

**ASSOCIATED RECREATION COUNCIL**

FINANCIAL REPORT

DECEMBER 31, 2010

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CERTIFIED PUBLIC ACCOUNTANTS  
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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Associated Recreation Council  
Seattle, Washington

We have audited the accompanying statements of financial position of Associated Recreation Council ("ARC") as of December 31, 2010 and 2009, and the related statements of activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of ARC's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, 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 19, 2011

**ASSOCIATED RECREATION COUNCIL**

**STATEMENTS OF FINANCIAL POSITION**

December 31, 2010 and 2009

ASSETS	2010	2009
Current Assets		
Cash and cash equivalents	\$ 866,635	\$ 1,228,001
Investments	4,218,974	3,550,432
Receivables	305,124	273,307
Prepaid expenses	15,372	16,899
Total current assets	<u>\$ 5,406,105</u>	<u>\$ 5,068,639</u>
 <b>LIABILITIES AND NET ASSETS</b> 		
Current Liabilities		
Accounts payable and accrued expenses	\$ 779,963	\$ 699,345
Due to the City of Seattle		
Department of Parks and Recreation		881,787
Deferred revenue	558,707	350,170
Total current liabilities	1,338,670	1,931,302
Net Assets		
Unrestricted	3,135,099	2,546,798
Temporarily restricted	932,336	590,539
Total net assets	<u>4,067,435</u>	<u>3,137,337</u>
Total liabilities and net assets	<u>\$ 5,406,105</u>	<u>\$ 5,068,639</u>

See Notes to Financial Statements

## ASSOCIATED RECREATION COUNCIL

### STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2010 and 2009

	2010	2009
Unrestricted Net Assets		
Support and revenue		
Class fees	\$ 8,599,662	\$ 8,305,538
Sports fees	331,885	559,879
Grants	489,637	474,195
Donations	178,546	201,984
Fundraising events	546,225	562,158
Investment income	17,912	100,984
Retail sales	91,463	105,288
L&I refund		68,930
Print shop proceeds	67,608	57,323
Miscellaneous	38,149	15,336
Facility rental fees	10,640	13,710
Net assets released from restrictions	521,541	846,245
Total support and revenue	10,893,268	11,311,570
Expenses		
Program	8,641,477	8,975,924
Management and general	1,558,071	1,856,591
Fundraising	105,419	73,868
Total expenses	10,304,967	10,906,383
Change in unrestricted net assets before contribution	588,301	405,187
Contribution to the City of Seattle Department of Parks and Recreation		(1,200,000)
Change in unrestricted net assets	588,301	(794,813)
Temporarily Restricted Net Assets		
Support and revenue		
Grants	402,837	397,596
Donations	413,737	126,241
Other	46,764	61,955
Net assets released from restrictions	(521,541)	(846,245)
Change in temporarily restricted net assets	341,797	(260,453)
<b>Change in Net Assets</b>	<b>930,098</b>	<b>(1,055,266)</b>
Net Assets, beginning of year	3,137,337	4,192,603
Net Assets, end of year	\$ 4,067,435	\$ 3,137,337

See Notes to Financial Statements

**ASSOCIATED RECREATION COUNCIL**

**STATEMENT OF CHANGES IN NET ASSETS**  
For the Years Ended December 31, 2010 and 2009

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
Balance, December 31, 2008	\$ 3,341,611	\$ 850,992	\$ 4,192,603
Change in net assets	<u>(794,813)</u>	<u>(260,453)</u>	<u>(1,055,266)</u>
Balance, December 31, 2009	2,546,798	590,539	3,137,337
Change in net assets	<u>588,301</u>	<u>341,797</u>	<u>930,098</u>
Balance, December 31, 2010	<u><u>\$ 3,135,099</u></u>	<u><u>\$ 932,336</u></u>	<u><u>\$ 4,067,435</u></u>

