

Boys and Girls Clubs of Metro Denver, Inc.

Financial Statements

September 30, 2017

With Comparative Totals for September 30, 2016

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Independent Auditor's Report

Board of Directors Boys and Girls Clubs of Metro Denver, Inc:

We have audited the accompanying financial statements of the Boys and Girls Clubs of Metro Denver, Inc., which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, 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. 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 opinion.

**Board of Directors
Boys and Girls Clubs of Metro Denver, Inc.**

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys and Girls Clubs of Metro Denver, Inc. as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Boys and Girls Clubs of Metro Denver, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kuendinger, Corder & Engle, P.C.

January 16, 2018

Boys and Girls Clubs of Metro Denver, Inc.
Statement of Financial Position
September 30, 2017
(With Summarized Information for September 30, 2016)

	2017	2016
Assets:		
Cash and cash equivalents	\$ 2,552,358	2,504,777
Contributions and grants receivable, net (notes 2 and 7)	1,758,550	1,578,015
Prepaid expenses and other assets	27,897	27,897
Investments (notes 3, 4, and 7)	20,030,553	18,228,237
Cash restricted for investment in property and equipment	-	39,626
Cash and other assets restricted for investment in endowment (note 8)	62,000	62,000
Property and equipment, net (note 5)	20,481,132	20,561,610
Land lease deposit (note 11)	235,000	237,500
Interest in the net assets of the Boys and Girls Clubs of Metro Denver Foundation (notes 7 and 10)	7,690,598	7,225,830
Total assets	\$ 52,838,088	50,465,492
Liabilities and Net Assets:		
Accounts payable	\$ 388,024	632,998
Accrued expenses	807,455	739,648
Deferred revenue	542,547	506,087
Bond payable (note 6)	1,000,000	1,000,000
Total liabilities	2,738,026	2,878,733
Net assets (notes 7, 8, and 10):		
Unrestricted:		
Property and equipment	20,481,132	20,561,610
Undesignated	5,341,476	5,482,503
Designated	600,000	500,000
Total unrestricted net assets	26,422,608	26,044,113
Temporarily restricted (including net assets of the Boys and Girls Clubs of Metro Denver Foundation of \$5,753,293)	10,822,513	10,450,257
Permanently restricted (including net assets of the Boys and Girls Clubs of Metro Denver Foundation of \$1,937,305)	12,854,941	11,092,389
Total net assets	50,100,062	47,586,759
Commitments (note 9)		
Total liabilities and net assets	\$ 52,838,088	50,465,492

See the accompanying notes to the financial statements.

Boys and Girls Clubs of Metro Denver, Inc.
Statement of Activities
Year Ended September 30, 2017
(With Summarized Information for the Year Ended September 30, 2016)

