

The Boys and Girls Clubs of Hartford, Inc.

**Financial Statements
and Independent Auditor's Report**

June 30, 2018 and 2017

COHN REZNICK
ACCOUNTING • TAX • ADVISORY

The Boys and Girls Clubs of Hartford, Inc.

Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Statements of Financial Position	4
Statements of Activities	5
Statements of Functional Expenses	7
Statements of Cash Flows	9
Notes to Financial Statements	11

Independent Auditor's Report

To the Board of Directors
The Boys and Girls Clubs of Hartford, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Boys and Girls Clubs of Hartford, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses 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 of America; 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 The Boys and Girls Clubs of Hartford, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018, on our consideration of The Boys and Girls Clubs of Hartford, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Boys and Girls Clubs of Hartford, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Boys and Girls Clubs of Hartford, Inc.'s internal control over financial reporting and compliance.

CohnReznick LLP

Hartford, Connecticut
December 4, 2018

The Boys and Girls Clubs of Hartford, Inc.

Statements of Financial Position
June 30, 2018 and 2017

Assets

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 1,473,936	\$ 612,564
Current portion of pledges receivable, net	979,750	-
Grants and other receivables	389,037	495,782
Prepaid expenses	2,500	-
	<hr/>	<hr/>
Total current assets	2,845,223	1,108,346
Pledges receivable, net	1,292,574	-
Investments	6,384,599	6,183,880
Assets held in trust	9,242,164	6,545,111
Property and equipment, net	4,072,571	4,508,205
	<hr/>	<hr/>
Total assets	<u>\$ 23,837,131</u>	<u>\$ 18,345,542</u>

Liabilities and Net Assets

Current liabilities		
Accounts payable and accrued liabilities	\$ 203,402	\$ 196,506
Deferred revenue	89,069	154,541
	<hr/>	<hr/>
Total current liabilities	292,471	351,047
	<hr/>	<hr/>
Total liabilities	292,471	351,047
	<hr/>	<hr/>
Commitments		
Net assets		
Unrestricted		
Undesignated	4,479,241	4,734,212
Board designated	6,400,589	5,589,285
Temporarily restricted	3,031,564	734,785
Permanently restricted	9,633,266	6,936,213
	<hr/>	<hr/>
Total net assets	23,544,660	17,994,495
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 23,837,131</u>	<u>\$ 18,345,542</u>

See Notes to Financial Statements.

The Boys and Girls Clubs of Hartford, Inc.

**Statement of Activities
Year Ended June 30, 2018
(With Comparative Totals for 2017)**

	Unrestricted	Temporarily restricted	Permanently restricted	2018 Total	2017 Total
Revenue					
Contributions	\$ 917,896	\$ 929,890	\$ -	\$ 1,847,786	\$ 1,619,785
Grants and contracts	828,319	-	-	828,319	905,351
Legacies	336,410	-	-	336,410	274,573
United Way support	19,768	110,000	-	129,768	173,686
Special events	745,199	-	-	745,199	586,072
Investment return utilized for operations	276,955	27,665	-	304,620	302,891
Fees	493,040	-	-	493,040	542,154
Other revenue	27,200	-	-	27,200	18,973
Net assets released from restrictions	1,009,143	(1,009,143)	-	-	-
Total revenue	4,653,930	58,412	-	4,712,342	4,423,485
Functional expenses					
Program services	3,254,926	-	-	3,254,926	3,196,539
Management and general	671,659	-	-	671,659	610,461
Fundraising	522,129	-	-	522,129	484,900
Total expenses	4,448,714	-	-	4,448,714	4,291,900
Changes in net assets, operations	205,216	58,412	-	263,628	131,585
Non-operating activities					
Capital campaign contributions, net	96,454	3,021,808	-	3,118,262	51,000
Capital campaign expenditures	(267,567)	-	-	(267,567)	-
Investment return, net	456,998	44,708	-	501,706	649,364
Investment return utilized for operations	(276,955)	(27,665)	-	(304,620)	(302,891)
Depreciation	(458,297)	-	-	(458,297)	(473,378)
Change in value of assets held in trust	-	-	2,697,053	2,697,053	346,531
Net assets released from restrictions	800,484	(800,484)	-	-	-
Total non-operating activities	351,117	2,238,367	2,697,053	5,286,537	270,626
Changes in net assets	556,333	2,296,779	2,697,053	5,550,165	402,211
Net assets, beginning	10,323,497	734,785	6,936,213	17,994,495	17,592,284
Net assets, ending	\$ 10,879,830	\$ 3,031,564	\$ 9,633,266	\$ 23,544,660	\$ 17,994,495

See Notes to Financial Statements.

The Boys and Girls Clubs of Hartford, Inc.