See Notes to Financial Statements

**ASSOCIATED RECREATION COUNCIL**

**STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	\$ 930,098	\$ (1,055,266)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Unrealized gain on investments	(17,130)	(35,895)
Changes in operating assets and liabilities		
Receivables	(31,817)	23,552
Prepaid expenses	1,527	11,302
Accounts payable and accrued expenses	80,618	93,024
Due to the City of Seattle		
Department of Parks and Recreation	(881,787)	881,787
Deferred revenue	208,537	33,945
Net cash provided by (used in) operating activities	290,046	(47,551)
Cash Flows from Investing Activities		
Purchases of investments	(5,401,412)	(3,745,020)
Proceeds from sale of investments	4,750,000	4,400,000
Net cash provided by (used in) investing activities	(651,412)	654,980
<b>Net change in cash and cash equivalents</b>	<b>(361,366)</b>	<b>607,429</b>
Cash and Cash Equivalents, beginning of year	1,228,001	620,572
Cash and Cash Equivalents, end of year	\$ 866,635	\$ 1,228,001

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, 2010, 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.

#### **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. ARC has elected to show temporarily restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

#### **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, balances in overnight repurchase agreements, money market accounts, and certificates of deposit and commercial paper with original maturities of three months or less. On occasion, ARC has cash balances in excess of federally insured limits.



## **Investments**

Investments generally consist of commercial paper, 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, 2010 and 2009.

At December 31, 2010 and 2009, 44% and 29%, respectively, of receivables were due from the City of Seattle Department of Parks and Recreation. At December 31, 2010 and 2009, 4% and 17%, respectively, of receivables were due from the City of Seattle Department of Neighborhoods. At December 31, 2010 and 2009, 20% and 13%, respectively, of receivables were due from Seattle Housing Authority. At December 31, 2010, 14% of receivables were due from one individual.

## **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 2010 and 2009, 29% and 33%, respectively, of grant revenue was received from the City of Seattle Department of Parks and Recreation. In 2010 and 2009, 10% and 13%, respectively, of grant revenue was received from the City of Seattle Department of Neighborhoods. In 2010 and 2009, 21% and 13%, respectively, of grant revenue was received from the City of Seattle Department of Information Technology. In 2010 and 2009, 11% and 12%, respectively, of grant revenue was received from Seattle Housing Authority.

Revenue from donations is recorded when the promise to give to ARC is made. In 2010 and 2009, 38% and 30%, respectively, of donation revenue was received from two individuals 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 \$68,911 and \$128,781, in 2010 and 2009, 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, 2007 to 2010.

### **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.

### **Subsequent Events**

ARC has evaluated subsequent events through the date these financial statements were available to be issued, which was on April 19, 2011.

## Note 2. Investment Portfolio

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

	2010	2009
Certificates of Deposit	\$ 3,998,207	\$ 3,351,153
Investments in Mutual Funds:		
International equity funds	62,423	35,061
Large blend equity funds	53,269	67,696
Corporate bond funds	42,939	
Government bond funds	36,232	77,544
Small blend equity funds	9,758	8,129
Commodities equity funds	9,617	
Real estate equity funds	6,529	10,849
	<u>220,767</u>	<u>199,279</u>
Total mutual funds	<u>\$ 4,218,974</u>	<u>\$ 3,550,432</u>

Certificates of deposit ("CD") were held by multiple financial institutions at December 31, 2010 and 2009. On occasion, ARC has CD balances in excess of federally insured limits.

## 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 \$28,149 and \$28,047, in 2010 and 2009, respectively.

## Note 4. Contribution to the City of Seattle Department of Parks and Recreation

In response to the 2009-2010 Mid-Biennium Parks Department budget cuts, the ARC Board of Directors voted to approve a one-time contribution to Parks Department operations to reduce the impact of the budget cuts. The contribution for 2009-2010 was pledged in 2009 and totaled \$1,200,000, \$318,213 of which was paid during 2009. The remaining \$881,787 (recorded as Due to the City of Seattle Department of Parks and Recreation at December 31, 2009) was paid during 2010. No additional amount was pledged in 2010.