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue, gains and support:					
Contributions and grants:					
Private/Local	\$ 3,298,922	2,099,070	1,136,890	6,534,882	5,141,939
Boys and Girls Clubs of Metro Denver Foundation (note 10)	345,000	-	-	345,000	350,000
Federal and state	3,364,060	-	-	3,364,060	2,922,725
Donated goods, services and facilities	1,770,157	-	-	1,770,157	2,697,946
Raffle revenue	4,230,315	-	-	4,230,315	6,217,490
Raffle prizes	(1,420,485)	-	-	(1,420,485)	(2,465,199)
Special events revenue	3,359,409	-	-	3,359,409	2,853,785
Less direct expenses	(987,670)	-	-	(987,670)	(725,676)
Program fees	5,230	-	-	5,230	4,551
Membership fees	14,151	-	-	14,151	9,580
Investment return (note 3)	463,231	253,338	950,240	1,666,809	818,654
Other income	184,613	-	-	184,613	168,333
Net assets released for:					
Capital expenditures	547,531	(547,531)	-	-	-
Program expenditures	2,221,967	(1,897,389)	(324,578)	-	-
Total revenue, gains, and support	<u>17,396,431</u>	<u>(92,512)</u>	<u>1,762,552</u>	<u>19,066,471</u>	<u>17,994,128</u>
Expenses:					
Compensation	8,999,907	-	-	8,999,907	8,714,992
Professional services	1,538,305	-	-	1,538,305	1,657,651
Tony Grampas Youth Services	278,613	-	-	278,613	377,088
Colorado Alliance Grant	473,168	-	-	473,168	620,247
Colorado Tobacco Grant	499,268	-	-	499,268	534,170
Supplies	1,156,348	-	-	1,156,348	1,904,487
Occupancy	1,211,713	-	-	1,211,713	1,286,802
Communications	316,746	-	-	316,746	328,249
Travel and transportation	233,331	-	-	233,331	202,876
Scholarships	25,131	-	-	25,131	19,520
Food service	664,945	-	-	664,945	672,966
Insurance	178,171	-	-	178,171	180,482
Special events expense	152,697	-	-	152,697	223,590
Other	273,449	-	-	273,449	552,601
Total expenses before depreciation	<u>16,001,792</u>	<u>-</u>	<u>-</u>	<u>16,001,792</u>	<u>17,275,721</u>
Change in net assets before depreciation expense and the change in net assets of Foundation					
	1,394,639	(92,512)	1,762,552	3,064,679	718,407
Depreciation expense	(1,016,144)	-	-	(1,016,144)	(1,057,750)
Change in net assets held by Foundation	-	464,768	-	464,768	(452,871)
Change in net assets	<u>378,495</u>	<u>372,256</u>	<u>1,762,552</u>	<u>2,513,303</u>	<u>(792,214)</u>
Net assets, beginning of year	<u>26,044,113</u>	<u>10,450,257</u>	<u>11,092,389</u>	<u>47,586,759</u>	<u>48,378,973</u>
Net assets, end of year	<u>\$ 26,422,608</u>	<u>10,822,513</u>	<u>12,854,941</u>	<u>50,100,062</u>	<u>47,586,759</u>

See the accompanying notes to the financial statements.

Boys and Girls Clubs of Metro Denver, Inc.
Statement of Functional Expenses
Year Ended September 30, 2017
(With Summarized Information for the Year Ended September 30, 2016)

	Program Services				Support Services			2016 Total Expenses	2017 Total Expenses
	Education and Career Development	Character & Leadership	Health and Life Skills	Total	Management and General	Resource Development	Raffle		
Expenses:									
Compensation	\$ 2,225,087	2,176,353	2,771,786	7,173,226	1,054,052	772,629	-	1,826,681	8,999,907
Professional services	147,658	145,267	236,685	529,610	144,528	149,770	714,397	1,008,695	1,538,305
Tony Grampas									
Youth Services	278,613	-	-	278,613	-	-	-	-	278,613
Alliance grant	473,168	-	-	473,168	-	-	-	-	473,168
Tobacco grant	499,268	-	-	499,268	-	-	-	-	499,268
Supplies	299,339	292,070	432,321	1,023,730	24,145	108,473	-	132,618	1,156,348
Occupancy	372,236	362,131	407,396	1,141,763	36,164	33,786	-	69,950	1,211,713
Communications	19,609	19,133	28,591	67,333	20,007	19,548	209,858	249,413	316,746
Travel and transportation	62,557	60,917	80,720	204,194	25,843	3,294	-	29,137	233,331
Scholarships	25,131	-	-	25,131	-	-	-	-	25,131
Special events	-	-	-	-	-	1,140,367	-	1,140,367	1,140,367
Raffle prizes	-	-	-	-	-	-	1,420,485	1,420,485	1,420,485
Food service	190,028	185,434	260,111	635,573	13,735	15,637	-	29,372	664,945
Insurance	49,430	48,271	69,689	167,390	10,781	-	-	10,781	178,171
Other	9,268	9,050	11,323	29,641	101,561	21,230	121,017	243,808	273,449
Depreciation	319,298	116,569	529,595	965,462	50,682	-	-	50,682	1,016,144
Total expenses	4,970,690	3,415,195	4,828,217	13,214,102	1,481,498	2,264,734	2,465,757	6,211,989	19,426,091
Expenses netted against revenue -	-	-	-	-	-	(987,670)	-	(987,670)	(987,670)
Special events	-	-	-	-	-	-	(1,420,485)	(1,420,485)	(1,420,485)
Raffle prizes	-	-	-	-	-	-	1,045,272	3,803,834	17,017,936
Net expenses	\$ 4,970,690	3,415,195	4,828,217	13,214,102	1,481,498	1,277,064	1,045,272	3,803,834	17,017,936
									21,524,346
									202,876
									19,520
									949,266
									2,465,199
									672,966
									180,482
									552,601
									1,057,750
									(725,676)
									(2,465,199)
									18,333,471

