



**BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 2000  
303 Peachtree Street, N.E.  
Atlanta, GA 30308-3210

## Independent Auditors' Report

The Board of Governors  
Boys & Girls Clubs of America:

We have audited the accompanying consolidated financial statements of Boys & Girls Clubs of America and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the subsidiary alliance organizations, which statements reflect total assets constituting 3% and 4%, respectively, of consolidated total assets at December 31, 2017 and 2016, and total revenues constituting 19% and 29%, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the subsidiary alliance organizations, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Boys & Girls Clubs of America and its subsidiaries as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



*Other Matters*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*KPMG LLP*

Atlanta, Georgia  
August 24, 2018

**BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES**

Consolidated Statements of Financial Position

December 31, 2017 and 2016

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 21,922,132	15,543,350
Investments (notes 2 and 16)	277,417,985	266,530,058
Assets held in custody for others (notes 2 and 15)	12,953,521	11,695,431
Membership dues and grants receivable, net	11,287,464	11,646,042
Contributions receivable (note 3)	58,384,089	69,257,400
Assets held in deferred compensation accounts (notes 6 and 16)	2,144,080	1,926,807
Split interest agreements	3,443,638	3,129,539
Land, buildings, and equipment, net (note 4)	27,028,238	27,775,385
Other assets	3,022,693	2,768,793
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Total assets	\$ 417,603,840	410,272,805
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<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 39,923,774	31,831,191
Obligations for custodial funds (note 15)	12,953,521	11,695,431
Liability under deferred compensation agreements (note 6)	2,144,080	1,926,807
Annuities payable	2,735,924	2,274,115
	<hr/>	<hr/>
Total liabilities	57,757,299	47,727,544
	<hr/> <hr/>	<hr/> <hr/>
Net assets:		
Unrestricted:		
Undesignated (note 7)	3,981,140	3,459,663
Board-designated (notes 5, 7, 11 and 12)	161,342,548	162,833,301
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	165,323,688	166,292,964
Temporarily restricted (notes 9 and 12)	160,727,239	162,456,683
Permanently restricted (note 12)	33,795,614	33,795,614
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Total net assets	359,846,541	362,545,261
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Commitments (notes 5, 6, 14, 15, 16 and 17)		
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Total liabilities and net assets	\$ 417,603,840	410,272,805
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See accompanying notes to consolidated financial statements.

**BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES**

Consolidated Statement of Activities

Year ended December 31, 2017  
(with comparative totals for 2016)

	Unrestricted			Temporarily restricted	Permanently restricted	Total	
	Undesignated	Board-designated	Total unrestricted			2017	2016
Changes in net assets:							
Revenue, gains, and other support:							
Contributions	\$ 10,870,740	613,583	11,484,323	80,115,842	—	91,600,165	65,234,831
Contributions in-kind	1,699,215	—	1,699,215	—	—	1,699,215	1,958,812
Government grants and contracts, including amounts passed-through to member clubs (note 8)	40,972,428	—	40,972,428	33,049,705	—	74,022,133	67,072,252
Income from funds held in trust by others	152,091	—	152,091	1,368,803	—	1,520,894	1,524,800
Fund raising events:							
Revenue generated	7,214,169	—	7,214,169	618,541	—	7,832,710	11,528,108
Less direct operating costs (note 13)	(2,523,130)	—	(2,523,130)	—	—	(2,523,130)	(3,178,916)
Fund-raising events revenue in excess of direct costs	4,691,039	—	4,691,039	618,541	—	5,309,580	8,349,192
Member organization dues	10,356,388	—	10,356,388	—	—	10,356,388	9,847,319
Investment income, net of advisory and custody fees	4,119	768,471	772,590	1,339,931	—	2,112,521	1,170,122
Net realized and unrealized (losses) gains on investments	(2,904)	21,254,393	21,251,489	14,593,535	—	35,845,024	9,600,680
Other	1,245,096	65,605	1,310,701	122,425	—	1,433,126	1,276,766
Total revenue and gains	69,988,212	22,702,052	92,690,264	131,208,782	—	223,899,046	166,034,774
Net assets released from restrictions (note 10):							
Satisfaction of program restrictions	129,315,450	—	129,315,450	(129,315,450)	—	—	—
Expirations of time restrictions	3,622,776	—	3,622,776	(3,622,776)	—	—	—
Total net assets released from restrictions	132,938,226	—	132,938,226	(132,938,226)	—	—	—
Total revenue, gains, and other support	202,926,438	22,702,052	225,628,490	(1,729,444)	—	223,899,046	166,034,774
Expenses and losses:							
On-site assistance to member clubs and establishment of new clubs	71,030,308	9,850,083	80,880,391	—	—	80,880,391	79,929,228
Leadership training, development, and support of youth programs	102,754,304	186,329	102,940,633	—	—	102,940,633	84,364,314
Management and general	23,039,339	426,863	23,466,202	—	—	23,466,202	22,532,427
Fund-raising	19,133,047	177,493	19,310,540	—	—	19,310,540	14,903,260
Total expenses and losses	215,956,998	10,640,768	226,597,766	—	—	226,597,766	201,729,229
Changes in net assets before transfers	(13,030,560)	12,061,284	(969,276)	(1,729,444)	—	(2,698,720)	(35,694,455)
Other changes in net assets – transfers (note 7)	13,552,037	(13,552,037)	—	—	—	—	—
Change in net assets	521,477	(1,490,753)	(969,276)	(1,729,444)	—	(2,698,720)	(35,694,455)
Net assets at beginning of year	3,459,663	162,833,301	166,292,964	162,456,683	33,795,614	362,545,261	398,239,716
Net assets at end of year	\$ 3,981,140	161,342,548	165,323,688	160,727,239	33,795,614	359,846,541	362,545,261

See accompanying notes to consolidated financial statements.

**BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES**

Consolidated Statement of Activities

Year ended December 31, 2016

	Unrestricted			Temporarily restricted	Permanently restricted	Total
	Undesignated	Board- designated	Total unrestricted			
Changes in net assets:						
Revenue, gains, and other support:						
Contributions	\$ 7,455,288	3,689,704	11,144,992	54,089,839	—	65,234,831
Contributions in-kind	1,648,746	310,066	1,958,812	—	—	1,958,812
Government grants and contracts, including amounts passed-through to member clubs (note 8)	39,054,311	—	39,054,311	28,017,941	—	67,072,252
Income from funds held in trust by others	152,480	—	152,480	1,372,320	—	1,524,800
Fund raising events:						
Revenue generated	9,916,408	—	9,916,408	1,611,700	—	11,528,108
Less direct operating costs (note 13)	<u>(3,178,916)</u>	<u>—</u>	<u>(3,178,916)</u>	<u>—</u>	<u>—</u>	<u>(3,178,916)</u>
Fund-raising events revenue in excess of direct costs	6,737,492	—	6,737,492	1,611,700	—	8,349,192
Member organization dues	9,847,319	—	9,847,319	—	—	9,847,319
Investment income, net of advisory and custody fees	4,560	444,152	448,712	721,410	—	1,170,122
Net realized and unrealized (losses) gains on investments	(4,779)	6,837,697	6,832,918	2,767,762	—	9,600,680
Other	<u>1,156,892</u>	<u>48,468</u>	<u>1,205,360</u>	<u>71,406</u>	<u>—</u>	<u>1,276,766</u>
Total revenue and gains	<u>66,052,309</u>	<u>11,330,087</u>	<u>77,382,396</u>	<u>88,652,378</u>	<u>—</u>	<u>166,034,774</u>
Net assets released from restrictions (note 10):						
Satisfaction of program restrictions	117,281,628	—	117,281,628	(117,281,628)	—	—
Expirations of time restrictions	<u>4,397,252</u>	<u>—</u>	<u>4,397,252</u>	<u>(4,397,252)</u>	<u>—</u>	<u>—</u>
Total net assets released from restrictions	<u>121,678,880</u>	<u>—</u>	<u>121,678,880</u>	<u>(121,678,880)</u>	<u>—</u>	<u>—</u>
Total revenue, gains, and other support	<u>187,731,189</u>	<u>11,330,087</u>	<u>199,061,276</u>	<u>(33,026,502)</u>	<u>—</u>	<u>166,034,774</u>
Expenses and losses:						
On-site assistance to member clubs and establishment of new clubs	73,113,187	6,816,041	79,929,228	—	—	79,929,228
Leadership training, development, and support of youth programs	84,147,730	216,584	84,364,314	—	—	84,364,314
Management and general	22,214,906	317,521	22,532,427	—	—	22,532,427
Fund-raising	<u>14,766,339</u>	<u>136,921</u>	<u>14,903,260</u>	<u>—</u>	<u>—</u>	<u>14,903,260</u>
Total expenses and losses	<u>194,242,162</u>	<u>7,487,067</u>	<u>201,729,229</u>	<u>—</u>	<u>—</u>	<u>201,729,229</u>
Changes in net assets before transfers	(6,510,973)	3,843,020	(2,667,953)	(33,026,502)	—	(35,694,455)
Other changes in net assets – transfers (note 7)	<u>6,993,734</u>	<u>(6,993,734)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Change in net assets	482,761	(3,150,714)	(2,667,953)	(33,026,502)	—	(35,694,455)
Net assets at beginning of year	<u>2,976,902</u>	<u>165,984,015</u>	<u>168,960,917</u>	<u>195,483,185</u>	<u>33,795,614</u>	<u>398,239,716</u>
Net assets at end of year	\$ <u>3,459,663</u>	<u>162,833,301</u>	<u>166,292,964</u>	<u>162,456,683</u>	<u>33,795,614</u>	<u>362,545,261</u>

See accompanying notes to consolidated financial statements.

**BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (2,698,720)	(35,694,455)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,115,879	935,638
Net realized and unrealized losses (gains) on investments	(35,845,024)	(9,600,680)
In-kind contributions of assets	(1,043,973)	(1,139,660)
Decrease (increase) in membership dues and grants receivable	358,578	(2,997,610)
Decrease in contributions receivable	10,873,311	16,315,082
(Increase) decrease in split interest agreements	(314,099)	170,500
Increase in other assets	(253,900)	(677,260)
Increase in accounts payable and accrued expenses	8,092,583	3,875,853
Increase in annuities payable	555,287	67,739
Net cash used in operating activities	<u>(19,160,078)</u>	<u>(28,744,853)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	61,763,591	73,231,303
Purchase of investments	(35,762,521)	(57,960,649)
Purchases of property and equipment	<u>(368,732)</u>	<u>(397,864)</u>
Net cash provided by investing activities	25,632,338	14,872,790
Cash flows from financing activities:		
Payments to life income beneficiaries	<u>(93,478)</u>	<u>(93,478)</u>
Net increase (decrease) in cash and cash equivalents	6,378,782	(13,965,541)
Cash and cash equivalents at beginning of year	<u>15,543,350</u>	<u>29,508,891</u>
Cash and cash equivalents at end of year	<u>\$ 21,922,132</u>	<u>15,543,350</u>
Supplemental disclosure:		
Cash paid for interest	\$ 5,215	—
Cash paid for taxes	33,754	353,948
In-kind gifts – investments	1,043,973	829,594
In-kind gifts – equipment	—	310,066
In-Kind Gifts – services	655,242	819,152

See accompanying notes to consolidated financial statements.

**BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES**

Consolidated Statement of Functional Expenses

Year ended December 31, 2017

	<u>Program services</u>			<u>Supporting services</u>			<u>Total expenses</u>
	<u>On-site assistance to member clubs and establishment of new clubs</u>	<u>Leadership training, development, and support of youth programs</u>	<u>Total program services</u>	<u>Management and general</u>	<u>Fund-raising</u>	<u>Total supporting services</u>	
Salaries	\$ 23,378,663	5,826,539	29,205,202	10,222,299	7,264,549	17,486,848	46,692,050
Benefits	4,332,869	1,230,587	5,563,456	1,880,860	1,062,191	2,943,051	8,506,507
Payroll taxes	1,652,917	416,720	2,069,637	603,524	496,810	1,100,334	3,169,971
Total salaries and related expenses	29,364,449	7,473,846	36,838,295	12,706,683	8,823,550	21,530,233	58,368,528
Contractual services	9,027,100	7,719,349	16,746,449	6,015,504	5,885,909	11,901,413	28,647,862
Supplies	2,055,577	584,613	2,640,190	262,238	144,239	406,477	3,046,667
Telephone	453,526	112,135	565,661	141,758	119,917	261,675	827,336
Postage and shipping	191,267	157,743	349,010	96,573	957,909	1,054,482	1,403,492
Occupancy	1,058,559	372,068	1,430,627	1,617,092	467,130	2,084,222	3,514,849
Printing and artwork	755,670	503,583	1,259,253	371,980	1,166,299	1,538,279	2,797,532
Travel	3,969,121	902,530	4,871,651	549,009	817,495	1,366,504	6,238,155
Training conferences	2,314,476	2,657,272	4,971,748	673,307	262,765	936,072	5,907,820
Membership dues	52,132	27,074	79,206	79,751	31,588	111,339	190,545
Awards and grants	30,669,727	82,040,443	112,710,170	—	—	—	112,710,170
Interest expense	—	—	—	5,215	—	5,215	5,215
Miscellaneous	586,781	203,648	790,429	576,562	456,725	1,033,287	1,823,716
Depreciation	382,006	186,329	568,335	370,530	177,014	547,544	1,115,879
Total expenses	\$ <u>80,880,391</u>	<u>102,940,633</u>	<u>183,821,024</u>	<u>23,466,202</u>	<u>19,310,540</u>	<u>42,776,742</u>	<u>226,597,766</u>

See accompanying notes to consolidated financial statements.



**BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES**

Consolidated Statement of Functional Expenses

Year ended December 31, 2016

	<u>Program services</u>			<u>Supporting services</u>			<u>Total expenses</u>
	<u>On-site assistance to member clubs and establishment of new clubs</u>	<u>Leadership training, development, and support of youth programs</u>	<u>Total program services</u>	<u>Management and general</u>	<u>Fund-raising</u>	<u>Total supporting services</u>	
Salaries	\$ 23,349,018	4,605,326	27,954,344	9,764,024	6,487,032	16,251,056	44,205,400
Benefits	4,823,069	809,488	5,632,557	1,796,724	918,057	2,714,781	8,347,338
Payroll taxes	1,699,767	311,802	2,011,569	620,430	462,245	1,082,675	3,094,244
Total salaries and related expenses	29,871,854	5,726,616	35,598,470	12,181,178	7,867,334	20,048,512	55,646,982
Contractual services	6,518,948	7,149,441	13,668,389	5,685,886	4,653,601	10,339,487	24,007,876
Supplies	2,216,753	1,518,924	3,735,677	315,524	69,476	385,000	4,120,677
Telephone	453,948	88,497	542,445	120,136	110,623	230,759	773,204
Postage and shipping	290,176	21,487	311,663	126,239	492,452	618,691	930,354
Occupancy	444,758	239,022	683,780	1,412,337	193,751	1,606,088	2,289,868
Printing and artwork	649,776	137,553	787,329	290,526	114,135	404,661	1,191,990
Travel	3,842,598	569,865	4,412,463	579,785	852,018	1,431,803	5,844,266
Training conferences	3,031,244	1,420,001	4,451,245	780,226	271,347	1,051,573	5,502,818
Membership dues	12,676	3,509	16,185	67,620	37,789	105,409	121,594
Awards and grants	32,146,288	67,121,956	99,268,244	129,949	25,500	155,449	99,423,693
Miscellaneous	185,597	150,859	336,456	525,500	78,313	603,813	940,269
Depreciation	264,612	216,584	481,196	317,521	136,921	454,442	935,638
Total expenses	\$ <u>79,929,228</u>	<u>84,364,314</u>	<u>164,293,542</u>	<u>22,532,427</u>	<u>14,903,260</u>	<u>37,435,687</u>	<u>201,729,229</u>

See accompanying notes to consolidated financial statements.

## BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### (1) Summary of Significant Accounting Policies

#### (a) Organization

Boys & Girls Clubs of America (BGCA) is a federally chartered, national organization that was formed to promote the health, social, educational, vocational, and character development of young people throughout the United States (U.S.). Through its national headquarters, five regional service centers, and government relations office in Washington, D.C., BGCA:

- Develops innovative program services for young people;
- Assists community leaders to form new local member clubs;
- Provides training, management consulting, and resource materials to local member clubs;
- Promotes greater public and media awareness of local member club work; and
- Addresses legislative and public policy issues affecting young people.

The accompanying consolidated financial statements include the financial position and operating results of BGCA's subsidiary alliance organizations located throughout the U.S. These alliance organizations are organized under either Section 501(c)(4) or Section 501(c)(3) of the Internal Revenue Code and were formed primarily to meet certain state statutory reporting requirements. Certain members of BGCA's senior management serve as members of the governing boards for certain of these alliance organizations. Such subsidiary alliance organizations numbered 51 at both December 31, 2017 and 2016.

The accompanying consolidated financial statements do not include the financial position and operating results of local member clubs, each of which is an autonomous corporation organized under the laws of the jurisdiction in which it is located. Each local member club operates under a charter granted by BGCA and has its own independent board of directors which controls the local Boys & Girls Club, its programs, and staff. BGCA, the national organization, does not exercise supervision, direction, or control of these chartered local member clubs.

#### (b) Accrual Basis

The consolidated financial statements of BGCA have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred.

#### (c) Basis of Presentation

The accounting policies of BGCA have been designed to conform to U.S. generally accepted accounting principles (U.S. GAAP) as applicable to not-for-profit organizations.

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of BGCA and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.

## BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of BGCA and/or the passage of time.

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by BGCA. Generally, the donors of these assets permit BGCA to use all or part of the income earned on related investments for general or specific purposes.

### **(d) Contributions**

Contributions received, including unconditional promises to give, are recognized as revenue when assets or a donor's unconditional commitment is received.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

### **(e) Investments**

Investments are carried at fair value, with changes in fair value being recorded as unrealized gains (losses). The fair value of publicly traded fixed income and equity securities is based upon quoted market prices. Fair values for private market investments and investments held through limited partnerships or commingled funds, are not as readily determinable. Fair value for these investments is established based on either external events which substantiate a change in fair value or a reasonable methodology that exists to identify and quantify changes in fair value. Fair value determinations for these investments require the use of estimates. Accordingly, such values may differ from the values that would have been used had a ready market for these investments existed.

BGCA has estimated the fair value of certain investments in investment funds on the basis of the net asset value (NAV) per share of the investment, as a practical expedient, if a) the underlying investment manager's calculation of NAV is fair value based, and b) the NAV has been calculated by the fund manager as of BGCA's fiscal year end date. Valuations provided by investment managers are evaluated by management, and management believes such values are reasonable estimates of fair value at December 31, 2017 and 2016 (see notes 2 and 16).

### **(f) Split Interest Agreements**

BGCA's split interest agreements with donors consist primarily of gift annuity agreements and irrevocable charitable remainder trusts for which BGCA serves as trustee. Contribution revenue is recognized when trusts (or annuity agreements) are established, after recording liabilities for the present value of the estimated future payments to be made to beneficiaries. The liabilities are adjusted annually for changes in the values of assets, accretion of the discount and other changes in the estimates of future benefits.

BGCA is also the beneficiary of certain charitable lead trusts held and administered by others. The present value of the estimated future cash receipts from the trusts is recognized as an asset and contribution revenue at the date such trusts are established. The carrying value of the assets is adjusted annually for changes in the values of assets, accretion of the discount and other changes in the estimates of future benefits.

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### **(g) Land, Buildings and Equipment**

Land, buildings and equipment are stated at cost at the date of acquisition or at fair value if acquired through donation. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis.

### **(h) Tax Status**

BGCA is recognized as an organization exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax. During 2017 and 2016, \$262,000 and \$122,000, respectively, was provided for income taxes.

BGCA's subsidiary alliance organizations are exempt from Federal income taxes under either Section 501(c)(4) or Section 501(c)(3) of the Code.

### **(i) Functional Allocation of Expenses**

The costs of providing BGCA's various programs and supporting services have been summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### **(j) Concentration of Credit Risk**

Credit risk represents the risk of loss attributable to possible nonperformance by donors and counterparties relative to the terms of agreements and contracts. Financial instruments that are subject to concentrations of credit risk consist primarily of cash equivalents, investments, and certain receivables. In order to minimize credit risk in connection with cash equivalents and investments, BGCA invests in U.S. government securities, mutual funds, and other marketable securities. These investments are held by diverse, high-quality financial institutions.

### **(k) Use of Estimates**

Management of BGCA has made certain estimates and assumptions relating to the reporting of the allowance for uncollectible contributions receivable, valuation of certain investment securities without readily determinable fair values, depreciable lives of property and equipment, accrued expenses, annuities payable, and the disclosure of contingent assets and liabilities to prepare the consolidated financial statements in conformity with U.S. GAAP. Actual results could differ from those estimates.

