ARC: Board Meeting Minutes
5/3/2017, 6:30p-8:30p, 100 Dexter, Seattle Parks and Recreation Board Room

EXPECTED ATTENDANCE: Board: Vic Roberson (VP), Frana Milan (Secretary), Mary Anderson, Dennis Cook, and Terry Holme. **Staff:** Bill Keller, Rachel Sorrels, Sharon Mauze, Farhana Satti, Naho Shioya, Sebastian Wilson, Sarah Johnson, Jessica Giordano. **Parks & Recreation:** Katie Gray, Jesús Aguirre, Mary Beth Josef. **Visitors:** David Lee, Sharlyn Turner, & Jack Holmes (Peterson Sullivan); Harumi LaDuke & Matthew Price (Seattle U. Master in Nonprofit Leadership Graduate Students), and David Ward (Advisory Council Member).
EXCUSED ABSENCE: Jonathan Hartung (President), Bernardo Ruiz, David Towne, and Trang Hoang.

Minutes:

WHEN	TOPIC	MINUTES
6:46 pm	**Welcome & Introductions** (Vic) **Consent Agenda** • Determination of Quorum (5 of 9 members) • Approval of Agenda • Approval of Minutes **Review goals for today**: • Review and take board action on the 2016 Audit. • Review the Diversity, Equity, and Inclusion recommendations.	• Vic called the meeting to order at 6:46 pm. • There were not enough board members present at the start of the meeting for a quorum. Tabled approval of last month's minutes until later in the meeting. • Made a few changes to the order of the agenda.
6:47	**Public Comment** (Vic)	• No public comment
6:48	**Diversity, Equity, and Inclusion (DEI) Project** (Harumi LaDuke & Matthew Price)	• Naho introduced the Equity Team and new Equity Team Chair, Sarah Johnson. • Harumi & Matthew: Tonight we are presenting findings and recommendations. • Tonight's goal is to reflect back to the board what we heard from ARC employees. • DEI: Diversity, Equity & Inclusion • Why do this work? To increase the diversity of staff to match the population ARC serves, but also to move beyond just numbers to create an inclusive environment. • Findings show that ARC staff appreciate the commitment to the goals. • This evaluation is a starting point. • Reviewed valued organizational DEI assets.

		• Reviewed the recommendations in handout: Demonstrate Organizational Commitment DEI and Governance: Collective Commitment. • More than 1 out of 3 staff members feel ARC leadership isn't held accountable for treating staff fairly. • Less than ½ of ARC employees feel they treated fairly, without discrimination based on identity all the time. • 1 in 8 employees reported having been harassed at ARC about differences or a perceived difference in their identity. • Bill: As an organization, we constantly talk about doing the work, but we must do more than talk. Taking these finds to the public board meeting takes courage. We plan to take these recommendations, and do planning for the rest of 2017, for action in 2018. • Final report will be completed by the end of this month. • Terry: Do you have a format of a board matrix that you have used before that you can share with us? How would you recommend that we fill out that matrix, and implement it to develop the board? • Mary: inclusion and exclusion in your final slide, did you get any feedback about that such as the kind of behaviors? Matthew: We will include the comments with the identifiers taken out in our final report. • Frana: How do you define resources to invest in equity team? Harumi: Money and Time. • Frana: Were you considering the DEI Director to be an internal or external facing position? Harumi: Both. • Jesús: What's next in terms of people we serve? How do we ensure the staff has the skills to better serve the public? Harumi: Cultural competency. Frahan: Want to add training staff. • Frana: What was the final response rate? Matt: 95 respondents.
7:23	**2016 Audited Financial Statement** (David Lee)	• Two handouts, one is the Draft of the Audited Financial Statement to be approved tonight by the board. • Issued an unmodified opinion, which is a clean opinion. • Conducted five site visits: Hiawatha, Jefferson, Loyal Heights, Ravenna-Eckstein, and Van Asselts. • Did not issue a Formal Management Letter. • Offer 401k Audit. Field work scheduled for June 15 & 16. • No new accounting policies adopted this year. • Terry: The 401k audit isn't represented. Sharon: Haven't done it historically. David: Audit is deferred. Could present prior year at the current year. Bill: Can bring it to you at the completion date. • Tracking of donor restrictions on gifts and release was reviewed. • Didn't have any internal control issues at the site visits. Did have some minor recommendations, mostly around documentation. • No internal control issues, just minor best practices recommendations-all sites had some form of ARC documentation that was not retained at the site. • Looked at current organization trends. • Changes in net assets and cash flow from operations: looked at cash flow and how ARC meets obligations, was very healthy at end of December 2016.