See the accompanying notes to the financial statements.

Boys and Girls Clubs of Metro Denver, Inc.
Statement of Cash Flows
Year Ended September 30, 2017
(With Summarized Information for the Year Ended September 30, 2016)

	2017	2016
Cash flows from operating activities:		
Contributions and grants	\$ 8,470,667	8,114,256
Special events	3,395,869	1,666,922
Raffle activities	4,230,315	6,217,490
Program service fees	5,230	4,551
Membership fees	14,151	9,580
Investment and other income	540,646	332,363
Cash paid to suppliers and employees	(16,816,957)	(17,918,455)
Net cash used in operating activities	(160,079)	(1,573,293)
Cash flows from investing activities:		
Purchase of property and equipment	(933,166)	(293,262)
Net sales of investments	645,350	22,705
Net cash used for long term purposes	39,626	3,752
Net cash used in investing activities	(248,190)	(266,805)
Cash flows from financing activities:		
Contributions restricted for long term purposes	455,850	432,598
Net cash provided by financing activities	455,850	432,598
Net increase (decrease) in cash and cash equivalents	47,581	(1,407,500)
Cash and cash equivalents, beginning of year	2,504,777	3,912,277
Cash and cash equivalents, end of year	\$ 2,552,358	2,504,777
Noncash financing transaction:		
Contribution of notes receivable and other assets restricted for endowment	\$ 1,136,890	-

(Continued)

Boys and Girls Clubs of Metro Denver, Inc.
Statement of Cash Flows, Continued
Year Ended September 30, 2017
(With Summarized Information for the Year Ended September 30, 2016)

	<u>2017</u>	<u>2016</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 2,513,303	(792,214)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in net assets held by Foundation	(464,768)	452,871
Depreciation	1,013,644	1,057,750
Amortization of land lease	2,500	2,500
Realized and unrealized gain on investments	(1,310,776)	(654,624)
Contributions restricted for investment in long-lived assets	(1,592,740)	(382,095)
(Increase) decrease in operating assets:		
Contributions and grants receivable	(180,535)	81,687
Prepaid expenses and other assets	-	19,662
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(177,167)	(171,967)
Deferred revenue	36,460	(1,186,863)
Net cash used in operating activities	<u>\$ (160,079)</u>	<u>(1,573,293)</u>

See the accompanying notes to the financial statements.

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements

September 30, 2017

(1) Summary of Significant Accounting Policies

(a) General

Boys and Girls Clubs of Metro Denver, Inc. (BGCMD) is a non-profit Colorado corporation that provides young people, ages 6 – 18, with quality programming during their out-of-school hours (after school, summer, weekends, and school breaks) and offers activities and services to address the needs of the whole child and their family. The programming offered through BGCMD helps youth each year achieve academic success, live healthy lifestyles, and develop good character and leadership skills. The organization operates fifteen neighborhood centers serving youth and families, and residential summer camp. Nine locations are freestanding Clubs and six locations are school-based clubs. BGCMD members participate in the following program areas:

Character and Leadership:

Developing good character and demonstrating leadership skills are critical for young people to succeed in school and in life. BGCMD's Character & Leadership programs challenge kids to be community-minded, and empower them by demonstrating how they can affect change by working together.