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### (I) **New Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for BGCA for fiscal years beginning after December 15, 2018 (as amended in August 2015 by ASU No. 2015-14, *Deferral of Effective Date*). BGCA has not yet completed its assessment of the impact of the new standard on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Liabilities* (ASU 2016-01). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. The new standard impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. BGCA has not yet determined the impact of the new standard on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). The amendments in ASU 2016-02 create FASB ASC Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. The ASU is effective for BGCA's fiscal year 2020. BGCA has not yet determined the impact of the new standard on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 (1) reduces the number of net asset classes presented from three to two; (2) requires the presentation of expenses by functional and natural classification in one location; and (3) requires quantitative and qualitative disclosures about liquidity and availability of financial assets. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. BGCA has not yet determined the impact of the new standard on its consolidated financial statements.

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**(2) Investments**

Investments are carried at estimated fair value and consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Short-term investments	\$ 1,934,893	1,318,884
U.S. Treasuries	19,966,556	—
Fixed income:		
Mutual funds	569,171	556,730
Fixed income securities	19,268,048	26,828,479
Corporate stocks-domestic	89,259,520	94,714,553
Community foundation	46,957	40,515
Private equity investments/hedge funds	<u>159,326,361</u>	<u>154,766,328</u>
	290,371,506	278,225,489
Less custodial fund investments	<u>(12,953,521)</u>	<u>(11,695,431)</u>
Total	<u>\$ 277,417,985</u>	<u>266,530,058</u>

Management is required to make certain estimates in the preparation of the financial statements. Among those significant estimates is the valuation of investments without readily determinable fair values. These estimates are subjective and require judgment regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. BGCA believes that the carrying amounts of these investments are a reasonable estimate of fair value. Estimates, by their nature, are based on judgment and available information. Changes in assumptions could have a material impact on the financial statements.

Custodial fund investments consist of assets which are being held on behalf of other organizations (see note 15).

Net realized and unrealized gains/losses on investments as reflected in the accompanying consolidated statements of activities for the year ended December 31 is as follows:

	<u>2017</u>	<u>2016</u>
Realized gains, net	\$ 4,873,141	23,436,224
Unrealized gains (losses), net	<u>30,971,883</u>	<u>(13,835,544)</u>
	<u>\$ 35,845,024</u>	<u>9,600,680</u>

Investment management expenses were approximately \$489,000 and \$1,138,000 for the years ended December 31, 2017 and 2016, respectively.

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### *Risk Factors*

Liquidity risk – Liquidity risk represents the risk that BGCA may not be able to rapidly adjust the size of its portfolio holdings in times of high volatility and financial stress at a reasonable price. If BGCA were compelled to dispose of an illiquid investment at an inopportune time, the result may be a sale at a substantial discount to fair value.

BGCA invests in alternative investments, which can be highly illiquid. Under adverse market or economic conditions, the secondary market for certain of these alternative investments could further contract. As a result, BGCA could find it more difficult to sell these securities or may only be able to sell these securities at amounts lower than if such securities were more widely traded.

Currency and foreign exchange risk – BGCA may hold investments denominated in currencies other than the U.S. dollar. Thus, there is exposure to currency and foreign exchange risk because the value of the investments denominated in other currencies may fluctuate due to changes in currency exchange rates.

Interest rate and credit risk – BGCA’s investment portfolio is subject to interest rate and credit risks for certain securities whose valuation would be impacted by changes in interest rates. The portfolio is also subject to the risk of the issuer of the security becoming unable to pay interest or repay principal when it is due.

Market price risk – The value of securities held by BGCA may decline in response to certain economic events, including those events impacting entities whose securities are owned and included in the investment portfolio. Events impacting valuation may include (but are not limited to) economic changes, market fluctuations, regulatory changes, global and political instability, and currency, interest rate, and commodity price fluctuations. BGCA attempts to manage this risk through diversification, ongoing due diligence of fund managers, and monitoring of relevant economic conditions.

Concentration risk – Investments in multi-strategy hedge funds totaling \$140,357,754 and \$149,661,158 at December 31, 2017 and 2016, respectively, were held and managed by a single fund manager.

### **(3) Contributions Receivable**

Contributions receivable consists of the following at December 31, 2017 and 2016:

	2017	2016
Contributions receivable, gross	\$ 62,786,554	75,422,070
Less:		
Unamortized discount	(2,616,902)	(4,424,760)
Allowance for uncollectible contributions	(1,785,563)	(1,739,910)
Net unconditional promises to give	\$ 58,384,089	69,257,400
Amounts due in:		
Less than one year	\$ 43,794,037	41,413,673
One to five years	18,992,517	34,008,397
	\$ 62,786,554	75,422,070

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Contributions receivable are initially recorded at fair value as of the date of gift. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue. Estimated future cash flows to be received after one year were discounted at December 31, 2017 and 2016 at rates ranging from 0.12% to 5.41%.

Conditional promises to give are not recognized in the accompanying consolidated financial statements and, if they are subsequently recorded, they may be restricted for specific purposes stipulated by the donors. There were no new conditional gifts received from donors during 2017 and 2016. Approximately \$24,058,000 and \$8,551,000 of conditional promises to give were recognized as revenue during 2017 and 2016, respectively, as donor imposed conditions were met by BGCA. Approximately \$31,326,000 and \$55,384,000 of conditional promises to give were outstanding at December 31, 2017 and 2016, respectively.

#### (4) Land, Buildings, and Equipment

Land and buildings, as well as furnishings and equipment, are recorded at acquisition cost, or fair value upon receipt in the case of gifts. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets.

Land, buildings, and equipment consist of the following at December 31, 2017 and 2016:

	2017	2016	Estimated useful life
Land	\$ 10,848,690	10,848,690	—
Buildings	16,540,525	16,540,525	50 years
Leasehold improvements	443,536	404,583	10 years
Building improvements	3,494,429	3,354,552	6–9 years
Furniture, fixtures and equipment	8,847,854	8,657,952	5–7 years
	40,175,034	39,806,302	
Less accumulated depreciation and amortization	(13,146,796)	(12,030,917)	
	\$ 27,028,238	27,775,385	

Depreciation expense totaled \$1,115,879 and \$935,638 for the years ended December 31, 2017 and 2016, respectively.

#### (5) Retirement Plans

Effective January 1, 2015, BGCA amended its noncontributory defined contribution pension plan to a Defined Contribution 401(k) plan covering all eligible employees. Under the amended plan, BGCA contributes 3% of compensation for each payroll period and a matching contribution for participants who make Elective Deferral Contributions to the Plan of up to 4% of compensation. Pension expense for 2017 and 2016 totaled approximately \$2,358,000 and \$2,513,000, respectively.



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In 2011, the Board of Governors approved a supplemental executive retirement plan for the benefit of a member of senior management whereby a retirement benefit will be earned ratably by the executive during the service term as defined in the plan agreement. The vested amount will be paid to the executive upon retirement, disability, or termination without cause as defined in the plan agreement. The liability recorded in connection with this plan as of December 31, 2017 and 2016 is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

BGCA also has a retirement fund totaling approximately \$622,550 at both December 31, 2017 and 2016 included in board – designated unrestricted net assets.

