

**ASSOCIATED RECREATION COUNCIL**

FINANCIAL REPORT

DECEMBER 31, 2018

**C O N T E N T S**

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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, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the statement of functional expenses for the year ended December 31, 2018, 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, 2018 and 2017, 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*

May 14, 2019

**ASSOCIATED RECREATION COUNCIL**

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 752,253	\$ 742,150
Investments	5,265,917	6,202,620
Grants receivable	343,003	89,783
Campaign pledges receivable, current portion	116,500	
Class fees receivable	1,117,624	1,092,842
Other receivables	74,262	19,095
Prepaid expenses	30,023	9,286
Total current assets	<u>7,699,582</u>	<u>8,155,776</u>
Campaign Pledges Receivable, non-current portion	<u>225,500</u>	
Total assets	<u><u>\$ 7,925,082</u></u>	<u><u>\$ 8,155,776</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,669,390	\$ 1,464,636
Deferred revenue	1,288,218	1,532,465
Total current liabilities	<u>2,957,608</u>	<u>2,997,101</u>
Net Assets		
Without donor restrictions	3,797,363	4,427,288
With donor restrictions	1,170,111	731,387
Total net assets	<u>4,967,474</u>	<u>5,158,675</u>
Total liabilities and net assets	<u><u>\$ 7,925,082</u></u>	<u><u>\$ 8,155,776</u></u>

See Notes to Financial Statements

**ASSOCIATED RECREATION COUNCIL**

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Class fees	\$ 15,129,636	\$ -	\$ 15,129,636	\$ 14,527,410	\$ -	\$ 14,527,410
Sports fees	604,099		604,099	531,183		531,183
Less: scholarships and refunds	(432,471)		(432,471)	(335,654)		(335,654)
Grants	1,076,191		1,076,191	1,021,230		1,021,230
Fundraising events, net of direct expenditures of \$108,250 and \$110,978 in 2018 and 2017, respectively	277,329		277,329	325,126		325,126
Donations	207,993	54,119	262,112	121,648	52,067	173,715
Retail sales	79,753		79,753	92,075		92,075
Print shop proceeds	160,621		160,621	156,507		156,507
Equipment rental fees	83,318		83,318	88,267		88,267
Investment income, net	302,146		302,146	357,606		357,606
Unrealized and realized gain (loss) on investments	(428,078)	(22,836)	(450,914)	174,612	36,468	211,080
Miscellaneous	327,434		327,434	219,479		219,479
Net assets released from restrictions	246,908	(246,908)		123,483	(123,483)	
<b>Total support and revenue</b>	<b>17,634,879</b>	<b>(215,625)</b>	<b>17,419,254</b>	<b>17,402,972</b>	<b>(34,948)</b>	<b>17,368,024</b>
Expenses						
Program	15,829,241		15,829,241	15,427,826		15,427,826
Management and general	2,163,307		2,163,307	2,139,873		2,139,873
Fundraising	221,126		221,126	154,612		154,612
<b>Total expenses</b>	<b>18,213,674</b>		<b>18,213,674</b>	<b>17,722,311</b>		<b>17,722,311</b>
<b>Total change in net assets before campaign contributions and expenditures</b>	<b>(578,795)</b>	<b>(215,625)</b>	<b>(794,420)</b>	<b>(319,339)</b>	<b>(34,948)</b>	<b>(354,287)</b>
Campaign Contributions	83,483	654,349	737,832		40,039	40,039
Less: Campaign Expenditures	(134,613)		(134,613)	(23,639)		(23,639)
<b>Total change in net assets</b>	<b>(629,925)</b>	<b>438,724</b>	<b>(191,201)</b>	<b>(342,978)</b>	<b>5,091</b>	<b>(337,887)</b>
Net Assets, beginning of year	4,427,288	731,387	5,158,675	4,770,266	726,296	5,496,562
Net Assets, end of year	\$ 3,797,363	\$ 1,170,111	\$ 4,967,474	\$ 4,427,288	\$ 731,387	\$ 5,158,675

