



BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2018 and 2017

(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 (BGCA), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, 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 5% and 3%, respectively, of consolidated total assets at December 31, 2018 and 2017, and total revenues constituting 30% and 19%, 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 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 financial position of BGCA as of December 31, 2018 and 2017, 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.



Emphasis of Matter

As discussed in note 1(m) to the consolidated financial statements, in 2018 BGCA adopted new accounting guidance in connection with its implementation of Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit-Entities*. Our opinion is not modified with respect to this matter.

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
May 21, 2019

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31, 2018 and 2017

(In thousands)

Assets	2018	2017
Cash and cash equivalents	\$ 10,007	21,922
Investments	258,931	277,418
Assets held in custody for others	11,774	12,954
Membership dues and grants receivable, net	15,290	11,288
Contributions receivable, net	60,010	58,384
Assets held in deferred compensation accounts	2,159	2,144
Split interest agreements	3,029	3,444
Land, buildings, and equipment, net	26,030	27,028
Other assets	2,914	3,023
Total assets	<u>\$ 390,144</u>	<u>417,605</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 36,897	39,924
Obligations for custodial funds	11,774	12,954
Liability under deferred compensation agreements	2,159	2,144
Annuities payable	2,446	2,736
Total liabilities	<u>53,276</u>	<u>57,758</u>
Net assets:		
Without donor restrictions	142,326	165,324
With donor restrictions	194,542	194,523
Total net assets	<u>336,868</u>	<u>359,847</u>
Total liabilities and net assets	<u>\$ 390,144</u>	<u>417,605</u>

See accompanying notes to consolidated financial statements.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Consolidated Statements of Activities

Years ended December 31, 2018 and 2017

(In thousands)

	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Changes in net assets:						
Revenue, gains, and other support:						
Contributions	\$ 25,796	81,307	107,103	\$ 11,484	80,116	91,600
Contributions in-kind	654	—	654	1,699	—	1,699
Government grants and contracts, including amounts passed-through to member clubs (note 8)	40,114	42,783	82,897	40,972	33,050	74,022
Income from funds held in trust by others	155	1,395	1,550	152	1,369	1,521
Fund-raising events:						
Revenue generated	9,248	996	10,244	7,214	619	7,833
Less direct operating costs (note 13)	(2,994)	—	(2,994)	(2,523)	—	(2,523)
Fund-raising events revenue in excess of direct costs	6,254	996	7,250	4,691	619	5,310
Member organization dues	10,664	—	10,664	10,356	—	10,356
Investment income, net of advisory and custody fees	250	1,443	1,693	773	1,340	2,113
Net realized and unrealized (losses) gains on investments	(6,254)	(4,757)	(11,011)	21,251	14,594	35,845
Other	2,627	137	2,764	1,313	121	1,434
Total revenue and gains	80,260	123,304	203,564	92,691	131,209	223,900
Net assets released from restrictions (note 10):						
Satisfaction of program restrictions	118,982	(118,982)	—	129,315	(129,315)	—
Expirations of time restrictions	4,303	(4,303)	—	3,623	(3,623)	—
Total net assets released from restrictions	123,285	(123,285)	—	132,938	(132,938)	—
Total revenue, gains, and other support	203,545	19	203,564	225,629	(1,729)	223,900
Expenses and losses:						
On-site assistance to member clubs and establishment of new clubs	92,729	—	92,729	85,863	—	85,863
Leadership training, development, and support of youth programs	101,970	—	101,970	103,633	—	103,633
Management and general	14,719	—	14,719	17,608	—	17,608
Fund-raising	17,125	—	17,125	19,494	—	19,494
Total expenses and losses	226,543	—	226,543	226,598	—	226,598
Change in net assets	(22,998)	19	(22,979)	(969)	(1,729)	(2,698)
Net assets at beginning of year	165,324	194,523	359,847	166,293	196,252	362,545
Net assets at end of year	\$ 142,326	194,542	336,868	\$ 165,324	194,523	359,847