Keystone Clubs are Boys & Girls Clubs' most dynamic teen program. These chartered small-group leadership and service clubs are for boys and girls ages 14-18, with activities focused in six areas: service to Club and community, leadership development, education and career exploration, unity, free enterprise, and social recreation.

Torch Clubs are small-group leadership and service clubs for boys and girls ages 11-13 focusing on character development. Torch Clubs are focused on four areas: service to Club and community, education, health and fitness, and social recreation.

Youth of the Year (YOY) is a recognition and awards program that acknowledges outstanding members in the Clubs. The YOY program helps young people develop their leadership and communication skills through an extensive application and interview process that is held during the annual competition. Junior (10-13 years old) and Senior (14-18 years old) Youths of the Month can compete at a Club and City level. Senior winners can advance to the state, regional, and national competition. Youth of the Year is Boys & Girls Clubs highest honor.

Youth for Unity is a diversity education program designed to combat prejudice and intolerance.

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements (Continued)

(1) Summary of Significant Accounting Policies (Continued)

(a) General, Continued

Education and Career Development:

Education and career development enables youth to become proficient in basic educational disciplines, apply learning to everyday situations and learn skills to achieve success in a career. BGCMD staff use all the areas in the BGCMD to create opportunities for high-yield learning activities, including leisure reading, writing activities, discussions with knowledgeable adults, helping others, homework help, tutoring and games like Scrabble that develop cognitive skills. BGCMD also emphasizes parent involvement and collaboration between staff and school professionals as critical factors in creating the best after-school learning environment possible.

Health and Life Skills:

BGCMD focuses on health and life skills programming for all BGCMD members by educating young people that informed decisions about health and social issues can mean the difference between a life with limited options, and a life filled with hope. Programs include drug, alcohol, tobacco and early onset sexual activity prevention, positive decision making, healthy habits, exercise, nutrition, diversity, gender specific issues, and conflict resolution.

Outdoor education brings the philosophies learned at Gates Camp back to metro Denver. Outdoor education programming seeks to expose Club members to the resources available to them in urban and wilderness environments through experiential learning activities. Activities such as outdoor rock climbing, snowboarding, skiing, snowshoeing, ice-skating, camping, geocaching, fishing, mountain biking, rafting, and hands-on educational experiences heighten participants' awareness of outdoor activities and resources available to them not only in their Club neighborhoods, but in the great Colorado wilderness.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

Information regarding the financial position and activities of BGCMD is reported according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements (Continued)

(1) Summary of Significant Accounting Policies (Continued)

(d) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

(e) Contributions and Grants Receivable

Unconditional contributions receivable are recognized as revenues in the period the pledge is received. Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Receivables deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. Conditional contributions receivable are recognized as revenues when the conditions on which they depend are substantially met.

(f) Cash and Cash Equivalents

BGCMD considers all highly liquid investments with an original maturity of three months or less, and which are not held by investment managers as a part of an investment portfolio, to be cash equivalents.

(g) Investments

Investments are reported at fair value. Fair value is determined as more fully described under the fair value measurements policy in note 4. In general, investments in marketable equity and fixed income securities with readily determinable market values are reported at fair value based upon quoted prices in active markets. The market value for investments held by the Boys and Girls Clubs of Metro Denver Foundation (the Foundation) on behalf of BGCMD represents BGCMD's pro-rata interest in the investment pool in which the Foundation is invested. The investment pool consists primarily of alternative investments and the market value is determined using the net asset value per share practical expedient method.

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements (Continued)

(1) Summary of Significant Accounting Policies (Continued)

(g) Investments, Continued

Alternative investments are not publicly traded on national security exchanges, are generally illiquid, and may be valued differently should readily available markets exist for such investments. Because of inherent uncertainties of the valuation of alternative investments, the recorded market values of such investments may differ significantly from realizable values. Management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable.

Investment income consists of the distributive share of any interest, dividends, capital gains and capital losses generated from investments, as well as the change in fair value of the investments. Gains and losses attributable to investments are realized and reported upon a sale or disposition of the investment. Unrealized gains and losses are included in the change in net assets in the statement of activities.