See Notes to Financial Statements

**ASSOCIATED RECREATION COUNCIL**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	Program			Program Total	Management and General	Fundraising	Total
	Preschool	Recreation and Education	School Age Care				
Personnel	\$ 1,298,300	\$ 3,774,651	\$ 4,357,962	\$ 9,430,913	\$ 1,929,862	\$ 248,441	\$11,609,216
Professional fees	30,841	1,285,484	127,448	1,443,773	106,525	69,550	1,619,848
System fees	47,472	425,210	799,314	1,271,996			1,271,996
Taxes and fees	31,686	386,942	227,982	646,610	47,653	150	694,413
Supplies	60,756	284,269	152,007	497,032	7,162	2,693	506,887
Food and appreciation	20,030	205,997	269,920	495,947	3,627	2,398	501,972
Equipment	12,303	379,985	51,688	443,976	14,118	1,684	459,778
Transportation	11,364	132,251	150,544	294,159	5,607	759	300,525
Travel	713	146,417	15,129	162,259	639	4,528	167,426
Insurance	15,989	46,561	63,954	126,504	18,896	1,454	146,854
Extended hours staffing		127,996		127,996			127,996
Printing and advertising	9,601	66,554	34,866	111,021	10,266	4,021	125,308
Program monitoring		120,154		120,154			120,154
Field trips	983	40,840	74,827	116,650	88	165	116,903
Registration fees	1,273	99,216	5,104	105,593	1,504	1,606	108,703
Fundraising						108,250	108,250
Uniforms	2,087	79,954	14,139	96,180	16	2	96,198
Facility rental	311	15,243	76,257	91,811	66	3,229	95,106
Miscellaneous	19,815	130,780	96,072	246,667	17,278	15,059	279,004
	<u>1,563,524</u>	<u>7,748,504</u>	<u>6,517,213</u>	<u>15,829,241</u>	<u>2,163,307</u>	<u>463,989</u>	<u>18,456,537</u>
Less: fundraising expenses						(108,250)	(108,250)
Less: campaign expenditures						(134,613)	(134,613)
Total expenses	<u>\$ 1,563,524</u>	<u>\$ 7,748,504</u>	<u>\$ 6,517,213</u>	<u>\$15,829,241</u>	<u>\$ 2,163,307</u>	<u>\$ 221,126</u>	<u>\$18,213,674</u>

See Notes to Financial Statements

## ASSOCIATED RECREATION COUNCIL

### STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (191,201)	\$ (337,887)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Unrealized and realized (gain) loss on investments	450,914	(211,080)
Changes in operating assets and liabilities		
Grants receivable	(253,220)	124,936
Campaign pledges receivable	(342,000)	
Class fees receivable	(24,782)	(659,295)
Other receivables	(55,167)	30,422
Prepaid expenses	(20,737)	(4,399)
Accounts payable and accrued expenses	204,754	93,755
Deferred revenue	(244,247)	105,812
	<u>(475,686)</u>	<u>(857,736)</u>
Net cash flows from operating activities	(475,686)	(857,736)
Cash Flows from Investing Activities		
Purchases of investments	(267,953)	
Proceeds from sales of investments	753,742	1,146,186
	<u>485,789</u>	<u>1,146,186</u>
Net cash flows from investing activities	485,789	1,146,186
<b>Net change in cash and cash equivalents</b>	<b>10,103</b>	<b>288,450</b>
Cash and Cash Equivalents, beginning of year	742,150	453,700
Cash and Cash Equivalents, end of year	<u>\$ 752,253</u>	<u>\$ 742,150</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, 2018, 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 \$272,754 and \$266,460 of equipment to the City of Seattle Department of Parks and Recreation in 2018 and 2017, respectively, which is included in equipment on the statement of functional expenses. ARC also provides monetary support to the City of Seattle Department of Parks and Recreation. See Note 6.

ARC has an ongoing fundraising campaign ("the Campaign") to support the construction of a boathouse at the Green Lake Small Craft Center.

#### **Financial Statement Presentation**

ARC reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

#### **Allocation of Functional Expenses**

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Personnel costs are allocated based on employee hours, and all other expenses are allocated based on employee head count of each cost center.

#### **Net Assets with Donor Restrictions**

Net assets with donor restrictions consist of unexpended contributions restricted for particular programs or time periods. If ARC receives a donor-restricted contribution and it meets the restriction in the same year the contribution is received, then it records the contribution as revenue without donor restrictions. Net assets with donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted programs or as the time restrictions are met.



Net assets with donor restrictions are available for the following purposes at December 31:

	2018	2017
Green Lake small craft capital project	\$ 654,349	\$ 51,130
Mt. Baker equipment fund	237,524	269,939
Troops for Fitness program	87,524	109,866
Montlake Family Fitness capital project	28,499	27,460
Green Lake rowing scholarship fund	25,693	33,812
East African meals program	24,055	3,768
Carkeek Park trails maintenance	23,135	22,706
Friends of Heron habitat	22,319	21,650
Annie's Playground, Meadowbrook	21,162	20,391
Seal Sitters program fund	20,555	9,683
AYTC junior development tennis scholarships		97,858
Tennis capital improvement		33,641
Other programs and fiscal sponsorships	25,296	29,483
	<u>\$ 1,170,111</u>	<u>\$ 731,387</u>

### **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.

### **Cash and Cash Equivalents**

ARC considers all highly liquid investments purchased with a maturity of three months or less to be cash and cash equivalents. ARC occasionally has cash balances in excess of federally insured limits.

### **Investments**

Investments generally consist of equity and bond mutual fund holdings. Investments are measured at fair value using Level 1 observable market inputs within the fair value hierarchy consisting of quoted prices in active markets for identical assets. Investment income and unrealized and realized gains and losses are reported in the statements of activities. Investment income consists of interest and dividend income, less investment expenses.

