

ASSOCIATED RECREATION COUNCIL

FINANCIAL REPORT

DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Associated Recreation Council
Seattle, Washington

We have audited the accompanying financial statements of Associated Recreation Council ("ARC"), which comprise of the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, change in net assets, and cash flows for the years 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; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 ARC'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 ARC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Associated Recreation Council as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Peterson Sullivan LLP

April 30, 2013

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 1,035,702	\$ 1,395,763
Investments	4,732,297	3,652,805
Receivables	431,910	596,911
Prepaid expenses	50,252	11,552
Total current assets	<u>\$ 6,250,161</u>	<u>\$ 5,657,031</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 986,636	\$ 983,269
Deferred revenue	649,527	590,457
Total current liabilities	1,636,163	1,573,726
Net Assets		
Unrestricted	4,146,842	3,575,232
Temporarily restricted	467,156	508,073
Total net assets	<u>4,613,998</u>	<u>4,083,305</u>
Total liabilities and net assets	<u>\$ 6,250,161</u>	<u>\$ 5,657,031</u>

See Notes to Financial Statements

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2012 and 2011

	2012	2011
Unrestricted Net Assets		
Support and revenue		
Class fees	\$ 9,352,675	\$ 8,828,167
Sports fees	321,451	511,875
Less scholarships and refunds	(284,518)	(126,691)
Fundraising events	548,502	508,348
Grants	494,649	399,262
Donations	138,168	102,909
Retail sales	111,518	90,603
Print shop proceeds	78,085	66,530
Miscellaneous	140,324	98,556
Facility rental fees	41,605	12,034
Investment income	178,174	8,697
Net assets released from restrictions	901,125	1,150,393
Total support and revenue	12,021,758	11,650,683
Expenses		
Program	10,651,655	10,163,618
Management and general	663,821	928,458
Fundraising	134,672	118,474
Total expenses	11,450,148	11,210,550
Change in unrestricted net assets	571,610	440,133
Temporarily Restricted Net Assets		
Support and revenue		
Grants	726,911	623,183
Donations	111,754	110,351
Other	21,543	(7,404)
Net assets released from restrictions	(901,125)	(1,150,393)
Change in temporarily restricted net assets	(40,917)	(424,263)
Change in Net Assets	530,693	15,870
Net Assets, beginning of year	4,083,305	4,067,435
Net Assets, end of year	\$ 4,613,998	\$ 4,083,305

See Notes to Financial Statements

ASSOCIATED RECREATION COUNCIL

STATEMENT OF CHANGES IN NET ASSETS

For the Years Ended December 31, 2012 and 2011

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Total</u>
Balance, December 31, 2010	\$ 3,135,099	\$ 932,336	\$ 4,067,435
Change in net assets	<u>440,133</u>	<u>(424,263)</u>	<u>15,870</u>
Balance, December 31, 2011	3,575,232	508,073	4,083,305
Change in net assets	<u>571,610</u>	<u>(40,917)</u>	<u>530,693</u>
Balance, December 31, 2012	<u>\$ 4,146,842</u>	<u>\$ 467,156</u>	<u>\$ 4,613,998</u>

See Notes to Financial Statements

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 530,693	\$ 15,870
Adjustments to reconcile change in net assets to net cash provided by operating activities		
(Gain) loss on investments	(80,375)	60,097
Changes in operating assets and liabilities		
Receivables	165,001	(291,787)
Prepaid expenses	(38,700)	3,820
Accounts payable and accrued expenses	3,367	203,306
Deferred revenue	59,070	31,750
Net cash provided by operating activities	<u>639,056</u>	<u>23,056</u>
Cash Flows from Investing Activities		
Purchases of investments	(3,439,575)	(5,105,650)
Proceeds from sale of investments	2,440,458	5,611,722
Net cash provided by (used in) investing activities	<u>(999,117)</u>	<u>506,072</u>
Net change in cash and cash equivalents	(360,061)	529,128
Cash and Cash Equivalents, beginning of year	<u>1,395,763</u>	<u>866,635</u>
Cash and Cash Equivalents, end of year	<u>\$ 1,035,702</u>	<u>\$ 1,395,763</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities and Financial Statement Presentation

Associated Recreation Council ("ARC") is an independent nonprofit corporation, the purpose of which is to benefit and support the City of Seattle Department of Parks and Recreation and its officially recognized Advisory Councils in providing public recreation programs at various parks and community centers throughout the City of Seattle. As of December 31, 2012, there were 37 Advisory Councils providing programs, classes, and activities. Support provided by ARC involves the collection, administration, and disbursement of funds for member Advisory Councils in connection with all programs, classes, and activities provided through the ARC system.

These financial statements include the assets, liabilities, revenues, and expenses of ARC and those of the Advisory Councils, other than the assets and liabilities represented by the park and community center facility properties. Ownership of these properties remains with the City of Seattle. ARC contributed \$426,885 and \$258,299 of equipment to the City of Seattle Department of Parks and Recreation in 2012 and 2011, respectively. ARC also provides monetary support to the City of Seattle Department of Parks and Recreation, see Note 4.

Financial Statement Presentation

ARC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. ARC has no permanently restricted net assets, so this class of net assets is not shown on the financial statements.

Temporarily restricted net assets consist of grants and donations received that are restricted for particular purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose, or as time restrictions are met.

