required to be held in a separate trust account. In accordance with the terms of the gift instrument, interest and dividends may be expended each year. In addition, up to one half of the net appreciation, realized and unrealized, may be expended. Funds not expended shall be added to the principal of the fund. There is no restriction on the income once it is expended. The grantee is required to annually furnish a Certification of Compliance to the GAR Foundation certifying compliance with these requirements and the value of the fund. The Clubs did not withdraw any net income or take any distributions during the years ended December 31, 2017 and 2016.

Interpretation of Relevant Law

Management of the Clubs has interpreted the State of Ohio's enacted version of the Uniform Prudent Management of Institutional Fund Act (UPMIFA) as providing generally that the Clubs may appropriate for expenditure or accumulate so much of an endowment fund as the Clubs determine is prudent for the uses, benefits, purposes, and duration for which an endowment fund is established, subject to the intent of the donor expressed in the gift instrument. As a result of this interpretation, the Clubs classify as permanently restricted net assets (a) the original value of the 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 instruments 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 Clubs in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with 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 purpose of the Clubs 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 appreciation of investments
- (6) Other resources of the Clubs
- (7) The investment policies of the Clubs

Spending Policy

The Clubs follow a policy of distributing net appreciation in excess of 4% collected over a three-year average period of returns.

Other distributions from the Board designated funds are permitted in certain circumstances.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. ENDOWMENT DISCLOSURES (continued)

Changes in Endowment Net Assets

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets – January 1, 2016	\$ 1,080,265	\$ 660,921	\$ 1,741,186
Investment gain:			
Interest and dividends	30,075	-	30,075
Investment fees	(14,976)	-	(14,976)
Realized gains	(2,167)	(1,535)	(3,702)
Unrealized gains	48,676	32,929	81,605
Total investment gain	<u>61,608</u>	<u>31,394</u>	<u>93,002</u>
Distributions to operating under spending policy	<u>(62,707)</u>	<u>-</u>	<u>(62,707)</u>
Contributions	<u>7,000</u>	<u>-</u>	<u>7,000</u>
Endowment net assets – December 31, 2016	<u>\$ 1,086,166</u>	<u>\$ 692,315</u>	<u>\$ 1,778,481</u>
Investment gain:			
Interest and dividends	30,309	-	30,309
Investment fees	(16,302)	-	(16,302)
Realized gains	17,765	12,681	30,446
Unrealized gains	91,041	64,886	155,927
Total investment gain	<u>122,813</u>	<u>77,567</u>	<u>200,380</u>
Distributions to operating under spending policy	<u>(66,053)</u>	<u>-</u>	<u>(66,053)</u>
Contributions	<u>12,000</u>	<u>11,500</u>	<u>23,500</u>
Endowment net assets – December 31, 2017	<u>\$ 1,154,926</u>	<u>\$ 781,382</u>	<u>\$ 1,936,308</u>

7. LINE OF CREDIT

The Clubs have a line of credit which allows for borrowings up to \$400,000. The line of credit is collateralized by substantially all equipment of the Clubs. The line of credit bears interest at prime less 0.5% (4.0% and 3.25% at December 31, 2017 and 2016, respectively). There were no amounts outstanding under this agreement at December 31, 2017 and 2016.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. LEASES

The Clubs have a lease agreement involving one Club site. In addition, the Clubs maintain other operating lease agreements for Club sites and office equipment that expire through 2020.

Lease expense for the years ended December 31, 2017 and 2016, was \$63,064 and \$62,283, respectively.

Minimum future lease payments as of December 31, 2017 are as follows:

<u>YEAR ENDING DECEMBER 31,</u>	
2018	\$ 24,366
2019	23,166
2020	<u>17,612</u>
	<u>\$ 65,144</u>

9. SPECIAL EVENTS

The Clubs conduct several fundraising events during the year. Revenue and expenses related to these events for the years ended December 31, 2017 and 2016 are as follows:

	2017		
	Revenue	Expense	Net
Race for Kids	\$ 216,851	\$ 21,942	\$ 194,909
Taco Bell Golf Classic	<u>96,450</u>	<u>82,220</u>	<u>14,230</u>
	<u>\$ 313,301</u>	<u>\$ 104,162</u>	<u>\$ 209,139</u>
	2016		
	Revenue	Expense	Net
Shazam	\$ 9,500	\$ -	\$ 9,500
Race for Kids	174,454	14,962	159,492
Taco Bell Golf Classic	78,475	61,572	16,903
Miscellaneous events	<u>7,566</u>	<u>2,402</u>	<u>5,164</u>
	<u>\$ 269,995</u>	<u>\$ 78,936</u>	<u>\$ 191,059</u>

