



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

Consolidated Financial Statements

December 31, 2016 and 2015

(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, 2016 and 2015, 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 4% and 3% and total revenues constituting 29% and 26% in 2016 and 2015, respectively, of the related consolidated totals. 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, 2016 and 2015, 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 3, 2017

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

Consolidated Statements of Financial Position

December 31, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 15,543,350	29,508,891
Investments (notes 2 and 16)	266,530,058	271,370,438
Assets held in custody for others (notes 2, 15 and 16)	11,695,431	12,186,357
Membership dues and grants receivable, net	11,646,042	8,648,432
Contributions receivable (note 3)	69,257,400	85,572,482
Assets held in deferred compensation accounts (notes 6 and 16)	1,926,807	1,948,753
Split interest agreements	3,129,539	3,300,039
Land, buildings, and equipment, net (note 4)	27,775,385	28,003,093
Other assets	2,768,793	2,091,533
Total assets	\$ 410,272,805	442,630,018
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 31,831,191	27,955,338
Obligations for custodial funds (note 15)	11,695,431	12,186,357
Liability under deferred compensation agreements (note 6)	1,926,807	1,948,753
Annuities payable	2,274,115	2,299,854
Total liabilities	47,727,544	44,390,302
Net assets:		
Unrestricted:		
Undesignated (note 7)	3,459,663	2,976,902
Board-designated (notes 5, 7, 11 and 12)	162,833,301	165,984,015
	166,292,964	168,960,917
Temporarily restricted (notes 9 and 12)	162,456,683	195,483,185
Permanently restricted (note 12)	33,795,614	33,795,614
Total net assets	362,545,261	398,239,716
Commitments (notes 5, 6, 14, 15, and 17)	_____	_____
Total liabilities and net assets	\$ 410,272,805	442,630,018

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Activities

Year ended December 31, 2016  
(with comparative totals for 2015)

	Unrestricted			Temporarily restricted	Permanently restricted	Total	
	Undesignated	Board-designated	Total unrestricted			2016	2015
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	94,589,316
Contributions in-kind	1,648,746	310,066	1,958,812	—	—	1,958,812	3,690,491
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	61,624,866
Income from funds held in trust by others	152,480	—	152,480	1,372,320	—	1,524,800	1,470,529
Fund raising events:							
Revenue generated	9,916,408	—	9,916,408	1,611,700	—	11,528,108	8,692,622
Less direct operating costs (note 13)	(3,178,916)	—	(3,178,916)	—	—	(3,178,916)	(2,589,053)
Fund-raising events revenue in excess of direct costs	6,737,492	—	6,737,492	1,611,700	—	8,349,192	6,103,569
Member organization dues	9,847,319	—	9,847,319	—	—	9,847,319	9,645,737
Investment income, net of advisory and custody fees	4,560	444,152	448,712	721,410	—	1,170,122	355,737
Net realized and unrealized gains (losses) on investments	(4,779)	6,837,697	6,832,918	2,767,762	—	9,600,680	484,202
Other	1,156,892	48,468	1,205,360	71,406	—	1,276,766	1,758,567
Total revenue and gains	66,052,309	11,330,087	77,382,396	88,652,378	—	166,034,774	179,723,014
Net assets released from restrictions (note 10):							
Satisfaction of program restrictions	117,281,628	—	117,281,628	(117,281,628)	—	—	—
Expirations of time restrictions	4,397,252	—	4,397,252	(4,397,252)	—	—	—
Total net assets released from restrictions	121,678,880	—	121,678,880	(121,678,880)	—	—	—
Total revenue, gains, and other support	187,731,189	11,330,087	199,061,276	(33,026,502)	—	166,034,774	179,723,014
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	65,232,838
Leadership training, development, and support of youth programs	84,147,730	216,584	84,364,314	—	—	84,364,314	89,702,753
Management and general	22,214,906	317,521	22,532,427	—	—	22,532,427	21,340,454
Fund-raising	14,766,339	136,921	14,903,260	—	—	14,903,260	10,709,478
Total expenses and losses	194,242,162	7,487,067	201,729,229	—	—	201,729,229	186,985,523
Changes in net assets before transfers	(6,510,973)	3,843,020	(2,667,953)	(33,026,502)	—	(35,694,455)	(7,262,509)
Other changes in net assets – transfers (note 7)	6,993,734	(6,993,734)	—	—	—	—	—
Change in net assets	482,761	(3,150,714)	(2,667,953)	(33,026,502)	—	(35,694,455)	(7,262,509)
Net assets at beginning of year	2,976,902	165,984,015	168,960,917	195,483,185	33,795,614	398,239,716	405,502,225
Net assets at end of year	\$ 3,459,663	162,833,301	166,292,964	162,456,683	33,795,614	362,545,261	398,239,716