		• Functional expenses: program services ARC has historically been higher than recommended, and that changed in 2016. Invested in infrastructure. Intentional investment changed. • ARC expanded the number of sites and expanded the HR department. • A 5-year comparison of financial statements. • The new ASU has six main provisions, and will be effective for years beginning after December 15, 2017. Rules include the requirement to present expenses in both natural classifications and functional classifications in one location. • Terry: What is your fee this year? David: Around $19,000 for this audit. Jack: Will send to Sharon. • Terry moved to accepted the 2016 Audited Financial Statements. Dennis second. Motion passed.
7:56	**Introduce New Development Director Sonia Doughty**	• Sonia Doughty is the new ARC Development Director. • Has 14 years of experience doing Development work in the Seattle-Bellevue area. • Has been with ARC for 1 week. • Vic: What do you offer than no one else does? Sonia: I'm really good at building relationships and getting people excited about the mission. • Frana: Want to plant the seed to keep an eye out for potential board members when meeting people through fundraising. •
8:06	**Approve April Minutes**	• Quorum now present to approve April minutes. • Vic called for a motion to approve the minutes. Terry moved to approve. Mary second. Minutes approved.
8:08	**Director's Report** (Bill)	• Tabled Equity Task Force report until next month. Hope to have 7 task force members to report to the board at that time. • Open Enrollment for Benefits program started on May 1st. Staying with Cigna, but converting dental and life to LifeMap for a lower rate. Open Enrollment through the month of May, and goes into effect June 1st. • Unaudited, for month end April 30th reflected 11% increase over last year this time: SAC up 24% YTD, preschool 2.8% increase over last year. • Currently have 14 preschool programs, predict this time next year will be reporting that we will have 9 or 10. • Fitness/weight room went to no drop-in fee as of December 31, 2016, affects net revenue, decrease of $42,300, and SPR has taken over maintenance and repairs. Katie: Total use has gone up significantly. • Youth sports is up 5.6%. • Enrichment is up 15% over this time last year. • Adult sports has a 17% increase over last year. • YTD revenue is $7.4M, last year at this time was $6.64M. • 2016 program report will accompany our approved audit financials. • Will send a Financial Executive Summary for the first quarter of 2016.

		• Currently: 66 position openings, 157 actual individuals that we need to hire between now and the end of June. • Vic: Ever looked at a 5-year forecast projecting model? Bill: forecasting has been very challenging for us for the last 8.5 years due to external factors (recession, bell times, bussing). • Vic: It would be nice to see where we want to go. • Mary: It's a moving target. • Vic: We are reactionary. • We have to be reactionary. • Katie: SPR staff try to plan out a year in advance, but they can't do too much more than that. Looking to turn two more centers into hubs, and they might be able to plan further ahead. To guide where our resources are going. • Mary: It's important to pay attention to the drastic changes of the housing market in the last two years. That won't be found in census data. Katie: Yes, and having conversations with people in the community, as well. • Vic: Want to be more strategic in how we serve, and prepare for what is coming. • Vic: Bring back the conversation with the City Council. Bill: Working on the annual report, which will be a useful piece. Vic: Just want to make sure we don't lose that plan.
8:32	**Review Assignments & Adjourn** (Jonathan)	• Vic called for a motion to adjourn. Dennis moved. Terry second. Motion passed. Vic adjourned the meeting at 8:32

ASSOCIATED RECREATION COUNCIL

Diversity, Equity, and Inclusion Staff Audit

Support Material for DEI Board Materials 5-3-17

Slide 3: ***ARC Employees by Race***

- "Did not declare" includes those who left the "Race" field empty and those who chose "Choose Not to Disclose."

Slide 4: ***Employee Race Comparison to Citizens of Seattle***

- Compares the previous slide ("ARC Employees by Race") with 2015 census data of the City of Seattle.
- The ARC (projected) Total takes the "other" category ("Did not declare" on the previous slide) and extrapolates it to the remaining race categories at the same rate as the 84% who selected a race.

