

ASSOCIATED RECREATION COUNCIL

FINANCIAL REPORT

DECEMBER 31, 2016

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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, 2016 and 2015, 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, 2016 and 2015, 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 3, 2017

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 453,700	\$ 532,818
Investments	7,137,726	6,089,318
Receivables	697,783	824,967
Prepaid expenses	4,887	43,239
Total current assets	<u>\$ 8,294,096</u>	<u>\$ 7,490,342</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,370,881	\$ 983,280
Deferred revenue	1,426,653	1,196,532
Total current liabilities	2,797,534	2,179,812
Net Assets		
Unrestricted	4,770,266	4,734,312
Temporarily restricted	726,296	576,218
Total net assets	<u>5,496,562</u>	<u>5,310,530</u>
Total liabilities and net assets	<u>\$ 8,294,096</u>	<u>\$ 7,490,342</u>

See Notes to Financial Statements

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2016 and 2015

	2016	2015
Unrestricted Net Assets		
Support and revenue		
Class fees	\$ 13,254,880	\$ 11,863,025
Sports fees	511,628	476,505
Less scholarships and refunds	(274,808)	(261,202)
Grants	659,874	516,755
Fundraising events, net of direct expenditures of \$84,074 and \$51,213 in 2016 and 2015, respectively	355,951	473,662
Donations	86,664	88,139
Retail sales	93,149	89,094
Print shop proceeds	165,835	116,205
Equipment rental fees	95,776	92,484
Investment income	349,745	310,454
Unrealized and realized loss on investments	(134,043)	(134,616)
Miscellaneous	39,181	131,010
Net assets released from restrictions	449,229	437,180
Total support and revenue	15,653,061	14,198,695
Expenses		
Program	13,590,918	12,044,222
Management and general	1,881,685	1,540,122
Fundraising	144,504	159,745
Total expenses	15,617,107	13,744,089
Change in unrestricted net assets	35,954	454,606
Temporarily Restricted Net Assets		
Support and revenue		
Grants	438,646	455,163
Donations and fundraising events	84,690	104,284
Other	54,443	13,212
Unrealized and realized gain (loss) on investments	21,528	(8,339)
Net assets released from restrictions	(449,229)	(437,180)
Change in temporarily restricted net assets	150,078	127,140
Change in Net Assets	186,032	581,746
Net Assets, beginning of year	5,310,530	4,728,784
Net Assets, end of year	\$ 5,496,562	\$ 5,310,530

See Notes to Financial Statements

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF CHANGES IN NET ASSETS For the Years Ended December 31, 2016 and 2015

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
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	4,734,312	576,218	5,310,530
Change in net assets	<u>35,954</u>	<u>150,078</u>	<u>186,032</u>
Balance, December 31, 2016	<u><u>\$ 4,770,266</u></u>	<u><u>\$ 726,296</u></u>	<u><u>\$ 5,496,562</u></u>

See Notes to Financial Statements

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 186,032	\$ 581,746
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Realized and unrealized loss on investments	112,515	142,955
Changes in operating assets and liabilities		
Receivables	127,184	(427,184)
Prepaid expenses	38,352	(20,523)
Accounts payable and accrued expenses	387,601	(127,748)
Deferred revenue	230,121	459,184
Net cash provided by operating activities	<u>1,081,805</u>	<u>608,430</u>
Cash Flows from Investing Activities		
Purchases of investments	(4,720,330)	(3,063,779)
Proceeds from sales of investments	3,559,407	2,344,975
Net cash used in investing activities	<u>(1,160,923)</u>	<u>(718,804)</u>
Net change in cash and cash equivalents	(79,118)	(110,374)
Cash and Cash Equivalents, beginning of year	<u>532,818</u>	<u>643,192</u>
Cash and Cash Equivalents, end of year	<u>\$ 453,700</u>	<u>\$ 532,818</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, 2016, 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 \$431,213 and \$239,500 of equipment to the City of Seattle Department of Parks and Recreation in 2016 and 2015, 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.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unexpended contributions restricted for particular programs or time periods. If ARC receives a temporarily restricted contribution and it meets the restriction in the same year the contribution is received, then it records the contribution as unrestricted revenue. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted programs or as the time restrictions are met.

Temporarily restricted net assets are available for the following purposes at December 31:

	2016	2015
Mt. Baker equipment fund	\$ 235,963	\$ 220,763
Troops for Fitness program	143,219	
AYTC junior development tennis scholarships	97,930	53,960
Tennis capital improvement	45,880	39,287
Green Lake small craft capital project	34,730	41,730
Montlake Family Fitness capital project	27,460	26,692
Carkeek Park trails maintenance	24,366	23,650
G.L. rowing scholarship fund	22,269	
Annie's Playground, Meadowbrook	21,630	20,832
Friends of Heron habitat	19,372	16,943
Rec Tech program		111,725
Other programs and fiscal sponsorships	53,477	20,636
	\$ 726,296	\$ 576,218

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, 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, 2016 and 2015, \$433,457 and \$350,437, 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, 2016 and 2015.

At December 31, 2016 and 2015, 19% and 18%, respectively, of receivables were due from the City of Seattle Department of Parks and Recreation.

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. 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 \$103,975 and \$85,354 in 2016 and 2015, respectively, and allocated to the functional expense categories on the statements 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 items from the December 31, 2015, financial statements have been reclassified to conform to the current 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 3, 2017.

Note 2. Investment Portfolio

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

	<u>2016</u>	<u>2015</u>
Investments in bond mutual funds		
Preferred stock funds	\$ 2,982,509	\$ 2,956,309
Government bond funds	1,482,607	
Multisector bond funds	1,139,366	1,040,729
High-yield bond funds	795,091	1,886,025
Bank loan funds	505,650	
Corporate bond funds	38,220	36,775
Intermediate term bond funds	29,121	34,073
International bond funds	17,860	
	<u>6,990,424</u>	<u>5,953,911</u>
Investments in equity mutual funds		
Large blend equity funds	55,290	43,292
International large blend equity funds	53,720	48,510
Small blend equity funds	16,600	13,594
Large value equity funds	12,918	9,727
Global real estate equity funds	8,774	6,532
Large growth equity funds		8,400
Commodities equity funds		5,352
	<u>147,302</u>	<u>135,407</u>
	<u>\$ 7,137,726</u>	<u>\$ 6,089,318</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 \$44,750 and \$40,372 in 2016 and 2015, 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 \$490,909. 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 2017. In 2016 and 2015, total fees paid by ARC were \$490,909 and \$473,152, respectively.

All support paid to the City of Seattle Department of Parks and Recreation is included in program expenses in the statements of activities. At December 31, 2016 and 2015, ARC owed the City of Seattle \$576,647 and \$382,663, respectively.