**(6) Assets Held in and Liability under Deferred Compensation Accounts**

BGCA has in place deferred compensation agreements with certain key officers, whereby sums will be paid according to the terms of the agreements into accounts maintained by BGCA for the purpose of salary continuation upon retirement. This plan is subject to certain stipulations outlined within the agreements, one of which is the officers' continued employment with BGCA. Deferred compensation activity during 2017 and 2016 consists of the following:

	<b>2017</b>	<b>2016</b>
Employee contributions	\$ 163,406	154,443
Annuity contracts	(133,448)	(96,252)
Distributions	(240,881)	(143,892)
Change in fair value	428,196	63,755
Net change for the year	217,273	(21,946)
Assets held in and liability under deferred compensation:		
Beginning of year	1,926,807	1,948,753
End of year	\$ 2,144,080	1,926,807

**(7) Transfers**

Transfers of net assets for the years ended December 31, 2017 and 2016 consist of the following:

<b>Description</b>	<b>2017</b>	
	<b>Unrestricted net assets</b>	
	<b>Undesignated</b>	<b>Board-designated</b>
Fixed asset acquisitions transferred to unrestricted-board-designated net assets	\$ (7,146)	7,146
Investment income transferred in accordance with board spend rate policy	6,482,734	(6,482,734)
Transfer of unrestricted-board-designated net assets to general operating activities, net	7,076,449	(7,076,449)
	\$ 13,552,037	(13,552,037)

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Description	2016	
	Unrestricted net assets	
	Undesignated	Board-designated
Fixed asset acquisitions transferred to unrestricted-board-designated net assets	\$ (23,125)	23,125
Investment income transferred in accordance with board spend rate policy	6,649,500	(6,649,500)
Transfer of unrestricted-board-designated net assets to general operating activities, net	<u>367,359</u>	<u>(367,359)</u>
	<u>\$ 6,993,734</u>	<u>(6,993,734)</u>

**(8) Government Grants and Contracts**

During 2017 and 2016, BGCA recorded revenue totaling \$74,022,133 and \$67,072,252, respectively, related to various government grants and contracts. Of this amount, \$65,733,082 and \$57,771,948 was passed through to certain affiliated local member clubs (see note 1) for leadership training, development and support of youth programs during 2017 and 2016, respectively.

**(9) Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 2017 and 2016 are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
On-site assistance to member clubs and establishment of new clubs	\$ 106,272,844	124,259,091
Leadership training, development and support of youth programs	50,168,040	30,213,512
Available for use in future periods	<u>4,286,355</u>	<u>7,984,080</u>
	<u>\$ 160,727,239</u>	<u>162,456,683</u>

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**(10) Net Assets Released from Restrictions**

During 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, the passage of time, or by occurrence of other events satisfying restrictions specified by donors as follows:

	<u>2017</u>	<u>2016</u>
Purpose restrictions accomplished:		
Expenses for on-site assistance to member clubs and establishment of new clubs	\$ 57,219,831	70,952,955
Expenses for leadership training, development and support of youth programs	<u>72,095,619</u>	<u>46,328,673</u>
	129,315,450	117,281,628
Time restrictions expired – passage of specified time	<u>3,622,776</u>	<u>4,397,252</u>
	<u>\$ 132,938,226</u>	<u>121,678,880</u>

**(11) Unrestricted Net Assets – Board-Designated**

Board-designated net assets consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Functioning as quasi-endowment:		
Reserve fund	\$ 116,614,779	118,012,331
Board designated fund	<u>15,298,676</u>	<u>14,069,869</u>
	131,913,455	132,082,200
Other board-designated	2,400,855	2,975,716
Land, buildings, and equipment	<u>27,028,238</u>	<u>27,775,385</u>
	<u>\$ 161,342,548</u>	<u>162,833,301</u>

**(12) Endowment Net Assets**

BGCA's endowment consists of 56 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Governors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Governors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**(a) Interpretation of Relevant Law**

BGCA has interpreted the State of Georgia's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of

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the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, BGCA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures by BGCA in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, BGCA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment fund
2. The purposes of BGCA and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of BGCA
7. The investment policies of BGCA

#### **(b) Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires BGCA to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets and generally result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets. There were no aforementioned deficiencies at December 31, 2017 and 2016.

#### **(c) Return Objectives and Risk Parameters**

The financial objective of BGCA's endowment is to provide support to the operations of its programs and affiliates and to preserve the inflation adjusted purchasing power of the long term investment. The investment objective is to attain an average annual real total return of at least 5% over the long term (rolling five year periods). Actual returns in any given year may vary from this amount.

To achieve its investment objective, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of 80% Russell 3000 index and 20% Barclays Aggregate Bond Index while assuming a moderate level of investment risk.

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**(d) Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, BGCA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). BGCA targets a diversified asset allocation that places emphasis on investments in marketable securities, bonds, private equity and real estate trusts designed to achieve its long-term return objectives within prudent risk constraints.

**(e) Spending Policy**

A spending policy is established to ensure that the real value of the investment is maintained over time, which requires that the long-term average spending rate not exceed the long-term real return. BGCA's spending rate is established as up to 5% of the previous three year average of the September 30 fair value of the endowment net assets unless stipulated otherwise by the donor.

Endowment net assets consist of the following at December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	79,197,333	33,795,614	112,992,947
Board-designated quasi-endowment funds	131,913,455	—	—	131,913,455
Total endowment net assets	\$ <u>131,913,455</u>	<u>79,197,333</u>	<u>33,795,614</u>	<u>244,906,402</u>

Endowment net assets consist of the following at December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	67,298,007	33,795,614	101,093,621
Board-designated quasi-endowment funds	132,082,200	—	—	132,082,200
Total endowment net assets	\$ <u>132,082,200</u>	<u>67,298,007</u>	<u>33,795,614</u>	<u>233,175,821</u>

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Changes in endowment net assets for the year ended December 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2016	\$ 132,082,200	67,298,007	33,795,614	233,175,821
Contributions	679,162	—	—	679,162
Investment return – investment income and net appreciation	22,022,867	15,100,660	—	37,123,527
Appropriation of endowment assets for expenditure	<u>(22,870,774)</u>	<u>(3,201,334)</u>	<u>—</u>	<u>(26,072,108)</u>
Endowment net assets, December 31, 2017	\$ <u>131,913,455</u>	<u>79,197,333</u>	<u>33,795,614</u>	<u>244,906,402</u>

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2015	\$ 134,451,527	67,456,469	33,795,614	235,703,610
Contributions	3,738,171	—	—	3,738,171
Investment return – investment income and net appreciation	7,281,849	3,306,635	—	10,588,484
Appropriation of endowment assets for expenditure	<u>(13,389,347)</u>	<u>(3,465,097)</u>	<u>—</u>	<u>(16,854,444)</u>
Endowment net assets, December 31, 2016	\$ <u>132,082,200</u>	<u>67,298,007</u>	<u>33,795,614</u>	<u>233,175,821</u>

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**(13) Fund-Raising Event Direct Operating Costs**

BGCA holds periodic fund-raising events and reports the revenues generated, net of any direct operating costs, as revenue, gains, and other support in the accompanying consolidated statements of activities. These direct operating costs during 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Supplies	\$ 59,476	77,070
Printing	80,076	77,582
Postage	7,608	8,163
Travel	46,071	96,330
Banquets and space rental	1,586,568	2,194,977
Entertainment, event management, and speakers	<u>743,331</u>	<u>724,794</u>
	\$ <u>2,523,130</u>	<u>3,178,916</u>

**(14) Leases**

BGCA is obligated under noncancelable long-term operating leases for rental of office facilities and equipment, as follows:

Years ending December 31:	
2018	\$ 445,178
2019	429,584
2020	<u>358,109</u>
	\$ <u>1,232,871</u>

Rental expense under operating leases totaled approximately \$736,000 and \$547,000 for the years ended December 31, 2017 and 2016, respectively.