Slide 7: ***Organizational DEI Assets***

- Highlights some of the questions on the survey to which employees responded "Mostly" or "Always/all of the time" with the highest frequency.
- On average, survey respondents selected "Mostly" or "Always/all of the time" 62% of the time.

Slide 8: Equity Team

- Compares the responses to three questions related to the Equity Team.
- One in four employees (25%) responded "Never/Not at all" or "A little" to the question "The Equity Team has adequate resources to advance diversity, equity, and inclusion (DEI) initiatives."
- On average, survey respondents selected "Never/not at all" or "a little" 16% of the time.

Slide 9: "Senior Leaders value difference in the...of their employees"
(Due to time limitations, this slide will not be discussed at the meeting)

- From high to low, this slide displays the mean scores of the personal identifiers that employees feel Senior Leaders value.
- Of the social identifiers listed, employees felt that ARC Senior Leaders:
  - Most valued "differences in sexual orientation"
  - Least valued "differences in socioeconomic status/class"
- Methodology: To calculate the mean, the Likert scale "Never" to "Always" was converted to 1 – 5.

Slide 10: Employee Experience with Senior Leadership

- Shows that respondents selected "Never/not at all" or "a little" at least one out of three times on the following survey questions. On average, survey respondents selected "Never/not at all" or "a little" 16% of the time.
  - "ARC leadership consistently ensure that people of color are a part of decision-making."
  - "ARC leadership act consistently around racial equity by making racial justice a standing agenda item at key meetings" received.
- We noticed that only two survey respondents self-identified as being part of the senior leadership team.

Slide 11: Inclusion and Exclusion

- Indicates some of the personal challenges that ARC employees face.
- "I feel like an insider"
  - Received the third fewest scores of "Mostly" or "Always/all of the time"
  - One in four responded "Never/not at all" or "a little."
- Less than half of respondents (41/81) report that they believe they are "treated fairly without discrimination based on [their] identities" all of the time.
- One in eight (10/80) reported having been harassed at ARC about differences or perceived differences in their identity. Unlike the questions above which speak to perception so staff, this question speaks to the experiences of staff.

ASSOCIATED RECREATION COUNCIL

Diversity, Equity, and Inclusion Staff Audit

May 3, 2017

RECOMMENDATIONS

Demonstrate Organizational Commitment to DEI

- Formalize commitment to DEI in the next strategic plan.
- Hire a full-time DEI Director to lead organizational DEI initiatives.
- Invest resources for Equity Team initiatives.
- Integrate DEI goals in reporting to executive and governing bodies to ensure accountability and oversight of DEI initiatives
- Ensure that leaders of color and leaders with identities from other marginalized groups participate and lead in development of organizational initiatives.
- Make DEI a standing agenda item at key meetings.
- Model cultural competency by examining implicit biases and training in other DEI skills.

Governance: Collective Commitment

- Write a board-specific DEI policy, committing to creating an inclusive environment.
- Develop plans to recruit diverse board members by using a board matrix that includes skills, experience, and social identifiers.
- Conduct regular board self-assessments that include DEI objectives.
- Build DEI objectives and learnings into onboarding and continued education for trustees.
- Annually evaluate the executive director around DEI objectives.
- Identify and nurture diverse leaders on the board by rotating leadership positions and asking experienced board members to mentor diverse trustees.

petersonsullivan LLP
Certified Public Accountants
& Advisors

Associated Recreation Council

Presentation of the December 31, 2016, Audited Financial Statements

David Lee, CPA
Sharlyn Turner, CPA Audit Partner
Jack Holmes, CPA Audit Manager

CONFIDENTIAL

Nonprofit Experience

- We provide services to 350+ nonprofit organizations located in the Pacific Northwest, including Friends of Youth, Friends of the Children King County, Seattle Union Gospel Mission, The Allen Institute, and Craft3.

- We volunteer at over 25 organizations and serve on the boards or committees at over 30 organizations.

- We have six staff on the Washington Society of CPA's Not-for-Profit Committee.

Summary of Deliverables

- Financial Statement Audit
  - Unmodified opinion – this is a "clean" opinion

- Site Visits (Hiawatha, Jefferson, Loyal Heights, Ravenna Eckstein, and Van Asselt)
  - See Slide 6

- Management Letter (none required)

- Form 990 Tax Return
  - We prepare based on information provided by Sharon
  - Questionnaire has been sent to Sharon
  - Due May 15, 2017 (with extensions available)

- 401(k) Audit – Fieldwork scheduled for June 15 and 16

- Budget Tool Model – Built in prior year
  - Met in April to discuss updates and building a similar tool for a couple other programs.