See accompanying notes to consolidated financial statements.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (22,979)	(2,698)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,096	1,116
Net realized and unrealized losses (gains) on investments	11,011	(35,845)
In-kind contributions of assets	(465)	(1,044)
(Increase) decrease in membership dues and grants receivable	(4,002)	358
(Increase) decrease in contributions receivable, net	(2,243)	10,873
Increase in allowance	617	—
Decrease (increase) in split interest agreements	415	(314)
Increase in other assets	109	(254)
(Decrease) increase in accounts payable and accrued expenses	(3,027)	8,093
(Decrease) increase in annuities payable	(145)	555
Net cash used in operating activities	<u>(19,613)</u>	<u>(19,160)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	120,822	61,764
Purchase of investments	(112,881)	(35,763)
Purchases of property and equipment	(98)	(370)
Net cash provided by investing activities	<u>7,843</u>	<u>25,631</u>
Cash flows from financing activities:		
Payments to life income beneficiaries	(145)	(93)
Net (decrease) increase in cash and cash equivalents	<u>(11,915)</u>	<u>6,378</u>
Cash and cash equivalents at beginning of year	<u>21,922</u>	<u>15,544</u>
Cash and cash equivalents at end of year	<u>\$ 10,007</u>	<u>21,922</u>
Supplemental disclosure:		
Cash paid for interest	\$ —	5
Cash paid for taxes	275	34
In-kind gifts – investments	465	1,044
In-kind gifts – services	189	655

See accompanying notes to consolidated financial statements.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Consolidated Statement of Functional Expenses

Year ended December 31, 2018

(In thousands)

	<u>Program/Club-benefiting support & 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	\$ 26,798	7,432	34,230	6,336	7,763	14,099	48,329
Benefits	4,858	1,428	6,286	1,131	1,202	2,333	8,619
Payroll taxes	1,938	598	2,536	400	542	942	3,478
Total salaries and related expenses	33,594	9,458	43,052	7,867	9,507	17,374	60,426
Contractual services	11,466	9,681	21,147	4,372	3,752	8,124	29,271
Supplies	2,773	872	3,645	123	105	228	3,873
Telephone	440	116	556	145	111	256	812
Postage and shipping	406	117	523	161	1,027	1,188	1,711
Occupancy	1,205	478	1,683	554	513	1,067	2,750
Printing and artwork	561	404	965	52	979	1,031	1,996
Travel	4,592	1,001	5,593	334	593	927	6,520
Training conferences	3,347	2,458	5,805	588	259	847	6,652
Membership dues	27	25	52	61	3	64	116
Pass-through funds to member orgs	33,220	76,642	109,862	—	—	—	109,862
Miscellaneous	690	525	1,215	156	87	243	1,458
Depreciation	408	193	601	306	189	495	1,096
Total expenses	\$ <u>92,729</u>	<u>101,970</u>	<u>194,699</u>	<u>14,719</u>	<u>17,125</u>	<u>31,844</u>	<u>226,543</u>

See accompanying notes to consolidated financial statements.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Consolidated Statement of Functional Expenses

Year ended December 31, 2017

(In thousands)

	<u>Program/Club-benefiting support and 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	\$ 25,600	6,161	31,761	7,666	7,264	14,930	46,691
Benefits	4,709	1,283	5,992	1,452	1,062	2,514	8,506
Payroll taxes	1,797	429	2,226	447	497	944	3,170
Total salaries and related expenses	32,106	7,873	39,979	9,565	8,823	18,388	58,367
Contractual services	9,805	7,615	17,420	5,196	5,886	11,082	28,502
Supplies	2,131	588	2,719	184	144	328	3,047
Telephone	482	114	596	111	120	231	827
Postage and shipping	215	158	373	73	958	1,031	1,404
Occupancy	1,557	572	2,129	735	649	1,384	3,513
Printing and artwork	955	505	1,460	172	1,166	1,338	2,798
Travel	4,150	908	5,058	363	819	1,182	6,240
Training conferences	2,670	2,591	5,261	312	263	575	5,836
Membership dues	66	99	165	66	32	98	263
Pass-through funds to member orgs	30,670	82,188	112,858	—	—	—	112,858
Interest expense	—	—	—	5	—	5	5
Miscellaneous	674	235	909	456	457	913	1,822
Depreciation	382	187	569	370	177	547	1,116
Total expenses	\$ 85,863	103,633	189,496	17,608	19,494	37,102	226,598

See accompanying notes to consolidated financial statements.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

(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 52 and 51 at December 31, 2018 and 2017, respectively.