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Activities

Year ended December 31, 2015

	<u>Unrestricted</u>					
	<u>Undesignated</u>	<u>Board-designated</u>	<u>Total unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Changes in net assets:						
Revenue, gains, and other support:						
Contributions	\$ 5,482,803	256,807	5,739,610	88,848,706	1,000	94,589,316
Contributions in-kind	1,925,132	1,765,359	3,690,491	—	—	3,690,491
Government grants and contracts, including amounts passed-through to member clubs (note 8)	31,096,837	—	31,096,837	30,528,029	—	61,624,866
Income from funds held in trust by others	147,051	—	147,051	1,323,478	—	1,470,529
Fund raising events:						
Revenue generated	7,661,770	—	7,661,770	1,030,852	—	8,692,622
Less direct operating costs (note 13)	<u>(2,589,053)</u>	<u>—</u>	<u>(2,589,053)</u>	<u>—</u>	<u>—</u>	<u>(2,589,053)</u>
Fund-raising events revenue in excess of direct costs	5,072,717	—	5,072,717	1,030,852	—	6,103,569
Member organization dues	9,645,737	—	9,645,737	—	—	9,645,737
Investment income, net of advisory and custody fees	4,517	(161,409)	(156,892)	512,629	—	355,737
Net realized and unrealized (losses) gains on investments	(3,949)	600,188	596,239	(112,037)	—	484,202
Other	<u>1,446,097</u>	<u>81,362</u>	<u>1,527,459</u>	<u>231,108</u>	<u>—</u>	<u>1,758,567</u>
Total revenue and gains	<u>54,816,942</u>	<u>2,542,307</u>	<u>57,359,249</u>	<u>122,362,765</u>	<u>1,000</u>	<u>179,723,014</u>
Net assets released from restrictions (note 10):						
Satisfaction of program restrictions	115,762,248	—	115,762,248	(115,762,248)	—	—
Expirations of time restrictions	<u>3,916,287</u>	<u>—</u>	<u>3,916,287</u>	<u>(3,916,287)</u>	<u>—</u>	<u>—</u>
Total net assets released from restrictions	<u>119,678,535</u>	<u>—</u>	<u>119,678,535</u>	<u>(119,678,535)</u>	<u>—</u>	<u>—</u>
Total revenue, gains, and other support	<u>174,495,477</u>	<u>2,542,307</u>	<u>177,037,784</u>	<u>2,684,230</u>	<u>1,000</u>	<u>179,723,014</u>
Expenses and losses:						
On-site assistance to member clubs and establishment of new clubs	58,126,399	7,106,439	65,232,838	—	—	65,232,838
Leadership training, development, and support of youth programs	89,541,767	160,986	89,702,753	—	—	89,702,753
Management and general	21,094,289	246,165	21,340,454	—	—	21,340,454
Fund-raising	<u>10,617,780</u>	<u>91,698</u>	<u>10,709,478</u>	<u>—</u>	<u>—</u>	<u>10,709,478</u>
Total expenses and losses	<u>179,380,235</u>	<u>7,605,288</u>	<u>186,985,523</u>	<u>—</u>	<u>—</u>	<u>186,985,523</u>
Changes in net assets before transfers	(4,884,758)	(5,062,981)	(9,947,739)	2,684,230	1,000	(7,262,509)
Other changes in net assets – transfers (note 7)	<u>5,763,035</u>	<u>(5,763,035)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Change in net assets	878,277	(10,826,016)	(9,947,739)	2,684,230	1,000	(7,262,509)
Net assets at beginning of year	<u>2,098,625</u>	<u>176,810,031</u>	<u>178,908,656</u>	<u>192,798,955</u>	<u>33,794,614</u>	<u>405,502,225</u>
Net assets at end 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>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (35,694,455)	(7,262,509)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	935,638	734,953
Net realized and unrealized gains on investments	(9,600,680)	(835,422)
Contributions restricted for long-term investment	—	(1,000)
In-kind contributions	(1,139,660)	(2,884,273)
Increase in membership dues and grants receivable, net	(2,997,610)	(1,271,036)
Decrease in contributions receivable	16,315,082	796,350
Decrease in split interest agreements	170,500	369,495
Increase in other assets	(677,260)	(41,893)
Increase in accounts payable and accrued expenses	3,875,853	4,651,136
Increase (decrease) in annuities payable	67,739	(114,548)
Net cash used in operating activities	<u>(28,744,853)</u>	<u>(5,858,747)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	73,231,303	36,619,533
Purchase of investments	(57,960,649)	(21,705,220)
Purchases of property and equipment	(397,864)	(1,140,482)
Net cash provided by investing activities	<u>14,872,790</u>	<u>13,773,831</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	—	1,000
Principal repayments on bonds payable and capital leases	—	(3,968,750)
Payments to life income beneficiaries	(93,478)	(54,283)
Net cash used in financing activities	<u>(93,478)</u>	<u>(4,022,033)</u>
Net (decrease) increase in cash and cash equivalents	(13,965,541)	3,893,051
Cash and cash equivalents at beginning of year	<u>29,508,891</u>	<u>25,615,840</u>
Cash and cash equivalents at end of year	\$ <u><u>15,543,350</u></u>	<u><u>29,508,891</u></u>
Supplemental disclosure:		
Cash paid for interest	\$ —	41,489
Cash paid for taxes	353,948	631,994
In-kind gifts – investments	829,594	1,118,914
In-kind gifts – equipment	310,066	1,765,359
In-kind gifts – services	819,152	806,218

