

ASSOCIATED RECREATION COUNCIL

FINANCIAL REPORT

DECEMBER 31, 2011

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CERTIFIED PUBLIC ACCOUNTANTS
601 UNION STREET, SUITE 2300
SEATTLE, WASHINGTON 98101

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, 2011 and 2010, 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, 2011 and 2010, 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 4, 2012

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF FINANCIAL POSITION

December 31, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 1,395,763	\$ 866,635
Investments	3,652,805	4,218,974
Receivables	596,911	305,124
Prepaid expenses	11,552	15,372
	<u>5,657,031</u>	<u>5,406,105</u>
Total current assets	<u>\$ 5,657,031</u>	<u>\$ 5,406,105</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 983,269	\$ 779,963
Deferred revenue	590,457	558,707
	<u>1,573,726</u>	<u>1,338,670</u>
Total current liabilities	1,573,726	1,338,670
Net Assets		
Unrestricted	3,575,232	3,135,099
Temporarily restricted	508,073	932,336
	<u>4,083,305</u>	<u>4,067,435</u>
Total net assets	4,083,305	4,067,435
Total liabilities and net assets	<u>\$ 5,657,031</u>	<u>\$ 5,406,105</u>

See Notes to Financial Statements

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted Net Assets		
Support and revenue		
Class fees	\$ 8,828,167	\$ 8,599,662
Sports fees	511,875	331,885
Fundraising events	508,348	546,225
Grants	399,262	489,637
Donations	102,909	178,546
Retail sales	90,603	91,463
Print shop proceeds	66,530	67,608
Miscellaneous	98,556	38,149
Facility rental fees	12,034	10,640
Investment income	8,697	17,912
Net assets released from restrictions	1,150,393	521,541
Total support and revenue	11,777,374	10,893,268
Expenses		
Program	10,290,309	8,641,477
Management and general	928,458	1,558,071
Fundraising	118,474	105,419
Total expenses	11,337,241	10,304,967
Change in unrestricted net assets	440,133	588,301
Temporarily Restricted Net Assets		
Support and revenue		
Grants	623,183	402,837
Donations	110,351	413,737
Other	(7,404)	46,764
Net assets released from restrictions	(1,150,393)	(521,541)
Change in temporarily restricted net assets	(424,263)	341,797
Change in Net Assets	15,870	930,098
Net Assets, beginning of year	4,067,435	3,137,337
Net Assets, end of year	\$ 4,083,305	\$ 4,067,435

See Notes to Financial Statements

ASSOCIATED RECREATION COUNCIL

STATEMENT OF CHANGES IN NET ASSETS
For the Years Ended December 31, 2011 and 2010

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Total</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	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	<u>\$ 3,575,232</u>	<u>\$ 508,073</u>	<u>\$ 4,083,305</u>

See Notes to Financial Statements

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Change in net assets	\$ 15,870	\$ 930,098
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Unrealized (gain) loss on investments	60,097	(17,130)
Changes in operating assets and liabilities		
Receivables	(291,787)	(31,817)
Prepaid expenses	3,820	1,527
Accounts payable and accrued expenses	203,306	80,618
Due to the City of Seattle		
Department of Parks and Recreation		(881,787)
Deferred revenue	31,750	208,537
	23,056	290,046
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Purchases of investments	(5,105,650)	(5,401,412)
Proceeds from sale of investments	5,611,722	4,750,000
	506,072	(651,412)
Net cash provided by investing activities		
Net change in cash and cash equivalents	529,128	(361,366)
Cash and Cash Equivalents, beginning of year	866,635	1,228,001
Cash and Cash Equivalents, end of year	\$ 1,395,763	\$ 866,635

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, 2011, 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, 2011 and 2010.

At December 31, 2011 and 2010, 53% and 71%, respectively, of receivables were due from the City of Seattle Department of Parks and Recreation. At December 31, 2011, 32% of receivables were due from one other grantor. At December 31, 2010, there were no other receivables greater than 10% due from other grantors.

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 2011 and 2010, 33% and 29%, respectively, of grant revenue was received from the City of Seattle Department of Parks and Recreation. In 2011 and 2010, 50% and 42%, respectively, of grant revenue was received from two and three other grantors, respectively.

Revenue from donations is recorded when the promise to give to ARC is made. In 2011 and 2010, 24% and 38%, respectively, of donation revenue was received from one individual and two individuals, 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 \$71,839 and \$68,911, in 2011 and 2010, 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, 2008 to 2011.

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 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:

	2011	2010
Certificates of Deposit	\$ 1,299,375	\$ 3,998,207
Investments in Mutual Funds:		
Short-term bond funds	1,618,595	
Ultra-short bond funds	532,943	
International equity funds	55,640	62,423
Large blend equity funds	48,345	53,269
Corporate bond funds	40,674	42,939
Government bond funds	34,709	36,232
Small blend equity funds	8,607	9,758
Commodities equity funds	7,640	9,617
Real estate equity funds	6,277	6,529
	<u>2,353,430</u>	<u>220,767</u>
Total mutual funds	<u>\$ 3,652,805</u>	<u>\$ 4,218,974</u>

Certificates of deposit ("CD"s) were held by multiple financial institutions at December 31, 2011 and 2010.

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 \$30,472 and \$28,149 in 2011 and 2010, 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 2011 or 2010.