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:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

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(Dollar amounts in thousands)

With donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of BGCA and/or the passage of time. This also includes net assets subject to donor-imposed stipulations that must 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) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of interest-bearing checking accounts, savings accounts, and investments with a maturity date of three months or less.

(e) 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 support with donor restrictions that increases that net asset class.

(f) 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, 2018 and 2017 (see notes 3 and 16).

(g) 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.

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(Dollar amounts in thousands)

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.

(h) 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.

(i) 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 2018 and 2017, \$275 and \$262, 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.

(j) Functional Allocation of Expenses

BGCA has summarized the costs of program and supporting activities in the consolidated statements of activities and changes in net assets without donor restrictions. The expense analysis in the consolidated statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated financial statements report certain categories of expenses that are attributable to more than one program or support function. The expenses include salaries and benefits which are allocated based on department and job classification and management and general tasks. Expenses associated with occupying and maintaining facilities have been allocated to the respective functional area based on the headcount of employees. Other costs are classified in each functional category based on the underlying purpose of each transaction.

(k) 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.

(l) 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 building and equipment, accrued expenses,

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December 31, 2018 and 2017

(Dollar amounts in thousands)

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.

(m) 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, and BGCA implemented its provisions during fiscal year 2018 on a retrospective basis. As a result, 2017 net assets classified as temporarily and permanently restricted net assets prior to the adoption of ASU 2014-16 totaling \$160,727 and \$33,796, respectively, have been reclassified as net assets with donor restrictions in the accompanying 2017 consolidated financial statements. In addition, 2017 changes therein have been reclassified in the accompanying footnotes to the 2017 consolidated financial statements as changes in net assets with donor

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December 31, 2018 and 2017

(Dollar amounts in thousands)

restrictions. 2017 net assets classified as unrestricted net assets have been reclassified as net assets without donor restrictions. These reclassifications had no effect on the reported results of operations.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). ASU 2018-08 was issued to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU are intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance; and (2) determining whether a contribution is conditional. The ASU is effective for years beginning after December 15, 2018 (BGCA's 2019 fiscal year). BGCA has not yet determined the impact of the new standard on its consolidated financial statements.

(2) Liquidity and Availability

Financial assets available for general expenditure within one year of December 31, 2018 are as follows:

Total assets	\$	390,144
Less:		
Net assets with donor restriction – permanent endowments		(33,796)
Board-designated endowments		(109,911)
Board-designated other		(2,247)
Land, buildings and equipment, net		(26,030)
Custodial, deferred compensation and other illiquid investments		(19,876)
Net assets with donor restrictions – time or purpose		<u>(160,746)</u>
Financial assets available within one year	\$	<u><u>37,538</u></u>

BGCA manages its financial assets to be available as its operating expenditures, liability and other obligations come due. In addition, BGCA invests cash in excess of daily requirements in short-term investments. To supplement working capital and investment commitments, BGCA has a line of credit agreement totaling \$10,000 with no outstanding borrowings as of December 31, 2018. See note 17 for further description of this line. Additionally, BGCA has board-designated endowments and other board-designated funds of \$109,911 and \$2,247, respectively as of December 31, 2018. Although BGCA does not intend to spend from its board-designated endowment funds, other than amounts appropriated for general expenditure, amounts for its board-designated endowment and other funds could be made available if necessary, with appropriate board approval.