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Functional Expenses

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	4,605,326	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	\$ 79,929,228	84,364,314	164,293,542	22,532,427	14,903,260	37,435,687	201,729,229

See accompanying notes to consolidated financial statements.



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

Consolidated Statement of Functional Expenses

Year ended December 31, 2015

	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	\$ 18,380,056	7,385,566	25,765,622	8,898,195	5,603,068	14,501,263	40,266,885
Benefits	3,651,700	1,479,403	5,131,103	1,664,993	880,540	2,545,533	7,676,636
Payroll taxes	1,315,032	523,920	1,838,952	503,286	377,715	881,001	2,719,953
Total salaries and related expenses	23,346,788	9,388,889	32,735,677	11,066,474	6,861,323	17,927,797	50,663,474
Contractual services	6,795,906	7,538,347	14,334,253	5,817,423	2,258,658	8,076,081	22,410,334
Supplies	1,403,685	1,586,290	2,989,975	285,414	97,437	382,851	3,372,826
Telephone	416,590	116,005	532,595	143,976	104,519	248,495	781,090
Postage and shipping	352,138	109,418	461,556	134,185	133,651	267,836	729,392
Occupancy	554,070	201,789	755,859	1,406,145	128,173	1,534,318	2,290,177
Printing and artwork	431,277	367,312	798,589	262,056	73,203	335,259	1,133,848
Travel	3,631,450	870,761	4,502,211	546,950	703,913	1,250,863	5,753,074
Training conferences	2,885,676	1,213,903	4,099,579	767,704	170,324	938,028	5,037,607
Membership dues	43,914	9,814	53,728	54,490	11,378	65,868	119,596
Awards and grants	24,903,407	67,937,395	92,840,802	—	—	—	92,840,802
Interest expense	—	—	—	41,489	—	41,489	41,489
Miscellaneous	267,019	201,844	468,863	567,983	75,201	643,184	1,112,047
Depreciation	200,918	160,986	361,904	246,165	91,698	337,863	699,767
Total expenses	\$ 65,232,838	89,702,753	154,935,591	21,340,454	10,709,478	32,049,932	186,985,523

See accompanying notes to consolidated financial statements.

## BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### (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, 2016 and 2015.

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.

*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.

## BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

*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. Typically, real estate partnerships and funds are valued based on appraisals of underlying properties held and conducted by third party appraisers retained by the general partner or investment manager. Valuations provided by the general partners and investment managers are evaluated by management, and management believes such values are reasonable estimates of fair value at December 31, 2016 and 2015 (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.

## BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### **(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 2016 and 2015, \$88,670 and \$380,000, 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.

### **(l) 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*).

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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 Non-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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Short-term investments	\$ 1,318,884	1,651,167
Fixed income:		
Mutual funds	556,730	405,048
Fixed income securities	26,828,479	24,447,926
Corporate stocks-domestic	94,714,553	74,192,317
Community foundation	40,515	39,339
Investments in limited partnerships	121,220,684	146,439,686
Private equity investments/hedge funds	<u>33,545,644</u>	<u>36,381,312</u>
	278,225,489	283,556,795
Less custodial fund investments	<u>(11,695,431)</u>	<u>(12,186,357)</u>
Total	\$ <u>266,530,058</u>	<u>271,370,438</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>2016</u>	<u>2015</u>
Realized gains, net	\$ 23,436,224	600,188
Unrealized losses, net	<u>(13,835,544)</u>	<u>(115,986)</u>
	\$ <u>9,600,680</u>	<u>484,202</u>

Investment management expenses were approximately \$1,138,000 and \$1,337,000 for the years ended December 31, 2016 and 2015, 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.

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

Contributions receivable consists of the following December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Contributions receivable, gross	\$ 75,422,070	94,203,742
Less:		
Unamortized discount	(4,424,760)	(6,473,065)
Allowance for uncollectible contributions	(1,739,910)	(2,158,195)
Net unconditional promises to give	\$ 69,257,400	85,572,482
Amounts due in:		
Less than one year	\$ 41,413,673	43,114,015
One to five years	34,008,397	51,089,727
	\$ 75,422,070	94,203,742

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Contributions receivable are reflected 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, 2016 and 2015 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. During 2016, BGCA received conditional promises to give totaling approximately \$19,991,000 for on-site assistance to member clubs. There were no new conditional gifts received from donors during 2015. Approximately \$8,551,000 and \$7,700,000 of conditional promises to give was recognized as revenue during 2016 and 2015, respectively, as donor imposed conditions were met by BGCA.

#### (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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>Estimated useful life</u>
Land	\$ 10,848,690	10,848,690	
Buildings	16,540,525	16,540,525	50 years
Leasehold improvements	404,583	404,583	10 years
Building improvements	3,354,552	2,950,160	6–9 years
Furniture, fixtures and equipment	<u>8,657,952</u>	<u>8,354,414</u>	5–7 years
	39,806,302	39,098,372	
Less accumulated depreciation and amortization	<u>(12,030,917)</u>	<u>(11,095,279)</u>	
	<u>\$ 27,775,385</u>	<u>28,003,093</u>	

Depreciation expense totaled \$935,638 and \$699,767 for the years ended December 31, 2016 and 2015, 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 2016 and 2015 totaled approximately \$2,513,000 and \$2,390,000, 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, 2016 and 2015 is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

BGCA also has a retirement fund totaling approximately \$623,000 at both December 31, 2016 and 2015 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 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Employee contributions	\$ 154,443	134,128
Distributions	(143,892)	(238,228)
Annuity contracts	(96,252)	183,944
Change in fair value	<u>63,755</u>	<u>10,184</u>
Net change for the year	(21,946)	90,028
Assets held in and liability under deferred compensation:		
Beginning of year	<u>1,948,753</u>	<u>1,858,725</u>
End of year	\$ <u><u>1,926,807</u></u>	<u><u>1,948,753</u></u>

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**(7) Transfers**

Transfers of net assets for the years ended December 31, 2016 and 2015 consist of the following:

<u>Description</u>	<u>2016</u>	
	<u>Unrestricted net assets</u>	
	<u>Undesignated</u>	<u>Board-designated</u>
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>

<u>Description</u>	<u>2015</u>	
	<u>Unrestricted net assets</u>	
	<u>Undesignated</u>	<u>Board-designated</u>
Fixed asset acquisitions transferred to unrestricted-board-designated net assets	\$ (31,118)	31,118
Investment income transferred in accordance with board spend rate policy	6,525,565	(6,525,565)
Transfer of year-end balance of general operating activities to unrestricted-board-designated net assets	<u>(731,412)</u>	<u>731,412</u>
	\$ <u>5,763,035</u>	<u>(5,763,035)</u>

**(8) Government Grants and Contracts**

During 2016 and 2015, BGCA recorded revenue totaling \$67,072,252 and \$61,624,866, respectively, related to various government grants and contracts. Of this amount, \$57,771,948 and \$53,967,175 was passed through to certain affiliated local member clubs (see note 1) for leadership training, development and support of youth programs during 2016 and 2015, respectively.