BGCA leases a portion of its National Office facility and subleases leased space in New York, NY no longer used by BGCA to outside tenants. Rental income to be received in future periods under current lease and sub-lease arrangements is as follows:

Years ending December 31:	
2018	\$ 1,160,748
2019	1,143,712
2020	1,190,736
2021	1,157,586
2022	1,124,436
Thereafter	<u>1,542,480</u>
	\$ <u>7,319,698</u>

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Rental income totaled approximately \$1,368,000 and \$1,412,000 for the years ended December 31, 2017 and 2016, respectively.

### (15) Obligations for Custodial Funds

BGCA has custody of certain assets which are being held and disbursed only on instructions of the person or organization from which they were received. These custodial funds and related obligations are included in the accompanying consolidated statements of financial position; however, additions to/disbursements from these funds are not considered part of BGCA's operations.

The changes in custodial funds for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Net gains (losses) on investments and other receipts	\$ 1,858,961	354,492
Disbursements	(600,871)	(845,418)
Net change for the year	1,258,090	(490,926)
Assets held in custody for others:		
Beginning of year	11,695,431	12,186,357
End of year	\$ 12,953,521	11,695,431

### (16) Fair Value Measurements

BGCA applies ASC No. 820, *Fair Value Measurement*, for fair value measurements of financial and nonfinancial assets and financial liabilities. BGCA's estimates of fair value for financial assets and liabilities are based on the framework established in ASC No. 820, which considers the inputs used in valuation, gives the highest priority to quoted prices in active markets, and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC No. 820 hierarchy is based on whether the significant inputs relative to the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect BGCA's significant market assumptions. The three levels of the hierarchy are further described as follows:

Level 1 – Valuations based on unadjusted quoted market prices for identical assets or liabilities in accessible and active markets.

Level 2 – Valuations based on pricing inputs that are other than quoted prices in active markets which are either directly or indirectly observable. Examples include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.



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Level 3 – Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and require significant professional judgment in determining the fair value assigned to such assets or liabilities. Level 3 investments comprise primarily alternative investments which are not readily marketable.

The majority of BGCA's investments are held through limited partnerships for which the fair value is estimated using the Net Asset Value (NAV) reported by the investment managers as a practical expedient. In accordance with ASU 2015-07 *Fair Value Measurement*, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The carrying amounts presented are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated statements of financial position. Certain investments totaling \$151,580,239 that were previously classified as Level 2 in fiscal 2016 have been classified as "Investments measured at NAV" as an immaterial correction.

The carrying amounts of membership dues and grants receivable, split-interest agreements, accounts payable and accrued expenses, and annuities payable (all classified largely as Level 1 within the fair value hierarchy described above) approximate fair value because of the relative terms and/or short maturity of these financial instruments. Contributions receivable are initially measured at fair value in the year the receivable is recorded based on the present value of the estimated future cash flows discounted at a rate that reflects the risks inherent in those cash flows, which is an application of the income approach. Current year gifts included in contributions receivable reflected at fair value were approximately \$25.7 million and \$17.0 million at December 31, 2017 and 2016, respectively, and are classified as Level 3 in the fair value hierarchy. Cash and cash equivalents, investments, assets held in custody for others, and assets held in deferred compensation accounts are reflected in the accompanying consolidated financial statements at fair value. The carrying amounts of obligations for custodial funds, and the liability under deferred compensation agreements are recorded at the fair value of the underlying assets.

## BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2017 and 2016

As required by ASC No. 820, financial instruments recorded at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The following is a summary of BGCA's financial instruments within the fair value hierarchy as of December 31, 2017 and 2016:

	2017					Redemption or liquidation	Notice period
	Investments measured at NAV	Level 1	Level 2	Level 3	Total		
Assets:							
Recurring:							
Cash and cash equivalents	\$ —	21,922,132	—	—	21,922,132	Daily	None
Investments, and assets held in custody for others:							
Cash and cash equivalents	\$ —	1,934,893	—	—	1,934,893	Daily	None
U.S. Treasuries	—	19,966,556	—	—	19,966,556	30–60 days	None
Fixed income:							
Mutual funds	—	569,171	—	—	569,171	Daily	None
Fixed income securities	—	—	19,268,048	—	19,268,048	Monthly	5 days
Corporate stocks	—	89,259,520	—	—	89,259,520	Daily	None
Community foundation	—	—	—	46,957	46,957	At discretion of foundation	At discretion of foundation
Alternative investments:							
Private equity	7,360,227	—	—	—	7,360,227	At discretion of general partner	At discretion of general partner
Credit/distressed hedge funds	11,608,380	—	—	—	11,608,380	Quarterly or bi-annually	45–90 days
Multi-strategy hedge funds	140,357,754	—	—	—	140,357,754	Annually or quarterly	65–105 days
Total investments and assets held in custody for others							
	\$ 159,326,361	111,730,140	19,268,048	46,957	290,371,506		
Assets held in deferred compensation accounts	\$ —	2,144,080	—	—	2,144,080	Daily	None
2016							
	Investments measured at NAV	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Notice period
Assets:							
Recurring:							
Cash and cash equivalents	\$ —	15,543,350	—	—	15,543,350	Daily	None
Investments, and assets held in custody for others:							
Cash and cash equivalents	\$ —	1,318,884	—	—	1,318,884	Daily	None
Fixed income:							
Mutual funds	—	556,730	—	—	556,730	Daily	None
Fixed income securities	—	—	26,828,479	—	26,828,479	Monthly	5 days
Corporate stocks	—	94,714,553	—	—	94,714,553	Daily	None
Community foundation	—	—	—	40,515	40,515	At discretion of foundation	At discretion of foundation
Alternative investments:							
Private equity	3,186,089	—	—	—	3,186,089	At discretion of general partner	At discretion of general partner
Credit/distressed hedge funds	10,919,081	—	—	—	10,919,081	Quarterly or bi-annually	45–90 days
Multi-strategy hedge funds	140,661,158	—	—	—	140,661,158	Annually or quarterly	65–105 days
Total investments and assets held in custody for others							
	\$ 154,766,328	96,590,167	26,828,479	40,515	278,225,489		
Assets held in deferred compensation accounts	\$ —	1,926,807	—	—	1,926,807	Daily	None

## BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2017 and 2016

The following is a description of the valuation methodologies and inputs used for alternative investments recorded at NAV.