### **Receivables**

Grants receivable are administered by local government agencies, which are stated at the outstanding principal balances. At December 31, 2018 and 2017, 78% and 94%, respectively, of grants receivable were due from the City of Seattle Department of Parks and Recreation.

Pledges receivable consist of unconditional promises to give related to the Campaign. Campaign pledges receivable are recorded at net realizable value. The net realizable value of campaign pledges receivable that are expected to be collected in future years does not materially differ from the present value of their future cash flows (which approximates fair value). At December 31, 2018, 67% of campaign pledges receivable were due from six donors. There were no campaign pledges receivable at December 31, 2017.

Class fees receivable consists of amounts due from the City of Seattle Department of Parks and Recreation, who manages the enrollment of classes and collects registration fees for classes in advance. Amounts due from the City of Seattle Department of Parks and Recreation relate to class fees collected by the City of Seattle Department of Parks and Recreation that have not been earned, and are stated at the amount management expects to collect from outstanding balances. The unearned amounts recognized as being receivable are included with deferred revenue discussed below.

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, 2018 and 2017.

### **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 that are not complete. It also includes unearned amounts recognized as being receivable. Grant revenue is recorded when it is awarded. Revenue from donations is recorded when the promise to give to ARC is made.

### **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 \$75,952 and \$82,950 in 2018 and 2017, respectively.

### **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.

## **Recent Accounting Pronouncement Adopted**

During the year ended December 31, 2018, ARC adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ARC has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the statement of functional expenses and the liquidity and availability of resources note (see Note 2).

## **Reclassifications**

Certain items from the December 31, 2017, financial statements have been reclassified to conform to the current-year presentation. These reclassifications had no impact on net assets or changes in net assets as previously reported.

## **Subsequent Events**

ARC has evaluated subsequent events through the date these financial statements were available to be issued, which was May 14, 2019. There are no subsequent events disclosed in these financial statements.

## **Note 2. Liquidity and Availability of Resources**

ARC strives to maintain liquid assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash needs are invested in open-end mutual funds. All investments are available for liquidation within three days of request, and accounts receivable are due within 120 days of recognition.

Long-term pledges and donor-restricted assets are deemed unavailable to meet the daily cash needs for general expenditures and have been reduced from financial assets available for general expenditures. Financial assets available for general expenditure at December 31, 2018, comprise the following:

Cash and cash equivalents	\$	752,253
Investments		5,265,917
Total receivables		1,876,889
Less: receivables with due dates greater than one year		(225,500)
Less: net assets with donor restrictions		(944,611)
		<hr/>
Financial assets available for general expenditure	\$	<u>6,724,948</u>

### Note 3. Campaign Pledges Receivable

Unconditional promises to give are as follows as of December 31, 2018:

Receivable in less than one year	\$	116,500
Receivable in one to five years		<u>225,500</u>
	\$	<u><u>342,000</u></u>

### Note 4. Investments

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

	<u>2018</u>	<u>2017</u>
Investments in bond and preferred stock mutual funds		
Preferred stock funds	\$ 2,731,406	\$ 3,039,799
Multisector bond funds	1,115,748	1,172,433
Government bond funds	554,124	927,266
High-yield bond funds	461,904	487,269
Bank loan funds	153,816	308,475
Corporate bond funds	39,195	37,193
Intermediate-term bond funds	38,082	36,631
International bond funds	<u>26,741</u>	<u>19,824</u>
Total bond and preferred stock mutual funds	5,121,016	6,028,890
Investments in equity mutual funds		
International large blend equity funds	54,117	70,043
Large blend equity funds	48,715	61,967
Foreign large growth equity funds	11,579	
Small blend equity funds	10,862	16,040
Global real estate equity funds	10,136	10,320
Large value equity funds	<u>9,492</u>	<u>15,360</u>
Total equity mutual funds	<u>144,901</u>	<u>173,730</u>
	<u><u>\$ 5,265,917</u></u>	<u><u>\$ 6,202,620</u></u>

### Note 5. 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 \$52,710 and \$40,556 in 2018 and 2017, respectively.

## **Note 6. 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 amounts paid to the City of Seattle Department of Parks and Recreation:

- Participation Fee – a fee of 4% of gross receipts (excluding grants and donations) of all Advisory Councils excluding rowing and sailing 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 \$138,000 for wages and taxes related to Recreation Attendants serving as building monitors and up to \$181,000 for wages and taxes related to a pilot program extending five Centers' public hours.
- Scholarship Reimbursement – up to \$230,000 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 \$518,340. 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 2019. In 2018 and 2017, total fees paid by ARC related to the G.T.S. Fee were \$518,340 and \$504,436, respectively.

All support paid to the City of Seattle Department of Parks and Recreation is included in various expense categories on the statement of functional expenses and totaled \$2,115,257 and \$1,962,524 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, ARC owed the City of Seattle Department of Parks and Recreation \$884,698 and \$666,987, respectively, which are included with accounts payable and accrued expenses.