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**(9) Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 2016 and 2015 are available for the following purposes or periods:

	<u>2016</u>	<u>2015</u>
On-site assistance to member clubs and establishment of new clubs	\$ 124,259,091	131,391,378
Leadership training, development and support of youth programs	30,213,512	54,917,451
Available for use in future periods	<u>7,984,080</u>	<u>9,174,356</u>
	<u>\$ 162,456,683</u>	<u>195,483,185</u>

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

During 2016 and 2015, 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>2016</u>	<u>2015</u>
Purpose restrictions accomplished:		
Expenses for on-site assistance to member clubs and establishment of new clubs	\$ 70,952,955	54,948,020
Expenses for leadership training, development and support of youth programs	<u>46,328,673</u>	<u>60,814,228</u>
	117,281,628	115,762,248
Time restrictions expired – passage of specified time	<u>4,397,252</u>	<u>3,916,287</u>
	<u>\$ 121,678,880</u>	<u>119,678,535</u>

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

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

	<u>2016</u>	<u>2015</u>
Functioning as quasi-endowment:		
Reserve fund	\$ 118,012,331	120,121,008
Board designated fund	<u>14,069,869</u>	<u>14,330,519</u>
	132,082,200	134,451,527
Other board-designated	2,975,716	3,529,395
Land, buildings, and equipment	<u>27,775,385</u>	<u>28,003,093</u>
	<u>\$ 162,833,301</u>	<u>165,984,015</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 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

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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, 2016 and 2015.

### **(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.

### **(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.

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

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

Endowment net assets consist of the following at December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	67,456,469	33,795,614	101,252,083
Board-designated quasi-endowment funds	<u>134,451,527</u>	<u>—</u>	<u>—</u>	<u>134,451,527</u>
Total endowment net assets	\$ <u>134,451,527</u>	<u>67,456,469</u>	<u>33,795,614</u>	<u>235,703,610</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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Changes in endowment net assets for the year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2014	\$ 151,704,902	70,161,966	33,794,614	255,661,482
Contributions	256,807	—	1,000	257,807
Investment return – investment income and net appreciation	520,143	530,350	—	1,050,493
Appropriation of endowment assets for expenditure	<u>(18,030,325)</u>	<u>(3,235,847)</u>	<u>—</u>	<u>(21,266,172)</u>
Endowment net assets, December 31, 2015	\$ <u>134,451,527</u>	<u>67,456,469</u>	<u>33,795,614</u>	<u>235,703,610</u>

**(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 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Supplies	\$ 77,070	51,586
Printing	77,582	102,577
Postage	8,163	12,965
Travel	96,330	36,787
Banquets and space rental	2,194,977	1,876,515
Entertainment, event management, and speakers	<u>724,794</u>	<u>508,623</u>
	\$ <u>3,178,916</u>	<u>2,589,053</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:	
2017	\$ 561,564
2018	104,336
2019	<u>80,201</u>
	\$ <u>746,101</u>

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Rental expense under operating leases totaled approximately \$547,000 and \$720,000 for the years ended December 31, 2016 and 2015, 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:	
2017	\$ 1,441,964
2018	1,094,448
2019	1,077,412
2020	1,124,436
2021	1,124,436
Thereafter	<u>2,666,916</u>
	\$ <u><u>8,529,612</u></u>

Rental income totaled approximately \$1,412,000 and \$1,333,000 for the years ended December 31, 2016 and 2015, 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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Net gains (losses) on investments and other receipts	\$ 354,492	(16,318)
Disbursements	<u>(845,418)</u>	<u>(689,186)</u>
Net change for the year	(490,926)	(705,504)
Assets held in custody for others:		
Beginning of year	<u>12,186,357</u>	<u>12,891,861</u>
End of year	\$ <u><u>11,695,431</u></u>	<u><u>12,186,357</u></u>



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### (16) Fair Value Measurements

BGCA applies ASC No. 820, *Fair Value Measurements and Disclosures*, 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.