Allocation of Functional Expenses

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

Cash and Cash Equivalents

Cash and cash equivalents includes cash in banks and money market accounts. On occasion, ARC has cash balances in excess of federally insured limits.

Investments

Investments generally consist of certificates of deposit maturing at various dates and debt and equity mutual fund holdings. Investments are measured at fair value, and the change in value is included in the change in net assets. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value measurement of investments was determined using Level 1 observable market inputs, within the fair value hierarchy, consisting of quoted prices in active markets for identical assets.

Receivables

Receivables consist primarily of grants receivable and are stated at their outstanding principal balances and are due primarily from government agencies. Management reviews the collectibility of receivables on a periodic basis and determines the appropriate amount of an allowance for doubtful accounts, if any. ARC writes off receivables against the allowance when it is determined that a receivable is not collectible. ARC generally does not require collateral for receivable balances.

Management believes all receivables are collectible at December 31, 2012 and 2011.

At December 31, 2012 and 2011, 46% and 53%, respectively, of receivables were due from the City of Seattle Department of Parks and Recreation. At December 31, 2012 and 2011, 21% and 32%, respectively, of receivables were due from one other grantor.

Revenue Recognition

Revenue arises primarily from the providing of classes and participation in organized sports. Revenue is recognized as it is earned. Class fees are earned when the class takes place. Sports participation fees are earned on a pro-rata basis during the sport season.

Deferred revenue consists of payments for class and sports participation fees received prior to year-end but for classes and/or sport seasons which are not complete.

Grant revenue is recorded when it is awarded. In 2012 and 2011, 77% and 83%, respectively, of grant revenue was received from the City of Seattle and one other grantor.

Revenue from donations is recorded when the promise to give to ARC is made. In 2012 and 2011, 32% and 24%, respectively, of donation revenue was received from one grantor and one individual, respectively.

Donated Facilities and Services

The City of Seattle Department of Parks and Recreation provides administrative office space for ARC. The fair value of this office space has not been included in these financial statements based on materiality. A substantial number of volunteers and City of Seattle Department of Parks and Recreation personnel make significant contributions of time to the program activities of the various member Advisory Councils. Donated services would not be performed by salaried personnel if the donated services were not available. Accordingly, no amounts are reflected in the financial statements for these services.

Advertising Costs

ARC expenses advertising costs as incurred. Advertising expense was \$64,313 and \$71,839, in 2012 and 2011, respectively, and allocated to the functional expense categories on the statement of activities based on the program and support services benefited.

Income Taxes

ARC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. ARC's federal tax returns are open to examination for the years ended December 31, 2009 to 2012.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from the estimated amounts.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

ARC has evaluated subsequent events through the date these financial statements were available to be issued, which was the same date as the independent auditors' report.

Note 2. Investment Portfolio

Investments are recorded at fair value and are summarized as follows at December 31:

	<u>2012</u>	<u>2011</u>
Certificates of Deposit	\$ 1,401,409	\$ 1,299,375
Investments in Mutual Funds:		
Short-term bond funds	2,361,629	1,618,595
Bank loan funds	751,264	
International equity funds	64,801	55,640
Large blend equity funds	51,639	48,345
Corporate bond funds	41,889	40,674
Government bond funds	35,869	34,709
Small blend equity funds	8,828	8,607
Commodities equity funds	8,294	7,640
Real estate equity funds	6,675	6,277
Ultra-short bond funds		532,943
	<u>3,330,888</u>	<u>2,353,430</u>
Total mutual funds	<u>\$ 4,732,297</u>	<u>\$ 3,652,805</u>

Certificates of deposit ("CD"s) were held by multiple financial institutions at December 31, 2012 and 2011.

Note 3. Employee Benefit Plan

ARC has a 401(k) plan for employees who meet the eligibility requirements set forth in the plan. ARC matches a portion of employee contributions, which amounted to \$32,013 and \$30,472 in 2012 and 2011, respectively.

Note 4. Annual Services Agreement With the City of Seattle Department of Parks and Recreation

ARC and City of Seattle Department of Parks and Recreation operate under an annual services agreement ("the Agreement") that attempts to plan for and address biennial budget issues. The Agreement includes, but is not limited to, the following paid to the City of Seattle Department of Parks and Recreation:

- Participation Fee – a fee of 4% of each registration is set by the Seattle City Council on users of Parks facilities for the benefit of the Seattle Department of Parks and Recreation. ARC collects and pays this fee to the City.
- Wage Reimbursement – up to \$170,000 for wages and taxes related to Recreation Attendants serving as building monitors.
- Scholarship Reimbursement – up to \$150,000 to cover the difference between the allocated scholarships and the approved scholarship ceiling.
- Other – includes support for capital improvements, the Belltown Community Center, and general operational support.

In 2012, the annual services agreement was expanded to include a GEO Tier Support ("G.T.S.") Fee, which is paid by ARC. The G.T.S. Fee is determined as 6.45% of gross receipts (excluding grants and donations) of all Seattle Community Center programs up to a fee limit of \$446,348. These fees are paid for the reimbursement of wages for Recreation Assistant Coordinators, who program classes and activities in the community centers. The proceeds of the G.T.S. fee also support some of the overhead of the new Department of Parks and Recreation Belltown Community Center. The agreement is expected to continue through 2015. In 2012, total fees paid by ARC were \$446,348.

All support paid to the City of Seattle Department of Parks and Recreation is included in program expenses in the statement of activities.