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Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

(3) Investments

Investments are carried at estimated fair value and consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Short-term investments	\$ 37,898	1,935
U.S. Treasuries	—	19,967
Fixed income:		
Mutual funds	577	569
Fixed income securities	17,191	19,268
Corporate stocks-domestic	83,006	89,260
Community foundation	47	47
Private equity investments/hedge funds	<u>131,986</u>	<u>159,326</u>
	270,705	290,372
Less custodial fund investments	<u>(11,774)</u>	<u>(12,954)</u>
Total	\$ <u>258,931</u>	<u>277,418</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>2018</u>	<u>2017</u>
Realized gains, net	\$ 4,637	4,873
Unrealized (losses) gains, net	<u>(15,648)</u>	<u>30,972</u>
	\$ <u>(11,011)</u>	<u>35,845</u>

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Notes to Consolidated Financial Statements

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(Dollar amounts in thousands)

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. This amount totaled less than 1% of investments as of December 31, 2018.

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 \$106,247 and \$140,358 at December 31, 2018 and 2017, respectively, were held and managed by a single fund manager.

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Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

(4) Contributions Receivable

Contributions receivable consists of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Contributions receivable, gross	\$ 65,720	62,787
Less:		
Unamortized discount	(3,307)	(2,617)
Allowance for uncollectible contributions	<u>(2,403)</u>	<u>(1,786)</u>
Net unconditional promises to give	<u>\$ 60,010</u>	<u>58,384</u>
Amounts due in:		
Less than one year	\$ 37,029	43,794
One to five years	<u>28,691</u>	<u>18,993</u>
	<u>\$ 65,720</u>	<u>62,787</u>

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, 2018 and 2017 at rates ranging from 0.81% 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. New conditional gifts received from donors totaled \$34,039 during 2018 and \$0 in 2017. Approximately \$21,022 and \$24,058 of conditional promises to give were recognized as revenue during 2018 and 2017, respectively, as donor-imposed conditions were met by BGCA. Approximately \$44,344 and \$31,326 of conditional promises to give were outstanding at December 31, 2018 and 2017, respectively.

(5) 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.

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Notes to Consolidated Financial Statements

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(Dollar amounts in thousands)

Land, buildings, and equipment consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Estimated useful life</u>
Land	\$ 10,849	10,849	—
Buildings	16,541	16,541	50 years
Leasehold improvements	443	443	10 years
Building improvements	3,544	3,494	6–9 years
Furniture, fixtures and equipment	<u>8,896</u>	<u>8,848</u>	5–7 years
	40,273	40,175	
Less accumulated depreciation and amortization	<u>(14,243)</u>	<u>(13,147)</u>	
	<u>\$ 26,030</u>	<u>27,028</u>	

Depreciation expense totaled \$1,096 and \$1,116 for the years ended December 31, 2018 and 2017, respectively.

(6) 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 2018 and 2017 totaled \$2,510 and \$2,358, respectively.

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, 2018 and 2017 is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

BGCA also has a retirement fund totaling approximately \$600 at both December 31, 2018 and 2017 included in net assets without donor restrictions-board designated.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

(7) 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 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Employee contributions	\$ 498	163
Annuity contracts	(241)	(133)
Distributions – lump sum	(126)	(241)
Change in fair value	<u>(116)</u>	<u>428</u>
Net change for the year	15	217
Assets held in and liability under deferred compensation:		
Beginning of year	<u>2,144</u>	<u>1,927</u>
End of year	<u>\$ 2,159</u>	<u>2,144</u>

(8) Government Grants and Contracts

During 2018 and 2017, BGCA recorded revenue totaling \$82,897 and \$74,022, respectively, related to various government grants and contracts. Of this amount, \$66,511 and \$65,734 was passed through to certain affiliated local member clubs (see note 1) for leadership training, development and support of youth programs during 2018 and 2017, respectively. Pass-through funds to member organizations includes funding from both government and private sources.