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, certain investments that are measured at fair value using NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated statements of financial position.

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 \$17.0 million and \$35.6 million at December 31, 2016 and 2015, 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, 2016 and 2015

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, 2016 and 2015:

	2016					Redemption or liquidation	Notice period
	Investments measured at NAV	Level 1	Level 2	Level 3	Total		
Assets:							
Recurring:							
Cash and cash equivalents	\$ —	15,543,350	—	—	15,543,350	Daily	None
Investments, and assets held in custody for others:							
Short-term investments	\$ —	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	\$ 3,186,089	96,590,167	178,408,718	40,515	278,225,489		
Assets held in deferred compensation accounts	\$ —	1,926,807	—	—	1,926,807	Daily	None
2015							
	Investments measured at NAV	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Notice period
Assets:							
Recurring:							
Cash and cash equivalents	\$ —	29,508,891	—	—	29,508,891	Daily	None
Investments, and assets held in custody for others:							
Short-term investments	\$ —	1,651,167	—	—	1,651,167	Daily	None
Fixed income:							
Mutual funds	—	405,048	—	—	405,048	Daily	None
Fixed income securities	—	—	24,447,926	—	24,447,926	Monthly	5 days
Corporate stocks	—	74,192,317	—	—	74,192,317	Daily	None
Community foundation	—	—	—	39,339	39,339	At discretion of foundation	At discretion of foundation
Alternative investments:							
U.S. equity	—	22,787,414	—	—	22,787,414	Monthly	15 days
Private equity	1,615,548	—	—	—	1,615,548	At discretion of general partner	At discretion of general partner
Credit/distressed hedge funds	—	—	10,752,727	—	10,752,727	Quarterly or bi-annually	45–90 days
Multi-strategy hedge funds	—	—	147,665,309	—	147,665,309	Annually or quarterly	65–105 days
Total investments and assets held in custody for others	\$ 1,615,548	99,035,946	182,865,962	39,339	283,556,795		
Assets held in deferred compensation accounts	\$ —	1,948,753	—	—	1,948,753	Daily	None

## BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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

#### *U.S. Equity*

This class includes funds that buy and hold shares of publicly listed domestic companies. The managers employ a variety of disciplines and investment styles – growth, value, large and small-cap – while investing in companies across a range of industries. These funds will typically employ fundamental investment techniques and hold assets that are highly liquid. The fair value of these investments has been determined to be the net asset value per share of the investments.

#### *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 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**

#### *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.

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

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### *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, 2016 and through August 3, 2017, 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, 2016 and 2015

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 6,991,073	22,472,774
Investments	266,530,058	271,370,438
Assets held in custody for others	11,695,431	12,186,357
Membership dues and grants receivable, net	4,991,512	2,433,549
Contributions receivable, net	69,257,400	85,572,482
Assets held in deferred compensation accounts	1,926,807	1,948,753
Split interest agreements	3,129,539	3,300,039
Land, buildings, and equipment, net	27,738,540	27,989,142
Other assets	2,744,246	2,058,296
	<hr/>	<hr/>
Total assets	\$ 395,004,606	429,331,830
	<hr/>	<hr/>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 22,165,900	19,054,167
Obligations for custodial funds	11,695,431	12,186,357
Liability under deferred compensation agreements	1,926,807	1,948,753
Annuities payable	2,274,115	2,299,854
	<hr/>	<hr/>
Total liabilities	38,062,253	35,489,131
	<hr/>	<hr/>
Net assets:		
Unrestricted:		
Undesignated	486,137	247,980
Board-designated	162,796,456	165,963,958
	<hr/>	<hr/>
	163,282,593	166,211,938
Temporarily restricted	159,864,146	193,835,147
Permanently restricted	33,795,614	33,795,614
	<hr/>	<hr/>
Total net assets	356,942,353	393,842,699
	<hr/>	<hr/>
Total liabilities and net assets	\$ 395,004,606	429,331,830
	<hr/>	<hr/>

See accompanying independent auditors' report

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

Statement of Activities – Information

Year ended December 31, 2016  
(with comparative totals for 2015)