Required Communications

- Our responsibility under generally accepted auditing standards
- Significant accounting policies (and the quality of those policies)
  - Revenue recognition
  - Temporarily restricted net assets
  - Investments at fair value
- Management's judgments and accounting estimates
  - Allowance for doubtful accounts
  - Functional allocation of expenses
- Audit adjustments (None)
- Passed adjustments (None)
- Independence
- Management representations

Steps left to complete:

- Board approval
- Signed representation letter from management
- Final internal quality control processes (including updating subsequent events)

Initial Pre-Audit Discussion Follow-Up

- Started fieldwork on schedule the week of March 6 and completed that week as planned
- No changes to our risk assessments made during planning
- We specifically tested the following areas as part of our audit:
  - Proper revenue recognition of class fees (including proper cutoff), grant revenue, contributions, special events, and other revenue.
  - Proper tracking of donor restrictions.

Other Discussion Topics

- Summary of Site Visit Testing:
  - No internal control deficiencies for ARC as all documentation is retained and reconciled at the accounting office.
  - All sites selected for testing had some form of ARC documentation that was not retained at the sites (between one and nine instances)
- New audit team for this year's audit:
  - Jack Holmes, Audit Manager
  - Blake Finnerty, Audit Associate
  - Turner Lee, Audit Associate
- Review of compliance with investment policy
- Recommend review of all general journal entries
- Noted earned funds treated as donor-restricted ($98k)

Trends and Ratios

Liquidity Ratios

Working capital represents current assets less current liabilities.

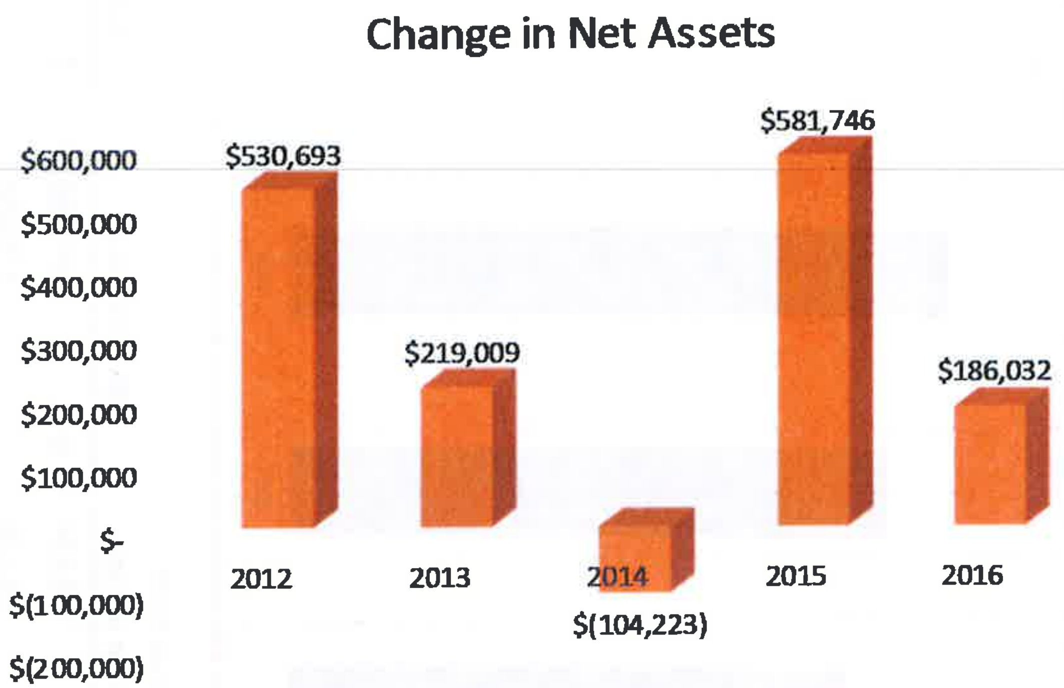
Working capital has continued to steadily increase over recent years, as operations are growing.