(9) Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2018 and 2017 are available for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
On-site assistance to member clubs and establishment of new clubs	\$ 115,140	106,273
Leadership training, development and support of youth programs	34,498	50,168
Available for use in future periods	11,108	4,286
Permanent endowment	<u>33,796</u>	<u>33,796</u>
	<u>\$ 194,542</u>	<u>194,523</u>

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

(10) Net Assets Released from Restrictions

During 2018 and 2017, 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>2018</u>	<u>2017</u>
Purpose restrictions accomplished:		
Expenses for on-site assistance to member clubs and establishment of new clubs	\$ 52,078	57,220
Expenses for leadership training, development and support of youth programs	<u>66,904</u>	<u>72,095</u>
	118,982	129,315
Time restrictions expired – passage of specified time	<u>4,303</u>	<u>3,623</u>
	<u>\$ 123,285</u>	<u>132,938</u>

(11) Net Assets without Donor Restrictions – Board-Designated

Net assets without donor restrictions – Board-designated consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Functioning as quasi-endowment:		
Reserve fund	\$ 96,047	116,615
Board designated fund intended for Native Services	<u>13,864</u>	<u>15,298</u>
	109,911	131,913
Other board-designated funds for programs	2,247	2,401
Land, buildings, and equipment	<u>26,030</u>	<u>27,028</u>
	<u>\$ 138,188</u>	<u>161,342</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

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

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 net assets with donor restrictions (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted 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 required to be kept in perpetuity is classified as net assets with donor restrictions 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 net assets with donor restrictions and generally result from unfavorable market fluctuations that occur shortly after the investment of new contributions with donor restrictions 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 net assets with donor restrictions. There were no aforementioned deficiencies at December 31, 2018 and 2017.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

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December 31, 2018 and 2017

(Dollar amounts in thousands)

(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 60% allocated to the MSCI All Country World IMI and 40% allocated to the Barclays U.S. Intermediate Aggregate Index.

(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, and private equity 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, 2018:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$ —	106,318	106,318
Board-designated quasi-endowment funds	109,911	—	109,911
Total endowment net assets	\$ 109,911	106,318	216,229

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

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

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	112,993	112,993
Board-designated quasi-endowment funds	131,913	—	131,913
Total endowment net assets	\$ <u>131,913</u>	<u>112,993</u>	<u>244,906</u>

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2017	\$ 131,913	112,993	244,906
Contributions	573	—	573
Investment return – investment income and net appreciation	(6,003)	(2,937)	(8,940)
Appropriation of endowment assets for expenditure	<u>(16,572)</u>	<u>(3,738)</u>	<u>(20,310)</u>
Endowment net assets, December 31, 2018	\$ <u>109,911</u>	<u>106,318</u>	<u>216,229</u>

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

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

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2016	\$ 132,082	101,094	233,176
Contributions	679	—	679
Investment return – investment income and net appreciation	22,023	15,101	37,124
Appropriation of endowment assets for expenditure	<u>(22,871)</u>	<u>(3,202)</u>	<u>(26,073)</u>
Endowment net assets, December 31, 2017	\$ <u>131,913</u>	<u>112,993</u>	<u>244,906</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 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Supplies	\$ 73	59
Printing	100	80
Postage	6	8
Travel	67	46
Banquets and space rental	1,889	1,587
Entertainment, event management, and speakers	<u>859</u>	<u>743</u>
	\$ <u>2,994</u>	<u>2,523</u>

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

(14) Leases

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

Years ending December 31:	
2019	\$ 430
2020	358
2021	367
2022	377
2023	391
2024 and Thereafter	<u>1,553</u>
	<u>\$ 3,476</u>

Rental expense under operating leases totaled approximately \$668 and \$736 for the years ended December 31, 2018 and 2017, respectively.

BGCA leases a portion of its National Office facility 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:	
2019	\$ 1,135
2020	1,192
2021	1,159
2022	1,126
2023	1,126
2024 and Thereafter	<u>419</u>
	<u>\$ 6,157</u>

Rental income totaled approximately \$1,143 and \$1,368 for the years ended December 31, 2018 and 2017, respectively.