	Unrestricted			Temporarily restricted	Permanently restricted	Total	
	Undesignated	Board- designated	Total unrestricted			2016	2015
Changes in net assets:							
Revenue, gains, and other support:							
Contributions	\$ 6,207,163	3,689,704	9,896,867	52,473,821	—	62,370,688	91,277,734
Contributions in-kind	829,594	310,066	1,139,660	—	—	1,139,660	2,884,273
Government grants and contracts (includes pass through to clubs for 2016 and 2015 of \$23,052,894 and \$19,104,657, respectively)	26,140,622	—	26,140,622	—	—	26,140,622	22,925,371
Income from funds held in trust by others	152,480	—	152,480	1,372,320	—	1,524,800	1,470,529
Fund raising events:							
Revenue generated	9,546,288	—	9,546,288	1,611,700	—	11,157,988	8,360,201
Less direct operating costs	(3,071,736)	—	(3,071,736)	—	—	(3,071,736)	(2,463,464)
Fund-raising events revenue in excess of direct costs	6,474,552	—	6,474,552	1,611,700	—	8,086,252	5,896,737
Member organization dues	7,176,252	—	7,176,252	—	—	7,176,252	6,937,046
Investment income, net of advisory and custody fees and taxes	—	444,152	444,152	721,410	—	1,165,562	351,220
Net realized and unrealized gains (losses) on investments	(4,779)	6,837,697	6,832,918	2,767,762	—	9,600,680	484,202
Other	916,491	48,468	964,959	70,788	—	1,035,747	988,957
Total revenue and gains	47,892,375	11,330,087	59,222,462	59,017,801	—	118,240,263	133,216,069
Net assets released from restrictions:							
Satisfaction of program restrictions	88,591,550	—	88,591,550	(88,591,550)	—	—	—
Expirations of time restrictions	4,397,252	—	4,397,252	(4,397,252)	—	—	—
Total net assets released from restrictions	92,988,802	—	92,988,802	(92,988,802)	—	—	—
Total revenue, gains, and other support	140,881,177	11,330,087	152,211,264	(33,971,001)	—	118,240,263	133,216,069
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	65,232,838
Leadership training, development, and support of youth programs	40,166,133	216,584	40,382,717	—	—	40,382,717	47,735,393
Management and general	19,803,367	311,184	20,114,551	—	—	20,114,551	18,671,290
Fund-raising	14,577,192	136,921	14,714,113	—	—	14,714,113	10,576,494
Total expenses and losses	147,659,879	7,480,730	155,140,609	—	—	155,140,609	142,216,015
Changes in net assets before transfers	(6,778,702)	3,849,357	(2,929,345)	(33,971,001)	—	(36,900,346)	(8,999,946)
Other changes in net assets – transfers	7,016,859	(7,016,859)	—	—	—	—	—
Change in net assets	238,157	(3,167,502)	(2,929,345)	(33,971,001)	—	(36,900,346)	(8,999,946)
Net assets at beginning of year	247,980	165,963,958	166,211,938	193,835,147	33,795,614	393,842,699	402,842,645
Net assets at end of year	\$ 486,137	162,796,456	163,282,593	159,864,146	33,795,614	356,942,353	393,842,699

See accompanying independent auditors' report

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

Statements of Cash Flows – Information

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (36,900,346)	(8,999,946)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	929,301	731,282
Net realized and unrealized gains on investments	(9,600,680)	(835,422)
Contributions restricted for long-term investment	—	(1,000)
In-kind contributions	(1,139,660)	(2,884,273)
Increase in membership dues and grants receivable	(2,557,963)	(2,333,385)
Decrease in contributions receivable	16,315,082	796,350
Decrease in split interest agreements	170,500	369,495
Increase in other assets	(685,950)	(27,262)
Increase in accounts payable and accrued expenses	3,111,733	6,660,399
Change in annuities payable	67,739	(114,548)
Net cash used in operating activities	<u>(30,290,244)</u>	<u>(6,638,310)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	73,226,743	36,619,533
Purchase of investments	(57,956,089)	(21,705,220)
Purchases of property and equipment	<u>(368,633)</u>	<u>(1,139,434)</u>
Net cash provided by investing activities	<u>14,902,021</u>	<u>13,774,879</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	—	1,000
Principal repayments on bonds payable and capital leases	—	(3,968,750)
Payments to life income beneficiaries	<u>(93,478)</u>	<u>(54,283)</u>
Net cash used in financing activities	<u>(93,478)</u>	<u>(4,022,033)</u>
Net (decrease) increase in cash and cash equivalents	(15,481,701)	3,114,536
Cash and cash equivalents at beginning of year	<u>22,472,774</u>	<u>19,358,238</u>
Cash and cash equivalents at end of year	\$ <u><u>6,991,073</u></u>	<u><u>22,472,774</u></u>
Supplemental disclosure:		
Cash paid for interest	\$ —	41,489
Cash paid for taxes	229,282	572,994
In-kind gifts – investments	829,594	1,118,914
In-kind gifts – equipment	310,066	1,765,359