	Current Ratio
2012	3.8
2013	3.4
2014	3.6
2015	3.4
2016	3.0

Current ratio represents current assets divided by current liabilities.

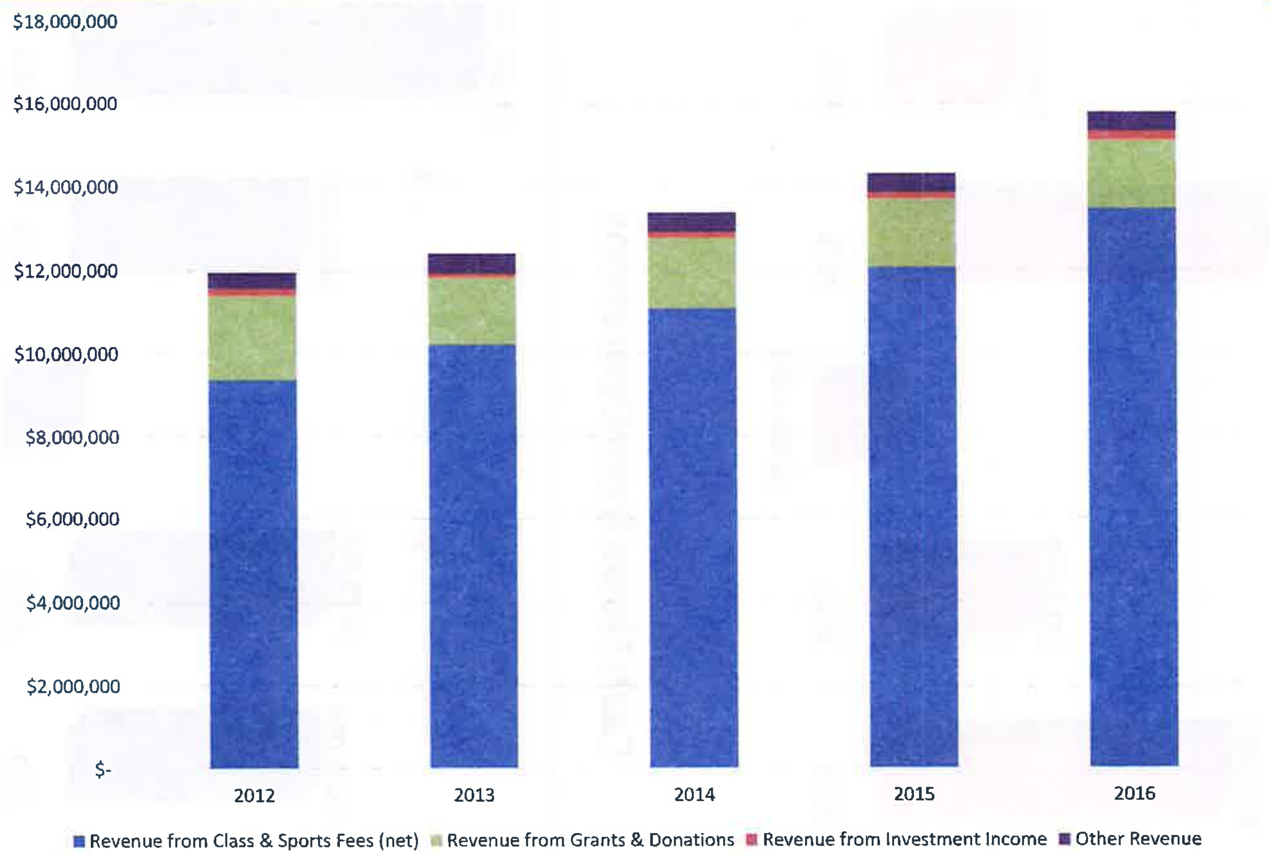
A benchmark for a strong current ratio is 2-3.

Changes in Net Assets & Cash Flows from Operations



The above charts show the comparison between "accrual" net income (change in net assets) and "cash" net income (cash flows from operations).