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. RETIREMENT PLAN

The Clubs participate in the Pension Trust of Boys & Girls Clubs of America (the Plan). The Plan is a money purchase plan. Employer contributions are 6% of employee compensation. The Plan provides that employees become eligible on January 1 or July 1 of each year after attaining age 21 and completing one year of service with the following vesting schedule:

<u>Years of Service</u>	<u>Vested Percentage</u>
2	20%
3	40%
4	60%
5	80%
6	100%

Contributions to this Plan for the years ended December 31, 2017 and 2016 were \$117,624 and \$106,904, respectively.

11. LIFE INSURANCE

The Clubs have donated life insurance policies for which it is named the beneficiary. The Clubs will receive the cash surrender value if the policies are terminated or will receive all benefits payable upon the death of the insured. The Clubs do not pay any premiums on the policies.

The face amounts of the insurance policies at December 31, 2017 and 2016 totaled \$191,650 and \$192,909, respectively.

The cash surrender values of the insurance policies at December 31, 2017 and 2016 totaled \$74,455 and \$72,785, respectively.

12. HEIGHTS YOUTH CLUB

The Clubs had an operating agreement with Heights Youth Club, Inc. (HYC) that began on September 1, 2006 and expired on August 16, 2016, but had continued on a month to month basis. The Club decided to eliminate programming at HYC effective May 31, 2018. The intent of the agreement was for HYC to raise funds to purchase, renovate and maintain its building and operate the Clubs' programs at the facility. HYC purchased and renovated the facility in 2006 and 2007 and the Club opened in January 2007. Funds raised by HYC were deposited with the Clubs as a charitable contribution and the Clubs maintained a separate bank account for these funds. Operating expenses were paid by the Clubs on behalf of HYC, offset in part by using the funds deposited in the HYC bank account. HYC operating expenses paid by the Clubs totaled \$329,103 and \$299,717 during the years ended December 31, 2017 and 2016, respectively, of which \$60,000 and \$91,800 was covered by funds donated by HYC each year, respectively.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. SAVE OUR KIDS CAMPAIGN

In 2011, the Clubs commenced the Save Our Kids Campaign (the "Campaign"). The goal of the Campaign was to raise \$16.5 million over five years to enable the Clubs to increase services provided to children in the community. Funds generated by the Campaign will be used to increase operating hours from 20 hours per week to 29 hours per week, increase the number of clubs from 11 to 18, and increase average daily attendance from 550 kids per day to 2,000 kids per day.

Through December 31, 2017, the Clubs recognized Campaign donations and pledges of \$8.38 million, of which \$7.88 million had been collected. As of December 31, 2017 the Clubs also received additional Campaign pledges of \$3.48 million of in-kind support, planned gifts, and renewable grants that will be recognized, when appropriate, in accordance with GAAP. During 2017, \$841,184 in Campaign funds were used to fund expanded operations. In addition, operating hours were approximately 24 hours per week and average daily attendance was 971 kids per day. There were 16 sites in operation at the end of 2017.

14. DISPOSITION OF MT. PLEASANT AND WESTSIDE CLUBS

During 2015, Management and the Board of Directors made the decision to close two free standing club sites, and recorded an impairment of \$341,674. The programs conducted at those two facilities were transitioned to school buildings, close in proximity to the closed locations, as the Clubs are still serving those neighborhoods. During 2016, the two locations were closed and the assets were disposed. The Clubs wrote off the remaining costs of \$17,384 during the year ended December 31, 2016.

15. NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the year ending December 31, 2019. The Clubs are currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. NEW ACCOUNTING PRONOUNCEMENTS (continued)

In August 2016, the FASB issued Accounting Standards Update (“ASU”), 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amended guidance requires a Not-for-Profit (NFP) to present on the face of the statement of financial position amounts for two classes of net assets rather than the currently required three classes. The amendments also enhance disclosures about the amount and purposes of board designations, appropriations, and similar actions and qualitative and quantitative information that communicates how an NFP manages its liquid resources available to meet cash needs within one year of the balance sheet date. Additional disclosures are required surrounding the amounts of expenses by both their natural classification and their functional classification and the method(s) used to allocate costs among program and support functions. The effective date for this ASU is for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Clubs have not yet adopted this standard and are currently evaluating the impact of adopting this guidance.

