

ASSOCIATED RECREATION COUNCIL

FINANCIAL REPORT

DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Associated Recreation Council
Seattle, Washington

We have audited the accompanying financial statements of Associated Recreation Council, which comprise of the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to an entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Associated Recreation Council as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Peterson Sullivan LLP

May 7, 2014

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ASSOCIATED RECREATION COUNCIL

STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

ASSETS	2013	2012
Current Assets		
Cash and cash equivalents	\$ 1,253,040	\$ 1,035,702
Investments	5,172,237	4,732,297
Receivables	402,307	431,910
Prepaid expenses	34,607	50,252
Total current assets	<u>\$ 6,862,191</u>	<u>\$ 6,250,161</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,297,547	\$ 986,636
Deferred revenue	731,637	649,527
Total current liabilities	2,029,184	1,636,163
Net Assets		
Unrestricted	4,398,855	4,146,842
Temporarily restricted	434,152	467,156
Total net assets	<u>4,833,007</u>	<u>4,613,998</u>
Total liabilities and net assets	<u>\$ 6,862,191</u>	<u>\$ 6,250,161</u>

See Notes to Financial Statements

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted Net Assets		
Support and revenue		
Class fees	\$ 10,181,439	\$ 9,352,675
Sports fees	330,764	321,451
Less scholarships and refunds	(280,206)	(284,518)
Fundraising events	482,910	548,502
Grants	584,137	494,649
Donations	121,104	138,168
Retail sales	96,018	111,518
Print shop proceeds	82,998	78,085
Miscellaneous	141,118	140,324
Facility rental fees	59,661	41,605
Investment income	96,478	178,174
Net assets released from restrictions	555,295	901,125
Total support and revenue	12,451,716	12,021,758
Expenses		
Program	11,042,347	10,651,655
Management and general	1,020,796	663,821
Fundraising	136,560	134,672
Total expenses	12,199,703	11,450,148
Change in unrestricted net assets	252,013	571,610
Temporarily Restricted Net Assets		
Support and revenue		
Grants	323,554	726,911
Donations	98,674	111,754
Other	100,063	21,543
Net assets released from restrictions	(555,295)	(901,125)
Change in temporarily restricted net assets	(33,004)	(40,917)
Change in Net Assets	219,009	530,693
Net Assets, beginning of year	4,613,998	4,083,305
Net Assets, end of year	\$ 4,833,007	\$ 4,613,998

See Notes to Financial Statements

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF CHANGES IN NET ASSETS For the Years Ended December 31, 2013 and 2012

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
Balance, December 31, 2011	\$ 3,575,232	\$ 508,073	\$ 4,083,305
Change in net assets	571,610	(40,917)	530,693
Balance, December 31, 2012	4,146,842	467,156	4,613,998
Change in net assets	252,013	(33,004)	219,009
Balance, December 31, 2013	<u>\$ 4,398,855</u>	<u>\$ 434,152</u>	<u>\$ 4,833,007</u>

See Notes to Financial Statements

ASSOCIATED RECREATION COUNCIL

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ 219,009	\$ 530,693
Adjustments to reconcile change in net assets to net cash provided by operating activities		
(Gain) loss on investments	22,187	(80,375)
Changes in operating assets and liabilities		
Receivables	29,603	165,001
Prepaid expenses	15,645	(38,700)
Accounts payable and accrued expenses	310,911	3,367
Deferred revenue	82,110	59,070
Net cash provided by operating activities	679,465	639,056
Cash Flows from Investing Activities		
Purchases of investments	(1,875,000)	(3,439,575)
Proceeds from sale of investments	1,412,873	2,440,458
Net cash used in investing activities	(462,127)	(999,117)
Net change in cash and cash equivalents	217,338	(360,061)
Cash and Cash Equivalents, beginning of year	1,035,702	1,395,763
Cash and Cash Equivalents, end of year	\$ 1,253,040	\$ 1,035,702

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities and Financial Statement Presentation

Associated Recreation Council ("ARC") is an independent nonprofit corporation, the purpose of which is to benefit and support the City of Seattle Department of Parks and Recreation and its officially recognized Advisory Councils in providing public recreation programs at various parks and community centers throughout the City of Seattle. As of December 31, 2013, there were 37 Advisory Councils providing programs, classes, and activities. Support provided by ARC involves the collection, administration, and disbursement of funds for member Advisory Councils in connection with all programs, classes, and activities provided through the ARC system.

These financial statements include the assets, liabilities, revenues, and expenses of ARC and those of the Advisory Councils, other than the assets and liabilities represented by the park and community center facility properties. Ownership of these properties remains with the City of Seattle. ARC contributed \$366,514 and \$426,885 of equipment to the City of Seattle Department of Parks and Recreation in 2013 and 2012, respectively. ARC also provides monetary support to the City of Seattle Department of Parks and Recreation, see Note 4.

Financial Statement Presentation

ARC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. ARC has no permanently restricted net assets, so this class of net assets is not shown on the financial statements.

Temporarily restricted net assets consist of grants and donations received that are restricted for particular purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose, or as time restrictions are met.

Allocation of Functional Expenses

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

Cash and Cash Equivalents

Cash and cash equivalents includes cash in banks and money market accounts. On occasion, ARC has cash balances in excess of federally insured limits.