Components of Revenue



	Revenue from Class & Sports Fees (net)	Revenue from Grants & Donations	Revenue from Investment Income	Other Revenue	Total Revenue
2012	$ 9,389,608	$ 2,019,984	$ 178,174	$ 371,532	$ 11,959,298
2013	10,231,997	1,610,379	96,478	479,858	12,418,712
2014	11,092,297	1,683,915	154,055	453,007	13,383,274
2015	12,078,328	1,638,003	167,499	442,005	14,325,835
2016	13,491,700	1,625,825	237,230	448,384	15,803,139

Functional Expenses

	Program Services	Management and general	Fundraising	Total
2012	93%	6%	1%	100%
2013	91%	8%	1%	100%
2014	90%	8%	2%	100%
2015	88%	11%	1%	100%
2016	87%	12%	1%	100%

Functional expenses represent the allocation of expenses according to their purpose. This information helps third parties determine how effectively the nonprofit is fulfilling its mission and using its resources.

The ranges for most nonprofits tend to be as follows:

Program: 75-85%
Management and General: 10-15%
Fundraising: 0-5%

The service platform ARC operates from is unique compared to other nonprofits resulting in a historically higher allocation to program services.

ARC has focused on its investment in general and administrative services as evidenced by program services moving closer to the typical nonprofit range noted above.

Comparative Statements of Financial Position

ASSETS	2016	2015	2014	2013	2012
Current Assets					
Cash and cash equivalents	$ 453,700	$ 532,818	$ 643,192	$ 1,253,040	$ 1,035,702
Investments	7,137,726	6,089,318	5,513,469	5,172,237	4,732,297
Receivables	697,783	824,967	397,783	402,307	431,910
Prepaid expenses	4,887	43,239	22,716	34,607	50,252
Total current assets	$ 8,294,096	$ 7,490,342	$ 6,577,160	$ 6,862,191	$ 6,250,161
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable and accrued expenses	$ 1,370,881	$ 983,280	$ 1,111,028	$ 1,297,547	$ 986,636
Deferred revenue	1,426,653	1,196,532	737,348	731,637	649,527
Total current liabilities	2,797,534	2,179,812	1,848,376	2,029,184	1,636,163
Net Assets					
Unrestricted	4,770,266	4,734,312	4,279,706	4,398,855	4,146,842
Temporarily restricted	726,296	576,218	449,078	434,152	467,156
Total net assets	5,496,562	5,310,530	4,728,784	4,833,007	4,613,998
Total liabilities and net assets	$ 8,294,096	$ 7,490,342	$ 6,577,160	$ 6,862,191	$ 6,250,161

Comparative Statements of Activities

	2016	2015	2014	2013	2012
Unrestricted Net Assets					
Support and revenue					
Class fees	$ 13,254,880	$ 11,863,025	$ 11,091,392	$ 10,181,439	$ 9,352,675
Sports fees	511,628	476,505	296,587	330,764	321,451
Less scholarships and refunds	(274,808)	(261,202)	(295,682)	(280,206)	(284,518)
Grants	1,098,520	971,918	933,041	806,464	1,275,413
Fundraising events, net of direct expenditures	373,539	526,272	508,890	641,071	494,649
Donations	153,766	139,813	241,984	162,844	249,922
Retail sales	93,149	89,094	105,711	96,018	111,518
Print shop proceeds	165,835	116,205	99,755	82,998	78,085
Equipment rental fees	95,776	92,484	69,637	59,661	41,605
Investment income	349,745	310,454	235,815	118,665	119,342
Unrealized and realized gain (loss) on investments	(112,515)	(142,955)	(81,760)	(22,187)	80,375
Miscellaneous	93,624	144,222	177,904	241,181	140,324
Total support and revenue	15,803,139	14,325,835	13,383,274	12,418,712	11,980,841
Expenses					
Program	13,590,918	12,044,222	12,138,009	11,042,347	10,651,655
Management and general	1,881,685	1,540,122	1,095,387	1,020,796	663,821
Fundraising	144,504	159,745	254,101	136,560	134,672
Total expenses	15,617,107	13,744,089	13,487,497	12,199,703	11,450,148
Change in Net Assets	**186,032**	**581,746**	**(104,223)**	**219,009**	**530,693**