(h) Concentrations of Credit Risk

Financial instruments which potentially subject BGCMD to concentrations of credit risk consist of cash and temporary investments, and investments in equity securities and alternative assets. BGCMD places its cash and temporary investments with creditworthy, high quality financial institutions. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of BGCMD. At September 30, 2017, a portion of BGCMD's cash and temporary investments are not insured.

Credit risk with respect to receivables is limited due to the number and credit worthiness of the government entities, individuals and organizations from whom the amounts are due.

(i) Property and Equipment

Property and equipment is recorded at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives ranging from five to forty years. BGCMD capitalizes all fixed asset purchases over \$1,500 with an estimated useful life greater than one year.

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements (Continued)

(1) Summary of Significant Accounting Policies (Continued)

(j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) Donated Goods, Services and Facilities

During the year ended September 30, 2017, BGCMD received donated goods and materials with a fair market value totaling \$926,746. These donations are recorded as in-kind revenue and are reported as expenses in the following areas:

<u>Program:</u>	
Supplies, non-capitalized furniture and equipment	\$ 492,360
Food for Kid's Café and other programs	423,256
<u>Resource development:</u>	
Supplies, non-capitalized furniture and equipment	<u>11,130</u>
	\$ <u>926,746</u>

Contributed services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by BGCMD. During the year ended September 30, 2017, BGCMD received and recognized as revenue donated services totaling \$47,140. Contributed professional services have been recorded in the following expense categories:

Program	\$ 42,250
Resource development	390
General and administrative	<u>4,500</u>
	\$ <u>47,140</u>

BGCMD leases various facilities for use in its programs under no cost or below market value lease agreements. The estimated fair value of the free use of facilities under these lease agreements is \$796,271.

Many individuals volunteer their time and perform a variety of tasks that assist BGCMD with specific assistance programs and fund-raising events. No amounts have been reflected in the financial statements for these donated services since the volunteers' time does not meet the criteria for recognition under generally accepted accounting principles.

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements (Continued)

(1) Summary of Significant Accounting Policies (Continued)

(l) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(m) Advertising

BGCMD uses advertising to promote its fundraising efforts. The production costs of advertising are expensed as incurred. During the year ended September 30, 2017, BGCMD incurred advertising expense of \$335,400.

(n) Income Taxes

BGCMD is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction. Income from activities not directly related to its tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income during 2017.

Management is required to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements and determined there are none. BGCMD is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the organization is no longer subject to income tax examinations for years prior to September 30, 2014.

(o) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. BGCMD's financial statements were available to be issued on January 16, 2018 and this is the date through which subsequent events were evaluated.

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements (Continued)

(1) Summary of Significant Accounting Policies (Continued)

(p) Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with BGCMD's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

(2) Contributions and Grants Receivable

Contributions and grants receivable are comprised of the following:

Receivable from Boys and Girls Clubs of Metro Denver Foundation	\$ 345,000
Capital campaign contributions receivable	50,652
Federal, state and local grants receivable	1,044,109
Other contributions receivable	<u>320,319</u>
	1,760,080
Less allowance for doubtful accounts	<u>(1,530)</u>
Net contributions and grants receivable	<u>\$ 1,758,550</u>

All contributions and grants receivable are scheduled to be collected in one year.

During 2013, BGCMD received a \$1,842,807 conditional pledge to support the operating costs of the Bronco branch, indexed for inflation at a rate of 3% per year, which is being received in quarterly installments over a 5-year period. The pledge is conditioned upon the continued operating success of the Bronco branch. During the year ended September 30, 2017, BGCMD recognized \$382,131 of revenue because conditions of the pledge were met. The remaining balance of \$292,999 will be recognized as conditions are met.

During 2013, BGCMD received a \$500,000 conditional pledge to support the operating costs of the Churchill Owen branch, conditioned upon the continued success of the Owen branch. Payments were to be received in quarterly installments of \$25,000 over a 5-year period. During 2017, BGCMD recognized \$100,000 of revenue because conditions of the pledge were met. During the year ended September 30, 2017, the contract was extended through September 30, 2023 for an additional five years of support at \$100,000 a year. This \$500,000 pledge will be recognized as conditions are met.