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. These are three levels which prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Investments

Investments generally consist of certificates of deposit maturing at various dates and debt and equity mutual fund holdings. Investments are measured at fair value, and the change in value is included in the change in net assets. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value measurement of investments was determined using Level 1 observable market inputs, within the fair value hierarchy, consisting of quoted prices in active markets for identical assets.

Receivables

Receivables consist primarily of class fees earned, but not yet received and are stated at the amount management expects to collect from outstanding balances. Receivables also consist of grants receivable administered by local government agencies and are stated at their outstanding principal balances. As of December 31, 2013 and 2012, \$236,916 and \$103,548, respectively, were due from the City of Seattle Department of Parks and Recreation for class fees earned but not yet received.

Management reviews the collectibility of receivables on a periodic basis and determines the appropriate amount of an allowance for doubtful accounts, if any. ARC writes off receivables against the allowance when it is determined that a receivable is not collectible. ARC generally does not require collateral for receivable balances.

Management believes all receivables are collectible at December 31, 2013 and 2012.

At December 31, 2013 and 2012, 28% and 17%, respectively, of receivables were due from the City of Seattle Department of Parks and Recreation. At December 31, 2013 there were no other grantor receivable concentrations. At December 31, 2012, 21% of receivables were due from one other grantor.

Revenue Recognition

Revenue arises primarily from the providing of classes and participation in organized sports. Revenue is recognized as it is earned. Class fees are earned when the class takes place. Sports participation fees are earned on a pro-rata basis during the sport season.

Deferred revenue consists of payments for class and sports participation fees received prior to year-end for classes and/or sport seasons which are not complete.

Grant revenue is recorded when it is awarded. For the year ended December 31, 2013, 75% of grant revenue was received from the City of Seattle. For the year ended December 31, 2012, 77% of grant revenue was received from the City of Seattle and one other grantor.

Revenue from donations is recorded when the promise to give to ARC is made. Of the total donations revenue as of December 31, 2013, 12% was received from one individual. As of December 31, 2012, 32% was received from one donor.

Donated Facilities and Services

The City of Seattle Department of Parks and Recreation provides administrative office space for ARC. The fair value of this office space has not been included in these financial statements based on materiality. A substantial number of volunteers and City of Seattle Department of Parks and Recreation personnel make significant contributions of time to the program activities of the various member Advisory Councils. Donated services would not be performed by salaried personnel if the donated services were not available. Accordingly, no amounts are reflected in the financial statements for these services.

Advertising Costs

ARC expenses advertising costs as incurred. Advertising expense was \$110,339 and \$64,313, in 2013 and 2012, respectively, and allocated to the functional expense categories on the statement of activities based on the program and support services benefited.

Income Taxes

ARC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. ARC's federal tax returns are open to examination for the years ended December 31, 2010 to 2013.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from the estimated amounts.

Subsequent Events

ARC has evaluated subsequent events through the date these financial statements were available to be issued, which was the same date as the independent auditors' report.

Note 2. Investment Portfolio

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

	2013	2012
Certificates of Deposit	\$ 774,679	\$ 1,401,409
Investments in Mutual Funds:		
Short-term bond funds	2,707,890	2,361,629
Bank loan funds	1,456,611	751,264
International equity funds	67,513	64,801
Large blend equity funds	55,782	51,639
Corporate bond funds	45,452	41,889
Government bond funds	38,720	35,869
Small blend equity funds	9,942	8,828
Commodities equity funds	9,020	8,294
Real estate equity funds	6,628	6,675
Total mutual funds	4,397,558	3,330,888
	<u>\$ 5,172,237</u>	<u>\$ 4,732,297</u>

Certificates of deposit ("CD"s) were held by multiple financial institutions at December 31, 2013 and 2012.

Note 3. Employee Benefit Plan

ARC has a 401(k) plan for employees who meet the eligibility requirements set forth in the plan. ARC matches a portion of employee contributions, which amounted to \$30,402 and \$32,013 in 2013 and 2012, respectively.

Note 4. Annual Services Agreement with the City of Seattle Department of Parks and Recreation

ARC and City of Seattle Department of Parks and Recreation operate under an annual services agreement ("the Agreement") that attempts to plan for and address biennial budget issues. The Agreement includes, but is not limited to, the following paid to the City of Seattle Department of Parks and Recreation:

- Participation Fee – a fee of 4% of each registration is set by the Seattle City Council on users of Parks facilities for the benefit of the Seattle Department of Parks and Recreation. ARC collects and pays this fee to the City.
- Wage Reimbursement – up to \$120,000 for wages and taxes related to Recreation Attendants serving as building monitors.
- Scholarship Reimbursement – up to \$170,000 to cover the difference between the allocated scholarships and the approved scholarship ceiling.
- Other – includes support for capital improvements, the Belltown Community Center, and general operational support.

In 2012, the annual services agreement was expanded to include a GEO Tier Support ("G.T.S.") Fee, which is paid by ARC. The G.T.S. Fee is determined as 6.45% of gross receipts (excluding grants and donations) of all Seattle Community Center programs up to a fee limit of \$464,800. These fees are paid for the reimbursement of wages for Recreation Assistant Coordinators, who program classes and activities in the community centers. The proceeds of the G.T.S. fee also support some of the overhead of the new Department of Parks and Recreation Belltown Community Center. The agreement is expected to continue through 2015. In 2013 and 2012, total fees paid by ARC were \$464,800 and \$446,348, respectively.

All support paid to the City of Seattle Department of Parks and Recreation is included in program expenses in the statement of activities.