(15) Obligations for Custodial Funds

BGCA has custody of certain assets that 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.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

The changes in custodial funds for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Net (losses) gains on investments and other receipts	\$ (637)	1,860
Disbursements	<u>(543)</u>	<u>(601)</u>
Net change for the year	(1,180)	1,259
Assets held in custody for others:		
Beginning of year	<u>12,954</u>	<u>11,695</u>
End of year	<u>\$ 11,774</u>	<u>12,954</u>

(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 that 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 *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

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

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.

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 \$39,324 and \$25,700 at December 31, 2018 and 2017, 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.

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, 2018 and 2017:

	2018					Redemption or liquidation	Notice period
	Investments measured at NAV	Level 1	Level 2	Level 3	Total		
Assets:							
Recurring:							
Cash and cash equivalents	\$ —	10,007	—	—	10,007	Daily	None
Investments, and assets held in custody for others:							
Short-term investments	\$ —	37,898	—	—	37,898	Daily	None
U.S. Treasuries	—	—	—	—	—	30–60 days	None
Fixed income:							
Mutual funds	—	577	—	—	577	Daily	None
Fixed income securities	—	—	17,191	—	17,191	Monthly	5 days
Corporate stocks	—	83,006	—	—	83,006	Daily	None
Community foundation	—	—	—	47	47	At discretion of foundation	At discretion of foundation
Alternative investments:							
Private equity	14,136	—	—	—	14,136	At discretion of general partner	At discretion of general partner
Credit/distressed hedge funds	11,603	—	—	—	11,603	Quarterly or bi-annually	45–90 days
Multi-strategy hedge funds	106,247	—	—	—	106,247	Annually or quarterly	65–105 days
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>		
Total investments and assets held in custody for others	\$ 131,986	121,481	17,191	47	270,705		
Assets held in deferred compensation accounts	\$ —	2,159	—	—	2,159	Daily	None

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

	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	—	—	21,922	Daily	None
Investments, and assets held in custody for others:							
Short-term investments	\$ —	1,935	—	—	1,935	Daily	None
U.S. Treasuries	—	19,967	—	—	19,967	30–60 days	None
Fixed income:							
Mutual funds	—	569	—	—	569	Daily	None
Fixed income securities	—	—	19,268	—	19,268	Monthly	5 days
Corporate stocks	—	89,260	—	—	89,260	Daily	None
Community foundation	—	—	—	47	47	At discretion of foundation	At discretion of foundation
Alternative investments:							
Private equity	7,360	—	—	—	7,360	At discretion of general partner	At discretion of general partner
Credit/distressed hedge funds	11,608	—	—	—	11,608	Quarterly or bi-annually	45–90 days
Multi-strategy hedge funds	140,358	—	—	—	140,358	Annually or quarterly	65–105 days
Total investments and assets held in custody for others	\$ 159,326	111,731	19,268	47	290,372		
Assets held in deferred compensation accounts	\$ —	2,144	—	—	2,144	Daily	None

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.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

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 with a one-year maturity date. The line of credit bears interest at 1 Month Libor plus 1.65%. The rate was 4.00% and 3.02% as of December 31, 2018 and 2017, respectively. The line of credit exists to assist BGCA with working capital needs that could be impacted by the timing of donor cash receipts. During 2018, the Line of Credit was extended to September 2019, with all terms remaining the same. BGCA drew \$0 from the Line of Credit during both 2018 and 2017. Management's aim is to avoid or minimize its use even though it has been kept in place to manage through heightened volatility of donor cash receipts. As of both December 31, 2018 and 2017, there was no outstanding balance on the line of credit.

