

**ASSOCIATED RECREATION COUNCIL**

FINANCIAL REPORT

DECEMBER 31, 2015

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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, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, changes 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.

**Auditor's 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 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 an 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 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, 2015 and 2014, 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 6, 2016

601 Union Street  
Suite 2300  
Seattle, WA 98101

(206) 382-7777 **MAIN**  
(206) 382-7700 **FAX**

psepa.com

**ASSOCIATED RECREATION COUNCIL**

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

ASSETS	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 532,818	\$ 643,192
Investments	6,089,318	5,513,469
Receivables	824,967	397,783
Prepaid expenses	43,239	22,716
	<u>7,490,342</u>	<u>6,577,160</u>
Total current assets	<u>\$ 7,490,342</u>	<u>\$ 6,577,160</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 983,280	\$ 1,111,028
Deferred revenue	1,196,532	737,348
	<u>2,179,812</u>	<u>1,848,376</u>
Total current liabilities	2,179,812	1,848,376
Net Assets		
Unrestricted	4,734,312	4,279,706
Temporarily restricted	576,218	449,078
	<u>5,310,530</u>	<u>4,728,784</u>
Total net assets	5,310,530	4,728,784
Total liabilities and net assets	<u>\$ 7,490,342</u>	<u>\$ 6,577,160</u>

See Notes to Financial Statements

## ASSOCIATED RECREATION COUNCIL

### STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted Net Assets		
Support and revenue		
Class fees	\$ 11,863,025	\$ 11,091,392
Sports fees	476,505	296,587
Less scholarships and refunds	(261,202)	(295,682)
Grants	516,755	484,837
Fundraising events, net of direct expenditures of \$51,213 and \$113,651 in 2015 and 2014, respectively	473,662	480,404
Donations	88,139	130,317
Retail sales	89,094	105,711
Print shop proceeds	116,205	99,755
Equipment rental fees	92,484	69,637
Investment income	310,454	235,815
Unrealized and realized loss on investments	(134,616)	(81,760)
Miscellaneous	131,010	117,887
Net assets released from restrictions	437,180	519,797
Total support and revenue	14,198,695	13,254,697
Expenses		
Program	12,044,222	12,138,009
Management and general	1,540,122	1,095,387
Fundraising	159,745	140,450
Total expenses	13,744,089	13,373,846
Change in unrestricted net assets	454,606	(119,149)
Temporarily Restricted Net Assets		
Support and revenue		
Grants	455,163	338,986
Donations and fundraising events	104,284	135,720
Other	13,212	60,017
Unrealized and realized loss on investments	(8,339)	
Net assets released from restrictions	(437,180)	(519,797)
Change in temporarily restricted net assets	127,140	14,926
<b>Change in Net Assets</b>	<b>581,746</b>	<b>(104,223)</b>
Net Assets, beginning of year	4,728,784	4,833,007
Net Assets, end of year	\$ 5,310,530	\$ 4,728,784

See Notes to Financial Statements

**ASSOCIATED RECREATION COUNCIL**

STATEMENTS OF CHANGES IN NET ASSETS  
For the Years Ended December 31, 2015 and 2014

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
Balance, December 31, 2013	\$ 4,398,855	\$ 434,152	\$ 4,833,007
Change in net assets	<u>(119,149)</u>	<u>14,926</u>	<u>(104,223)</u>
Balance, December 31, 2014	4,279,706	449,078	4,728,784
Change in net assets	<u>454,606</u>	<u>127,140</u>	<u>581,746</u>
Balance, December 31, 2015	<u><u>\$ 4,734,312</u></u>	<u><u>\$ 576,218</u></u>	<u><u>\$ 5,310,530</u></u>