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*. The ASU requires all leases with terms more than 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. This ASU will be effective for the Clubs for the year ending December 31, 2020. The Clubs are currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

ASSETS

	BGCC	PEACEMAKERS	ELIMINATIONS	TOTAL
CURRENT ASSETS				
Cash and cash equivalents	\$ 517,449	\$ 439,851	\$ -	\$ 957,300
Investments	1,899,051	-	-	1,899,051
Accounts receivable, subsidiary	35,000	-	(35,000)	-
Pledges receivable	388,357	-	-	388,357
Grants receivable	232,375	-	-	232,375
Prepaid expenses	56,183	2,875	-	59,058
	<u>3,128,415</u>	<u>442,726</u>	<u>(35,000)</u>	<u>3,536,141</u>
LONG-TERM ASSETS				
Cash surrender value of life insurance	74,455	-	-	74,455
Pledges receivable - net	104,969	-	-	104,969
Property and equipment - net	3,900,424	-	-	3,900,424
	<u>4,079,848</u>	<u>-</u>	<u>-</u>	<u>4,079,848</u>
	<u>\$ 7,208,263</u>	<u>\$ 442,726</u>	<u>\$ (35,000)</u>	<u>\$ 7,615,989</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 159,051	\$ 59,943	\$ (35,000)	\$ 183,994
Accrued expenses	99,440	27,082	-	126,522
	<u>258,491</u>	<u>87,025</u>	<u>(35,000)</u>	<u>310,516</u>
NET ASSETS				
Unrestricted				
Operating	4,188,952	220,101	-	4,409,053
Board designated	1,154,926	-	-	1,154,926
Total unrestricted	<u>5,343,878</u>	<u>220,101</u>	<u>-</u>	<u>5,563,979</u>
Temporarily restricted	824,512	135,600	-	960,112
Permanently restricted	781,382	-	-	781,382
	<u>6,949,772</u>	<u>355,701</u>	<u>-</u>	<u>7,305,473</u>
	<u>\$ 7,208,263</u>	<u>\$ 442,726</u>	<u>\$ (35,000)</u>	<u>\$ 7,615,989</u>

See the Independent Auditors' Report.

BOYS & GIRLS CLUBS OF CLEVELAND AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	<u>BGCC</u>	<u>PEACEMAKERS</u>	<u>ELIMINATIONS</u>	<u>TOTAL</u>
SUPPORT AND REVENUE				
Contributions and grants:				
Individuals	\$ 529,973	\$ 21,872	\$ -	\$ 551,845
Foundations	2,096,050	1,347,700	-	3,443,750
Corporations	278,436	-	-	278,436
Heights Youth Club	30,000	-	-	30,000
Clubs and organizations	8,350	-	-	8,350
Government grants	295,614	-	-	295,614
United Way services	515,844	37,500	-	553,344
Special events - net	209,139	-	-	209,139
Other income	130,991	6,973	(75,000)	62,964
Governmental in-kind	39,549	-	-	39,549
Program fees	5,271	-	-	5,271
Investment income	200,821	-	-	200,821
Total support and revenue	<u>4,340,038</u>	<u>1,414,045</u>	<u>(75,000)</u>	<u>5,679,083</u>
Expenses before depreciation:				
Program	4,001,014	971,321	-	4,972,335
Fundraising and development	607,323	50,000	(50,000)	607,323
General and administrative	467,998	25,000	(25,000)	467,998
Total expenses before depreciation	<u>5,076,335</u>	<u>1,046,321</u>	<u>(75,000)</u>	<u>6,047,656</u>
Change in net assets before depreciation	<u>(736,297)</u>	<u>367,724</u>	<u>-</u>	<u>(368,573)</u>
Depreciation expenses:				
Program	275,589	-	-	275,589
Fundraising and development	18,000	-	-	18,000
General and administrative	18,000	-	-	18,000
Total depreciation expenses	<u>311,589</u>	<u>-</u>	<u>-</u>	<u>311,589</u>
Change in net assets	<u>\$ (1,047,886)</u>	<u>\$ 367,724</u>	<u>\$ -</u>	<u>\$ (680,162)</u>

See the Independent Auditors' Report.