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.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollar amounts in thousands)

(18) Subsequent Events

BGCA evaluated events subsequent to December 31, 2018 and through May 21, 2019, 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, 2018 and 2017

(In thousands)

Assets	2018	2017
Cash and cash equivalents	\$ 2,402	15,281
Investments	258,931	277,418
Assets held in custody for others	11,774	12,954
Membership dues and grants receivable, net	5,328	5,241
Contributions receivable, net	60,010	58,384
Assets held in deferred compensation accounts	2,159	2,144
Split interest agreements	3,029	3,444
Land, buildings, and equipment, net	26,008	26,995
Other assets	2,884	2,817
	<hr/>	<hr/>
Total assets	\$ <u>372,525</u>	<u>404,678</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 26,979	31,893
Obligations for custodial funds	11,774	12,954
Liability under deferred compensation agreements	2,159	2,144
Annuities payable	2,446	2,736
	<hr/>	<hr/>
Total liabilities	43,358	49,727
Net assets:		
Without donor restrictions	138,182	162,065
With donor restrictions	190,985	192,886
	<hr/>	<hr/>
Total net assets	329,167	354,951
	<hr/>	<hr/>
Total liabilities and net assets	\$ <u>372,525</u>	<u>404,678</u>

See accompanying independent auditors' report.

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

Statements of Activities – Information

Years ended December 31, 2018 and 2017

(In thousands)

	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Changes in net assets:						
Revenue, gains, and other support:						
Contributions	\$ 25,053	80,411	105,464	10,504	78,998	89,502
Contributions in-kind	465	—	465	1,044	—	1,044
Government grants and contracts (includes pass through to clubs for 2018 and 2017 of \$20,611 and \$23,379, respectively)	28,124	—	28,124	28,581	—	28,581
Income from funds held in trust by others	155	1,395	1,550	152	1,369	1,521
Fund raising events:						
Revenue generated	8,928	996	9,924	6,857	618	7,475
Less direct operating costs	(2,972)	—	(2,972)	(2,429)	—	(2,429)
Fund-raising events revenue in excess of direct costs	5,956	996	6,952	4,428	618	5,046
Member organization dues	7,487	—	7,487	7,331	—	7,331
Investment income, net of advisory and custody fees	245	1,443	1,688	768	1,340	2,108
Net realized and unrealized (losses) gains on investments	(6,254)	(4,757)	(11,011)	21,251	14,594	35,845
Other revenues	1,623	49	1,672	1,206	76	1,282
Total revenue and gains	62,854	79,537	142,391	75,265	96,995	172,260
Net assets released from restrictions:						
Satisfaction of program restrictions	77,135	(77,135)	—	94,146	(94,146)	—
Expirations of time restrictions	4,303	(4,303)	—	3,623	(3,623)	—
Total net assets released from restrictions	81,438	(81,438)	—	97,769	(97,769)	—
Total revenue, gains, and other support	144,292	(1,901)	142,391	173,034	(774)	172,260
Expenses and losses:						
On-site assistance to member clubs and establishment of new clubs	92,729	—	92,729	85,863	—	85,863
Leadership training, development, and support of youth programs	46,303	—	46,303	54,257	—	54,257
Management and general	12,110	—	12,110	14,779	—	14,779
Fund-raising	17,033	—	17,033	19,352	—	19,352
Total expenses and losses	168,175	—	168,175	174,251	—	174,251
Changes in net assets before transfers	(23,883)	(1,901)	(25,784)	(1,217)	(774)	(1,991)
Change in net assets	(23,883)	(1,901)	(25,784)	(1,217)	(774)	(1,991)
Net assets at beginning of year	162,065	192,886	354,951	163,282	193,660	356,942
Net assets at end of year	\$ 138,182	190,985	329,167	162,065	192,886	354,951