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements (Continued)

(3) Investments

Investments consist of the following at September 30, 2017:

Equity mutual funds:	
Domestic	\$ 2,856,537
International	2,573,896
Bond funds	5,797,060
Index fund	2,564,970
Cash and money market	669,984
Certificates of deposit	34,472
Perpetual trust held by third party	157,991
Riverbend Fund, LLC	1,239,780
Investments held and managed by the Boys and Girls Clubs of Metro Denver Foundation	<u>4,135,863</u>
	\$ <u>20,030,553</u>

Investment return is comprised of the following for the year ended September 30, 2017:

Interest and dividend income	\$ 356,033
Realized and unrealized gain on investments	<u>1,310,776</u>
	\$ <u>1,666,809</u>

(4) Fair Value Measurements

BGCMD reports required types of financial instruments in accordance with fair value accounting standards. Fair value is 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. This standard requires an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. In addition, BGCMD reports certain investments using the net asset value per share as determined by the Foundation under the “practical expedient” method. The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value measurement standards require BGCMD to classify financial instruments, with the exception of those valued at net asset value per share, into a three-level hierarchy, based on the priority of inputs to the valuation technique.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 generally includes mutual funds, listed equities, listed derivatives, and cash.

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements (Continued)

(4) Fair Value Measurements (Continued)

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnership interests in private equity and real estate funds, funds of hedge funds, and distressed debt.

In certain cases, the inputs used to measure fair value may fall in to different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2 and 3) are intended to reflect the observability of the inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

The following table summarizes, with the exception of those investments valued using net asset value per share (or its equivalent), the valuation of BGCMD's investments by the above fair value hierarchy levels as of September 30, 2017:

	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Equity mutual funds	\$ 5,430,433	5,430,433	-	-
Bond funds	8,362,030	8,362,030	-	-
Cash and money market funds	669,984	669,984	-	-
Certificates of deposit	34,472	34,472	-	-
Perpetual trust	157,991	-	-	157,991
Riverbend Fund, LLC	1,239,780	-	1,239,780	-
Investments managed by the Foundation *	<u>4,135,863</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>20,030,553</u>	<u>14,496,919</u>	<u>1,239,780</u>	<u>157,991</u>

* The investments held by the Foundation are in a co-mingled investment pool with four other unrelated foundations. The balance in the investment pool at September 30, 2017 consists of alternative investments in the process of liquidation. Redemption periods are subject to the terms of the various agreements. The assets have been valued at net asset value per share.

All assets have been valued using a market approach. Fair values of assets in level 2 are based on the outstanding balance of mortgage notes and other assets held by the LLC, evaluated for collectability. Fair values for assets in level 3 are calculated using quoted market prices for similar assets in markets that are not active. There were no changes in the valuation techniques during the current year.

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements (Continued)

(4) Fair Value Measurements (Continued)

The changes in investments measured at fair value for which BGCMD has used Level 3 inputs to determine fair value are as follows:

	Balance 9/30/16	Interest Income	Gains/ Losses	Purchases	Distributions	Balance 9/30/17
Perpetual trust	\$ <u>150,149</u>	<u>6,456</u>	<u>7,842</u>	<u>-</u>	<u>(6,456)</u>	<u>157,991</u>

BGCMD's Level 3 investments consist of an interest in a perpetual trust held by a third party. BGCMD receives distributions from the perpetual trust, but has no rights to the principal.

Generally accepted accounting principles also require disclosure for Level 3 investments of the change in unrealized gain (loss) included in the change in net assets related to investments still held at the reporting date. At September 30, 2017, this was an unrealized gain of \$7,842.