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

	<b>Program services</b>			<b>Supporting services</b>			<b>Total expenses</b>
	<b>On-site assistance to member clubs and establishment of new clubs</b>	<b>Leadership training, development, and support of youth programs</b>	<b>Total program services</b>	<b>Management and general</b>	<b>Fund-raising</b>	<b>Total supporting services</b>	
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
<b>Total salaries and related expenses</b>	<b>29,871,854</b>	<b>5,497,788</b>	<b>35,369,642</b>	<b>12,085,229</b>	<b>7,723,454</b>	<b>19,808,683</b>	<b>55,178,325</b>
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
<b>Total expenses</b>	<b>\$ 79,929,228</b>	<b>40,382,717</b>	<b>120,311,945</b>	<b>20,114,551</b>	<b>14,714,113</b>	<b>34,828,664</b>	<b>155,140,609</b>

See accompanying independent auditor's report.



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

Statement of Functional Expenses – Information

Year ended December 31, 2015

	<b>Program services</b>			<b>Supporting services</b>			<b>Total expenses</b>
	<b>On-site assistance to member clubs and establishment of new clubs</b>	<b>Leadership training, development, and support of youth programs</b>	<b>Total program services</b>	<b>Management and general</b>	<b>Fund-raising</b>	<b>Total supporting services</b>	
Salaries	\$ 18,380,056	7,177,779	25,557,835	8,837,916	5,513,026	14,350,942	39,908,777
Benefits	3,651,700	1,446,419	5,098,119	1,655,073	869,178	2,524,251	7,622,370
Payroll taxes	1,315,032	505,854	1,820,886	497,997	370,295	868,292	2,689,178
<b>Total salaries and related expenses</b>	<b>23,346,788</b>	<b>9,130,052</b>	<b>32,476,840</b>	<b>10,990,986</b>	<b>6,752,499</b>	<b>17,743,485</b>	<b>50,220,325</b>
Contractual services	6,795,906	3,756,142	10,552,048	3,493,694	2,238,375	5,732,069	16,284,117
Supplies	1,403,685	479,588	1,883,273	253,701	96,562	350,263	2,233,536
Telephone	416,590	89,986	506,576	142,017	104,519	246,536	753,112
Postage and shipping	352,138	105,981	458,119	131,150	133,265	264,415	722,534
Occupancy	554,070	139,882	693,952	1,397,995	126,907	1,524,902	2,218,854
Printing and artwork	431,277	358,466	789,743	261,304	73,203	334,507	1,124,250
Travel	3,631,450	803,436	4,434,886	512,231	702,563	1,214,794	5,649,680
Training conferences	2,885,676	795,342	3,681,018	663,821	170,324	834,145	4,515,163
Membership dues	43,914	7,985	51,899	42,847	11,378	54,225	106,124
Awards and grants	24,903,407	31,824,860	56,728,267	—	—	—	56,728,267
Interest expense	—	—	—	41,489	—	41,489	41,489
Miscellaneous	267,019	82,687	349,706	497,561	75,201	572,762	922,468
Depreciation	200,918	160,986	361,904	242,494	91,698	334,192	696,096
<b>Total expenses</b>	<b>\$ 65,232,838</b>	<b>47,735,393</b>	<b>112,968,231</b>	<b>18,671,290</b>	<b>10,576,494</b>	<b>29,247,784</b>	<b>142,216,015</b>

See accompanying independent auditor's report.