Changes on the Horizon

ASU 2016-14 Financial Statements of NFPs

- New ASU was passed in August 2016
- New rules will be effective for years beginning after December 15, 2017 (2018 for December 31 fiscal year-end). Early adoption is permitted.
- The new ASU has six main provisions:
  1. Reducing net asset classes from three to two
  2. Statement of activities to require the presentation of change in the two classes of net assets
  3. If presenting the direct method cash flow statement, an indirect reconciliation is no longer required (use of indirect or direct method still optional)
  4. Enhanced disclosures of the following:
     - Board designations and appropriations
     - How restricted net assets affect the us of resources
     - Qualitative and quantitative information that communicates how the NPO manages its liquid resources to meet cash needs for the following year
     - Expenses will be required to be presented in both natural classifications and functional classifications in one location, and methodology used to allocate costs among functional classifications
     - Underwater endowment funds to be classified within net assets with donor restrictions, rather than unrestricted. Also, additional disclosures on underwater funds concerning appropriations, fair value of funds and original gift amounts
  5. Capital campaign restricted donations released to unrestricted when asset is placed in service, rather than as assets are purchased
  6. Investment return will be required to be netted with external and direct internal investment expenses, but no longer require disclosure of these expenses

ASU 2016-02 Leases

- All leases will be recorded on the balance sheet as a "right-of- use" asset and lease liability
  - If the lease is less than 12 months, an accounting policy may be elected to not recognize lease assets and liabilities

- Two types of leases
  - For both types, the liability = the present value of the lease payments
  - Financing leases (these are similar to the "old" capital leases)
    - Interest expense will be separately recorded from the amortization of the lease asset
    - Payments of lease liability are financing activities on the statement of cash flows, interest payments are operating activities
  - Operating leases
    - Lease cost is recognized as one expense and is done on a straight-line basis
    - Classify all activity as operating activities on the statement of cash flows

- Effective for fiscal years beginning after December 15, 2019, (2020), but early application is permitted

Conclusion

About Peterson Sullivan

- Values: Integrity. Respect. Commitment. Expertise.
- Mission: To be an agile firm that is a valued asset to our clients all year round – anticipating needs, understanding their businesses, and providing the expertise and insight to help achieve goals.
- One office in downtown Seattle with more than 180 employees
- Firm resources are split "almost equally in half" between audit and tax services, and a significant amount of our audit services are provided to nonprofit entities.

Industries

Automotive
Construction
Financial Services
Hospitality
Life Sciences
Nonprofit
Professional Services
Real Estate
Schools
Technology

Value Added Services

Estate, Gift, & Trust
Litigation Support
Mergers & Acquisitions
State & Local Tax
Strategic Tax
Valuation
Wealth Services

Peterson Sullivan
601 Union Street, Suite #2300, Seattle, WA 98101
p. 206.382.7777 | f. 206.382.7700

www.pscpa.com

Questions or Comments

- Thanks to Sharon and Bill for being cooperative throughout the audit process and providing information timely.
- We thank you again for the chance to serve you and are available throughout the year if you have any questions.

David Lee, CPA
dlee@pscpa.com
206.382.7787

Sharlyn Turner, CPA
Partner
sturner@pscpa.com
206.382.7803

Jack Holmes, CPA
Manager
jholmes@pscpa.com
206.971.8418

ASSOCIATED RECREATION COUNCIL

FINANCIAL REPORT

DECEMBER 31, 2016

CONTENTS

Page

INDEPENDENT AUDITORS' REPORT **1**

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION 2
STATEMENTS OF ACTIVITIES 3
STATEMENTS OF CHANGES IN NET ASSETS 4
STATEMENTS OF CASH FLOWS 5
NOTES TO FINANCIAL STATEMENTS .... 6 - 10

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.

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

ASSETS	2016	2015
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	$ 8,294,096	$ 7,490,342
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	5,496,562	5,310,530
Total liabilities and net assets	$ 8,294,096	$ 7,490,342

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	454,606	127,140	581,746
Balance, December 31, 2015	4,734,312	576,218	5,310,530
Change in net assets	35,954	150,078	186,032
Balance, December 31, 2016	$ 4,770,266	$ 726,296	$ 5,496,562

See Notes to Financial Statements

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	2016	2015
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	1,081,805	608,430
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	(1,160,923)	(718,804)
Net change in cash and cash equivalents	**(79,118)**	**(110,374)**
Cash and Cash Equivalents, beginning of year	532,818	643,192
Cash and Cash Equivalents, end of year	$ 453,700	$ 532,818

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 ________________.

Note 2. Investment Portfolio

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

	2016	2015
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	
Total bond mutual funds	6,990,424	5,953,911
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
Total equity mutual funds	147,302	135,407
	$ 7,137,726	$ 6,089,318

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.