(5) Property and Equipment

Property and equipment at September 30, 2017 consists of the following:

Land and improvements	\$ 984,365
Buildings and improvements	26,453,142
Furniture, equipment and vehicles	3,758,718
Other improvements	<u>76,632</u>
	31,272,857
Less accumulated depreciation	<u>(10,791,725)</u>
	\$ <u>20,481,132</u>

(6) Bond Payable

BGCMD issued a \$1,000,000 long-term investment bond to The Northern Trust Company on September 22, 2014. BGCMD pays interest on the bond at the rate of 1% per annum. The bond is payable in full on September 22, 2019, but will be automatically extended for an additional five years.

(7) Net Assets

Board designated net assets consist of \$500,000 for a capital replacement reserve, and \$100,000 for the Legacy Club. The reserves are included in unrestricted net assets in the accompanying financial statements.

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements (Continued)

(7) Net Assets (Continued)

Temporarily restricted net assets at September 30, 2017 consist of the following:

Cash on hand restricted for:	
Future periods or program expenditures	\$ 917,123
Scholarships	497,168
Contributions receivable restricted for:	
Future periods or program expenditures	312,339
Scholarships	6,450
Investments restricted for Johnson Club capital expenditures	2,839,914
Unappropriated earnings on the Wilfley Endowment Fund	496,226
Net assets held by Boys and Girls Clubs of Metro Denver Foundation (note 10)	<u>5,753,293</u>
	\$ <u>10,822,513</u>

Permanently restricted net assets consist of the following at September 30, 2017:

Anderson perpetual trust	\$ 157,991
Wilfley Endowment Fund	1,170,075
Shopneck Endowment Fund	1,239,780
Helen and Arthur E. Johnson Endowment Fund	8,349,790
Net assets held by Boys and Girls Clubs of Metro Denver Foundation (note 10)	<u>1,937,305</u>
	\$ <u>12,854,941</u>

The Anderson trust is held for BGCMD by the PNC Bank of New England. The earnings of the trust are restricted to use for scholarships based on merit and need; unrealized gains and losses are permanently restricted. Distributions from the Trust during fiscal year 2017 were \$6,456.

The Wilfley Endowment Fund is held by BGCMD Foundation. The earnings are restricted for general operating expenses of the Wilfley branch of BGCMD facilities. Distributions are made in accordance with BGCMD's distribution policies.

The Shopneck Endowment Fund consists of mortgage notes receivable and other assets held by the Riverbend Fund, LLC. All earnings and contributions will be used to support operations of the Robert M. Shopneck Boys & Girls Club in Brighton, Colorado. All principal and interest earned during the first ten years from the date of the agreement will be used to increase the value of the fund. No distributions are allowed within the first ten years.

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements (Continued)

(7) Net Assets (Continued)

The Helen and Arthur E. Johnson Endowment Fund (the Fund) was established to support the general operations of the current Arthur E. Johnson Boys and Girls Club or a new facility that replaces the current Arthur E. Johnson Boys and Girls Club. The Fund is subject to BGCMD's endowment and distribution policies. Distributions may be made from the Fund without regard to the actual income or historic dollar value of the Fund.

(8) Endowment

BGCMD follows the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). BGCMD has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, BGCMD 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. 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 Board in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, BGCMD considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of BGCMD and the donor-restricted endowment funds
- (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 BGCMD resources
- (7) The investment policies of BGCMD.

Endowment funds consist of the following at September 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Wilfley Endowment Fund	\$ -	496,226	1,170,075	1,666,301
Shopneck Endowment Fund	-	-	1,239,780	1,239,780
Helen and Arthur E. Johnson Endowment Fund	-	-	8,349,790	8,349,790
Total	\$ -	496,226	10,759,645	11,255,871

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements (Continued)

(8) Endowment (Continued)

Following are the changes in the endowment net assets for the year ended September 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	334,605	9,005,279	9,339,884
Contributions	-	-	1,136,890	1,136,890
Investment return:				
Investment income	-	-	193,287	193,287
Net appreciation (realized and unrealized)	-	<u>209,121</u>	<u>748,767</u>	<u>957,888</u>
Total investment return	<u>-</u>	<u>209,121</u>	<u>942,054</u>	<u>1,151,175</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(47,500)</u>	<u>(324,578)</u>	<u>(372,078)</u>
Endowment net assets, end of year	\$ <u>-</u>	<u>496,226</u>	<u>10,759,645</u>	<u>11,255,871</u>

Endowment assets include the value of a life insurance policy and cash which totaled \$60,000 and \$2,000, respectively, as of September 30, 2017. These assets are included in “cash and other assets restricted for investment in endowment” in the accompanying financial statements.