See accompanying independent auditors' report

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

Statements of Cash Flows – Information

Years ended December 31, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (25,784)	(1,992)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,084	1,106
Net realized and unrealized gains on investments	11,011	(35,845)
In-kind contributions of assets	(465)	(1,044)
Increase in membership dues and grants receivable	(87)	(250)
(Increase) decrease in contributions receivable	(2,243)	10,873
Increase in allowance	617	—
Decrease (increase) in split interest agreements	415	(314)
Increase in other assets	(67)	(72)
(Decrease) increase in accounts payable and accrued expenses	(4,914)	9,727
(Decrease) increase in annuities payable	(145)	555
Net cash used in operating activities	<u>(20,578)</u>	<u>(17,256)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	120,822	61,764
Purchase of investments	(112,881)	(35,763)
Purchases of property and equipment	(97)	(362)
Net cash provided by investing activities	<u>7,844</u>	<u>25,639</u>
Cash flows from financing activities:		
Payments to life income beneficiaries	(145)	(93)
Net (decrease) increase in cash and cash equivalents	<u>(12,879)</u>	<u>8,290</u>
Cash and cash equivalents at beginning of year	<u>15,281</u>	<u>6,991</u>
Cash and cash equivalents at end of year	\$ <u><u>2,402</u></u>	\$ <u><u>15,281</u></u>
Supplemental disclosure:		
Cash paid for interest	\$ —	5
Cash paid for taxes	275	34
In-kind gifts – investments	465	1,044

See accompanying independent auditors' report.

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

Statement of Functional Expenses – Information

Year ended December 31, 2018

(In thousands)

	<u>Program/Club-benefiting Support & Services</u>			<u>Supporting services</u>			<u>Total expenses</u>
	<u>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	\$ 26,798	7,154	33,952	6,255	7,700	13,955	47,907
Benefits	4,858	1,361	6,219	1,110	1,185	2,295	8,514
Payroll taxes	1,938	517	2,455	391	536	927	3,382
Total salaries and related expenses	33,594	9,032	42,626	7,756	9,421	17,177	59,803
Contractual services	11,466	3,087	14,553	2,109	3,752	5,861	20,414
Supplies	2,773	541	3,314	95	105	200	3,514
Telephone	440	93	533	138	111	249	782
Postage and shipping	406	113	519	159	1,027	1,186	1,705
Occupancy	1,205	429	1,634	552	513	1,065	2,699
Printing and artwork	561	375	936	48	979	1,027	1,963
Travel	4,592	770	5,362	285	593	878	6,240
Training conferences	3,347	676	4,023	570	259	829	4,852
Membership dues	27	22	49	60	3	63	112
Pass-through funds to member orgs	33,220	30,742	63,962	—	—	—	63,962
Miscellaneous	690	231	921	43	81	124	1,045
Depreciation	408	192	600	295	189	484	1,084
Total expenses	\$ <u>92,729</u>	<u>46,303</u>	<u>139,032</u>	<u>12,110</u>	<u>17,033</u>	<u>29,143</u>	<u>168,175</u>

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

(In thousands)

	<u>Program/Club-benefiting Support & Services</u>			<u>Supporting services</u>			<u>Total expenses</u>
	<u>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	\$ 25,600	5,976	31,576	7,596	7,158	14,754	46,330
Benefits	4,709	1,250	5,959	1,438	1,047	2,485	8,444
Payroll taxes	1,797	412	2,209	440	488	928	3,137
Total salaries and related expenses	32,106	7,638	39,744	9,474	8,693	18,167	57,911
Contractual services	9,805	2,772	12,577	2,649	5,878	8,527	21,104
Supplies	2,131	353	2,484	165	144	309	2,793
Telephone	482	91	573	106	120	226	799
Postage and shipping	215	153	368	70	958	1,028	1,396
Occupancy	1,557	530	2,087	714	649	1,363	3,450
Printing and artwork	955	475	1,430	172	1,166	1,338	2,768
Travel	4,150	702	4,852	344	815	1,159	6,011
Training conferences	2,670	2,230	4,900	273	263	536	5,436
Membership dues	66	27	93	60	32	92	185
Pass-through funds to member orgs	30,670	38,935	69,605	—	—	—	69,605
Interest expense	—	—	—	5	—	5	5
Miscellaneous	674	165	839	387	457	844	1,683
Depreciation	382	186	568	360	177	537	1,105
Total expenses	\$ 85,863	54,257	140,120	14,779	19,352	34,131	174,251

See accompanying independent auditors' report.