#### *Private Equity*

This class includes a fund of funds that invests in private equity funds making investments in the U.S. across a broad range of industries and company sizes. These investments cannot be redeemed at the investor's request. Instead, the nature of the investments in this class is such that distributions are received through the liquidation of the underlying assets of the fund. The fair value of these investments has been estimated using the net asset value per share of the investment as a practical expedient to estimate fair value.

#### *Credit/Distressed*

This class includes investments in funds that buy bonds or structured credit products expected to appreciate in value and short those they expect to decline in value. These managers will invest in corporate bonds, structured products, bank loans and fixed income derivatives. Distressed-debt managers typically focus on bonds and bank loans trading at a significant discount to par value as a result of the debtor company's troubled financial condition. These managers may become actively involved in company reorganization and bankruptcy committees and may also buy bonds with the expectation that they will be converted to equity. The fair value of these investments has been determined to be the net asset value per share of the investments. Investments representing 7% of this class cannot be redeemed due to liquidity restrictions and will be distributed at the managers' discretion.

#### *Multi-Strategy*

This class includes investments in funds that invest in different strategies, shifting capital among them according to their profitability. These managers employ event driven and diversified strategies, seeking to generate risk-adjusted returns across business and market cycles. In addition, they may also engage in other areas, such as private placements, insurance and real estate. The term open mandate is sometimes used synonymously with multi-strategy. The fair value of these investments has been determined to be the net asset value per share of the investments. Investments representing 5% of this class cannot be redeemed due to liquidity restrictions and will be distributed at the managers' discretion.

### **(17) Commitments and Contingencies**

#### *Financial*

In July 2017, BGCA secured a Line of Credit with SunTrust Bank for \$10,000,000 with a one-year maturity date. The line of credit will assist with BGCA's working capital needs. During 2017, BGCA drew \$15,800,000 from the line of credit. As of December 31, 2017, there was no outstanding balance on the line of credit.

## **BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### *Legal Matters*

BGCA is subject to claims and legal actions arising in the ordinary course of business. In the opinion of management, the outcome of such actions will not have a material adverse effect on the financial position of BGCA.

### *Federal Financial Assistance*

Federally funded programs are routinely subject to special audits that could result in claims against the resources of BGCA. Management does not believe that there will be any claims arising from such audits that could have a material adverse effect on the financial position of BGCA.

### **(18) Subsequent Events**

BGCA evaluated events subsequent to December 31, 2017 and through August 24, 2018, the date on which the consolidated financial statements were available for issuance and determined that all significant events and disclosures are included in the consolidated financial statements.

**BOYS & GIRLS CLUBS OF AMERICA – NATIONAL ORGANIZATION  
(EXCLUDING SUBSIDIARY ORGANIZATIONS)**

Statements of Financial Position – Information

December 31, 2017 and 2016

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 15,281,160	6,991,073
Investments	277,417,985	266,530,058
Assets held in custody for others	12,953,521	11,695,431
Membership dues and grants receivable, net	5,241,369	4,991,512
Contributions receivable	58,384,089	69,257,400
Assets held in deferred compensation accounts	2,144,080	1,926,807
Split interest agreements	3,443,638	3,129,539
Land, buildings, and equipment, net	26,994,540	27,738,540
Other assets	2,816,408	2,744,246
	<hr/>	<hr/>
Total assets	\$ <u>404,676,790</u>	<u>395,004,606</u>
 <b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 31,892,746	22,165,900
Obligations for custodial funds	12,953,521	11,695,431
Liability under deferred compensation agreements	2,144,080	1,926,807
Annuities payable	2,735,924	2,274,115
	<hr/>	<hr/>
Total liabilities	<u>49,726,271</u>	<u>38,062,253</u>
Net assets:		
Unrestricted:		
Undesignated	755,714	486,137
Board-designated	161,308,850	162,796,456
	<hr/>	<hr/>
	162,064,564	163,282,593
Temporarily restricted	159,090,341	159,864,146
Permanently restricted	33,795,614	33,795,614
	<hr/>	<hr/>
Total net assets	<u>354,950,519</u>	<u>356,942,353</u>
	<hr/>	<hr/>
Total liabilities and net assets	\$ <u>404,676,790</u>	<u>395,004,606</u>

See accompanying independent auditors' report

**BOYS & GIRLS CLUBS OF AMERICA – NATIONAL ORGANIZATION**  
**(EXCLUDING SUBSIDIARY ORGANIZATIONS)**

Statement of Activities – Information

Year ended December 31, 2017  
(with comparative totals for 2016)

	Unrestricted			Temporarily restricted	Permanently restricted	Total	
	Undesignated	Board-designated	Total unrestricted			2017	2016
Changes in net assets:							
Revenue, gains, and other support:							
Contributions	\$ 9,890,809	613,583	10,504,392	78,998,373	—	89,502,765	62,370,688
Contributions in-kind	1,043,973	—	1,043,973	—	—	1,043,973	1,139,660
Government grants and contracts (includes pass through to clubs for 2017 and 2016 of \$23,378,901 and \$23,052,894, respectively)	28,581,026	—	28,581,026	—	—	28,581,026	26,140,622
Income from funds held in trust by others	152,091	—	152,091	1,368,803	—	1,520,894	1,524,800
Fund raising events:							
Revenue generated	6,857,129	—	6,857,129	618,541	—	7,475,670	11,157,988
Less direct operating costs	(2,429,500)	—	(2,429,500)	—	—	(2,429,500)	(3,071,736)
Fund-raising events revenue in excess of direct costs	4,427,629	—	4,427,629	618,541	—	5,046,170	8,086,252
Member organization dues	7,330,676	—	7,330,676	—	—	7,330,676	7,176,252
Investment income, net of advisory and custody fees	—	768,471	768,471	1,339,931	—	2,108,402	1,165,562
Net realized and unrealized (losses) gains on investments	(2,904)	21,254,393	21,251,489	14,593,535	—	35,845,024	9,600,680
Others	1,139,023	65,605	1,204,628	75,797	—	1,280,425	1,035,747
Total revenue and gains	52,562,323	22,702,052	75,264,375	96,994,980	—	172,259,355	118,240,263
Net assets released from restrictions:							
Satisfaction of program restrictions	94,146,009	—	94,146,009	(94,146,009)	—	—	—
Expirations of time restrictions	3,622,776	—	3,622,776	(3,622,776)	—	—	—
Total net assets released from restrictions	97,768,785	—	97,768,785	(97,768,785)	—	—	—
Total revenue, gains, and other support	150,331,108	22,702,052	173,033,160	(773,805)	—	172,259,355	118,240,263
Expenses and losses:							
On-site assistance to member clubs and establishment of new clubs	71,030,308	9,850,083	80,880,391	—	—	80,880,391	79,929,228
Leadership training, development, and support of youth programs	53,378,636	186,329	53,564,965	—	—	53,564,965	40,382,717
Management and general	20,221,062	416,570	20,637,632	—	—	20,637,632	20,114,551
Fund-raising	18,990,708	177,493	19,168,201	—	—	19,168,201	14,714,113
Total expenses and losses	163,620,714	10,630,475	174,251,189	—	—	174,251,189	155,140,609
Changes in net assets before transfers	(13,289,606)	12,071,577	(1,218,029)	(773,805)	—	(1,991,834)	(36,900,346)
Other changes in net assets – transfers	13,559,183	(13,559,183)	—	—	—	—	—
Change in net assets	269,577	(1,487,606)	(1,218,029)	(773,805)	—	(1,991,834)	(36,900,346)
Net assets at beginning of year	486,137	162,796,456	163,282,593	159,864,146	33,795,614	356,942,353	393,842,699
Net assets at end of year	\$ 755,714	161,308,850	162,064,564	159,090,341	33,795,614	354,950,519	356,942,353