Endowment assets also include notes receivable and other assets with totaled \$1,141,748 and \$98,032, respectively, as of September 30, 2017. These assets are included in “notes receivable and other assets restricted for investment in endowment” in the accompanying financial statements.

Return Objectives and Risk Parameters

BGCMD has adopted investment and spending policies for endowment assets that attempt to provide a reasonable, predictable, stable and sustainable level of income that supports current needs and provides for growth in assets and income over time.

Strategies Employed for Achieving Objectives

To satisfy its objectives, BGCMD 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).

Distribution Policy and How the Investment Objectives Relate to Distribution Policy

Distributions are based on BGCMD’s policy of appropriating for distribution each year 4.5% of the three year calendar year-end average fair market value of the fund. In establishing the distribution policy, management considered the long-term expected return on its endowment. Accordingly, over the long term, management expects the current spending policy to allow its endowment to grow at an average of 5% annually. This is consistent with the objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Boys and Girls Clubs of Metro Denver, Inc.

Notes to Financial Statements (Continued)

(9) Employee Benefit Plan

BGCMD has a tax sheltered annuity retirement plan covering all full-time employees. Employees are eligible for the plan after completing one year of service. Employees may voluntarily contribute the maximum allowable by the Internal Revenue Code. BGCMD makes a safe harbor contribution of 3% of the annual salaries of eligible participants and a discretionary matching contribution equal to a percentage of the participant's elective deferral, not to exceed 6% of eligible compensation. Participants are immediately vested in their pre-tax contributions and the employer's safe harbor contributions, plus actual earnings thereon. Vesting in the employer's matching contributions is based on years of service. A participant is 33% vested after one year of credited service, 67% vested after two years of credited service, and 100% vested after three years of credited service. Contributions to the plan during fiscal year 2017 were \$340,477.

(10) Boys and Girls Clubs of Metro Denver Foundation

The Boys and Girls Clubs of Metro Denver Foundation (the Foundation) is a separate, tax exempt Colorado nonprofit organization established in 1983 with the transfer to the Foundation of certain assets of BGCMD. The Foundation was formed to benefit the activities and operations of BGCMD or other organizations designated by BGCMD as furthering its purposes and objectives. The Foundation is governed by a separate board of directors, the majority of whom are not members of BGCMD's board. Effective January 1, 2017, the Foundation changed its year-end from December 31 to September 30. Accordingly, the change in net assets held by the Foundation is for the nine-month period ended September 30, 2017.

BGCMD follows the *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* standard of accounting. This standard requires a beneficiary organization, such as BGCMD, to report in its financial statements assets held for its benefit by an endowment organization, such as the Foundation, and to adjust its interest in such assets for the changes in net assets held by the Foundation, notwithstanding that BGCMD has no legal claim to such assets unless the Foundation distributes such assets to BGCMD. At September 30, 2017, the net assets of the Foundation were \$7,690,598.

During the year ended September 30, 2017, BGCMD received a commitment from the Foundation for an unrestricted contribution totaling \$345,000 based on a formula established by the Foundation. The amount is included in contributions and grants receivable at September 30, 2017 and was received by BGCMD subsequent to year-end.

(11) Land Lease

BGCMD has a 99-year land lease for the site of the Nancy P. Anschutz Center. The lease was paid in advance in the amount of \$245,000 and is being amortized over 99 years. The balance of the lease deposit was \$235,000 at September 30, 2017. The lease can be renewed for an additional 99 years with annual payments of \$3,000.