See Notes to Financial Statements

## ASSOCIATED RECREATION COUNCIL

### STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 581,746	\$ (104,223)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Realized and unrealized loss on investments	142,955	81,760
Changes in operating assets and liabilities		
Receivables	(427,184)	4,524
Prepaid expenses	(20,523)	11,891
Accounts payable and accrued expenses	(127,748)	(186,519)
Deferred revenue	459,184	5,711
Net cash provided by (used in) operating activities	<u>608,430</u>	<u>(186,856)</u>
Cash Flows from Investing Activities		
Purchases of investments	(3,063,779)	(3,306,577)
Proceeds from sales of investments	<u>2,344,975</u>	<u>2,883,585</u>
Net cash used in investing activities	<u>(718,804)</u>	<u>(422,992)</u>
<b>Net change in cash and cash equivalents</b>	<b>(110,374)</b>	<b>(609,848)</b>
Cash and Cash Equivalents, beginning of year	<u>643,192</u>	<u>1,253,040</u>
Cash and Cash Equivalents, end of year	<u>\$ 532,818</u>	<u>\$ 643,192</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, 2015, 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, revenue, 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 \$239,500 and \$479,778 of equipment to the City of Seattle Department of Parks and Recreation in 2015 and 2014, 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.



## **Fair Value Measurements**

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. These are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

## **Investments**

Investments generally consist of 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 class fees earned, but not yet received and are stated at the amount management expects to collect from outstanding balances. Receivables also consist of grants receivable administered by local government agencies which are stated at the outstanding principal balances. As of December 31, 2015 and 2014, \$350,437 and \$245,092, respectively, were due from the City of Seattle Department of Parks and Recreation for class fees earned but not yet received.

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, 2015 and 2014.

At December 31, 2015 and 2014, 18% and 20%, respectively, of receivables were due from the City of Seattle Department of Parks and Recreation. At December 31, 2015, 18% and 11% of the receivable balance was due from one foundation and the City of Seattle Department of Information Technology, respectively. No such concentration existed for the year ended December 31, 2014.

## **Revenue Recognition**

Revenue arises primarily from class registration fees and participation fees for 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 for classes and/or sport seasons which are not complete.

Grant revenue is recorded when it is awarded. For the years ended December 31, 2015 and 2014, 50% and 78%, respectively, of grant revenue earned was from the City of Seattle. For the year ended December 31, 2015, 17% of grant revenue earned was from one foundation. No such concentration existed for the year ended December 31, 2014.

Revenue from donations is recorded when the promise to give to ARC is made. Of total donations revenue for the year ended December 31, 2015, no individual donation made up more than 10% of the total balance. During December 31, 2014, 58% was received from two individuals.

### **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 \$85,354 and \$85,680 in 2015 and 2014, 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.

### **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 reclassifications have been made to the 2014 financial statements in order 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 April 6, 2016.

## Note 2. Investment Portfolio

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

	2015	2014
Investments in Mutual Funds:		
Corporate bond funds	\$ 5,448,590	\$ 2,967,498
High-yield bond funds	471,248	
International equity funds	56,910	46,434
Large blend equity funds	53,019	67,826
Government bond funds	34,073	38,089
Small blend equity funds	13,594	14,386
Real estate equity funds	6,532	7,143
Commodities equity funds	5,352	5,954
Bank loan funds		1,412,231
Short-term bond funds		953,908
Total mutual funds	<u>\$ 6,089,318</u>	<u>\$ 5,513,469</u>

## 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 \$40,372 and \$34,769 in 2015 and 2014, respectively.

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

ARC and the 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 \$135,000 for wages and taxes related to Recreation Attendants serving as building monitors.
- Scholarship Reimbursement – up to \$170,000 to cover the difference between the allocated scholarships and the approved scholarship ceiling.
- Other – includes support for capital improvements and project expenses, the Belltown Community Center, and general operational support.

The Agreement also includes a GEO Tier Support ("G.T.S.") Fee, which is determined as 6.45% of gross receipts (excluding grants and donations) of all Seattle Community Center programs up to a fee limit of \$473,152. These fees are paid for the reimbursement of wages for Recreation Assistant Coordinators, who administer program classes and activities in the community centers. The proceeds of the G.T.S. Fee also support some of the overhead of the Department of Parks and Recreation Belltown Community Center. The agreement is expected to continue through 2016. In 2015 and 2014, total fees paid by ARC were \$473,152.

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