See accompanying independent auditors' report

**BOYS & GIRLS CLUBS OF AMERICA – NATIONAL ORGANIZATION  
(EXCLUDING SUBSIDIARY ORGANIZATIONS)**

Statements of Cash Flows – Information

Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,991,834)	(36,900,346)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,105,586	929,301
Net realized and unrealized gains on investments	(35,845,024)	(9,600,680)
In-kind contributions of assets	(1,043,973)	(1,139,660)
Increase in membership dues and grants receivable	(249,857)	(2,557,963)
Decrease in contributions receivable	10,873,311	16,315,082
(Increase) decrease in split interest agreements	(314,099)	170,500
Increase in other assets	(72,162)	(685,950)
Increase in accounts payable and accrued expenses	9,726,846	3,111,733
Increase in annuities payable	555,287	67,739
Net cash used in operating activities	<u>(17,255,919)</u>	<u>(30,290,244)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	61,763,591	73,226,743
Purchase of investments	(35,762,521)	(57,956,089)
Purchases of property and equipment	<u>(361,586)</u>	<u>(368,633)</u>
Net cash provided by investing activities	25,639,484	14,902,021
Cash flows from financing activities:		
Payments to life income beneficiaries	<u>(93,478)</u>	<u>(93,478)</u>
Net increase (decrease) in cash and cash equivalents	8,290,087	(15,481,701)
Cash and cash equivalents at beginning of year	<u>6,991,073</u>	<u>22,472,774</u>
Cash and cash equivalents at end of year	<u>\$ 15,281,160</u>	<u>6,991,073</u>
Supplemental disclosure:		
Cash paid for interest	\$ 5,215	—
Cash paid for taxes	33,754	229,282
In-kind gifts – investments	1,043,973	829,594
In-kind gifts – equipment	—	310,066

See accompanying independent auditors' report.

**BOYS & GIRLS CLUBS OF AMERICA – NATIONAL ORGANIZATION  
(EXCLUDING SUBSIDIARY ORGANIZATIONS)**

Statement of Functional Expenses – Information

Year ended December 31, 2017

	Program services			Supporting services			Total expenses
	On-site assistance to member clubs and establishment of new clubs	Leadership training, development, and support of youth programs	Total program services	Management and general	Fund-raising	Total supporting services	
Salaries	\$ 23,378,663	5,641,676	29,020,339	10,152,074	7,158,367	17,310,441	46,330,780
Benefits	4,332,869	1,197,040	5,529,909	1,866,679	1,046,800	2,913,479	8,443,388
Payroll taxes	1,652,917	399,346	2,052,263	596,635	487,612	1,084,247	3,136,510
Total salaries and related expenses	29,364,449	7,238,062	36,602,511	12,615,388	8,692,779	21,308,167	57,910,678
Contractual services	9,027,100	2,730,035	11,757,135	3,469,032	5,877,821	9,346,853	21,103,988
Supplies	2,055,577	349,885	2,405,462	243,048	143,744	386,792	2,792,254
Telephone	453,526	89,577	543,103	136,359	119,917	256,276	799,379
Postage and shipping	191,267	152,555	343,822	93,976	957,909	1,051,885	1,395,707
Occupancy	1,058,559	329,151	1,387,710	1,595,965	466,620	2,062,585	3,450,295
Printing and artwork	755,670	473,452	1,229,122	371,889	1,166,299	1,538,188	2,767,310
Travel	3,969,121	697,967	4,667,088	529,183	815,020	1,344,203	6,011,291
Training conferences	2,314,476	2,224,992	4,539,468	633,700	262,765	896,465	5,435,933
Membership dues	52,132	26,472	78,604	73,601	31,588	105,189	183,793
Awards and grants	30,669,727	38,934,585	69,604,312	—	—	—	69,604,312
Interest expense	—	—	—	5,215	—	5,215	5,215
Miscellaneous	586,781	131,903	718,684	510,039	456,725	966,764	1,685,448
Depreciation	382,006	186,329	568,335	360,237	177,014	537,251	1,105,586
Total expenses	\$ 80,880,391	53,564,965	134,445,356	20,637,632	19,168,201	39,805,833	174,251,189

See accompanying independent auditors' report.



**BOYS & GIRLS CLUBS OF AMERICA – NATIONAL ORGANIZATION  
(EXCLUDING SUBSIDIARY ORGANIZATIONS)**

Statement of Functional Expenses – Information

Year ended December 31, 2016

	Program services			Supporting services			Total expenses
	On-site assistance to member clubs and establishment of new clubs	Leadership training, development, and support of youth programs	Total program services	Management and general	Fund-raising	Total supporting services	
Salaries	\$ 23,349,018	4,423,582	27,772,600	9,689,525	6,369,541	16,059,066	43,831,666
Benefits	4,823,069	778,004	5,601,073	1,782,032	901,067	2,683,099	8,284,172
Payroll taxes	1,699,767	296,202	1,995,969	613,672	452,846	1,066,518	3,062,487
Total salaries and related expenses	29,871,854	5,497,788	35,369,642	12,085,229	7,723,454	19,808,683	55,178,325
Contractual services	6,518,948	2,126,906	8,645,854	3,623,021	4,614,350	8,237,371	16,883,225
Supplies	2,216,753	442,005	2,658,758	283,330	68,008	351,338	3,010,096
Telephone	453,948	63,168	517,116	118,240	110,623	228,863	745,979
Postage and shipping	290,176	18,237	308,413	125,926	492,452	618,378	926,791
Occupancy	444,758	200,622	645,380	1,405,456	192,730	1,598,186	2,243,566
Printing and artwork	649,776	134,899	784,675	290,107	113,739	403,846	1,188,521
Travel	3,842,598	504,169	4,346,767	552,665	848,887	1,401,552	5,748,319
Training conferences	3,031,244	883,624	3,914,868	713,115	271,347	984,462	4,899,330
Membership dues	12,676	1,829	14,505	61,621	37,789	99,410	113,915
Awards and grants	32,146,288	30,172,028	62,318,316	129,949	25,500	155,449	62,473,765
Miscellaneous	185,597	120,858	306,455	414,708	78,313	493,021	799,476
Depreciation	264,612	216,584	481,196	311,184	136,921	448,105	929,301
Total expenses	\$ 79,929,228	40,382,717	120,311,945	20,114,551	14,714,113	34,828,664	155,140,609

See accompanying independent auditors' report.