**Statement of Activities
Year Ended June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenue				
Contributions	\$ 833,847	\$ 785,938	\$ -	\$ 1,619,785
Grants and contracts	905,351	-	-	905,351
Legacies	274,573	-	-	274,573
United Way support	24,686	149,000	-	173,686
Special events	586,072	-	-	586,072
Investment return utilized for operations	274,911	27,980	-	302,891
Fees	542,154	-	-	542,154
Other revenue	18,973	-	-	18,973
Net assets released from restrictions	808,852	(808,852)	-	-
Total revenue	<u>4,269,419</u>	<u>154,066</u>	<u>-</u>	<u>4,423,485</u>
Functional expenses				
Program services	3,196,539	-	-	3,196,539
Management and general	610,461	-	-	610,461
Fundraising	484,900	-	-	484,900
Total expenses	<u>4,291,900</u>	<u>-</u>	<u>-</u>	<u>4,291,900</u>
Changes in net assets, operations	<u>(22,481)</u>	<u>154,066</u>	<u>-</u>	<u>131,585</u>
Non-operating activities				
Capital campaign contributions	-	51,000	-	51,000
Investment return, net	590,321	59,043	-	649,364
Investment return utilized for operations	(274,911)	(27,980)	-	(302,891)
Depreciation	(473,378)	-	-	(473,378)
Change in value of assets held in trust	-	-	346,531	346,531
Total non-operating activities	<u>(157,968)</u>	<u>82,063</u>	<u>346,531</u>	<u>270,626</u>
Changes in net assets	<u>(180,449)</u>	<u>236,129</u>	<u>346,531</u>	<u>402,211</u>
Net assets, beginning	<u>10,503,946</u>	<u>498,656</u>	<u>6,589,682</u>	<u>17,592,284</u>
Net assets, ending	<u>\$ 10,323,497</u>	<u>\$ 734,785</u>	<u>\$ 6,936,213</u>	<u>\$ 17,994,495</u>

See Notes to Financial Statements.

The Boys and Girls Clubs of Hartford, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2018
(With Comparative Totals for 2017)**

	Program services	Management and general	Fundraising	2018 Total	2017 Total
Salaries and benefits					
Salaries	\$ 1,907,813	\$ 434,612	\$ 235,471	\$ 2,577,896	\$ 2,551,081
Benefits	216,796	53,296	32,184	302,276	300,194
Payroll taxes	141,157	30,300	17,219	188,676	185,383
Total salaries and benefits	2,265,766	518,208	284,874	3,068,848	3,036,658
Other operating expenses					
Direct program expenses	442,744	-	-	442,744	435,658
Building repair and maintenance	136,029	29,936	16,219	182,184	176,498
Utilities	92,869	21,156	11,462	125,487	118,651
Special events expense	-	-	168,154	168,154	135,580
Insurance	71,769	13,120	3,841	88,730	84,132
Office expense	42,438	14,953	7,098	64,489	74,145
Professional and outside services	93,510	24,950	10,000	128,460	54,676
Dues and fees	23,085	31,807	3,395	58,287	54,867
Occupancy	34,816	-	-	34,816	34,816
Miscellaneous	8,848	2,563	3,214	14,625	23,714
Travel, conferences and training	23,894	11,061	1,397	36,352	28,486
Telephone	18,763	3,310	1,368	23,441	21,880
Postage	224	175	1,645	2,044	3,765
Interest	-	-	-	-	982
Printing and publications	171	420	9,462	10,053	7,392
Total expenses before depreciation	3,254,926	671,659	522,129	4,448,714	4,291,900
Depreciation	418,547	39,750	-	458,297	473,378
Total expenses	\$ 3,673,473	\$ 711,409	\$ 522,129	\$ 4,907,011	\$ 4,765,278

See Notes to Financial Statements.

The Boys and Girls Clubs of Hartford, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2017**

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits				
Salaries	\$ 1,893,693	\$ 409,968	\$ 247,420	\$ 2,551,081
Benefits	211,167	52,622	36,405	300,194
Payroll taxes	139,413	27,918	18,052	185,383
Total salaries and benefits	2,244,273	490,508	301,877	3,036,658
Other operating expenses				
Direct program expenses	435,658	-	-	435,658
Building repair and maintenance	156,875	11,774	7,849	176,498
Utilities	105,667	7,790	5,194	118,651
Special events expense	-	-	135,580	135,580
Insurance	67,379	13,581	3,172	84,132
Office expense	50,905	12,920	10,320	74,145
Professional and outside services	28,526	21,650	4,500	54,676
Dues and fees	26,748	26,474	1,645	54,867
Occupancy	34,816	-	-	34,816
Miscellaneous	9,694	11,881	2,139	23,714
Travel, conferences and training	16,217	10,734	1,535	28,486
Telephone	19,582	1,591	707	21,880
Postage	199	576	2,990	3,765
Interest	-	982	-	982
Printing and publications	-	-	7,392	7,392
Total expenses before depreciation	3,196,539	610,461	484,900	4,291,900
Depreciation	435,878	37,500	-	473,378
Total expenses	\$ 3,632,417	\$ 647,961	\$ 484,900	\$ 4,765,278

See Notes to Financial Statements.

The Boys and Girls Clubs of Hartford, Inc.

**Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	2018	2017
Cash flows from operating activities		
Contributions, grants and other support utilized for operations	\$ 2,892,600	\$ 2,554,825
Cash received from legacies	336,410	274,573
Cash received from special events	745,199	586,072
Cash received from fees and other revenue	520,240	561,127
Interest and dividends, net of fees	92,298	84,749
Payments to suppliers and employees	(4,711,885)	(4,294,461)
Interest paid	-	(982)
	<u>(125,138)</u>	<u>(234,097)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Proceeds from sale of investments	2,567,368	3,655,578
Purchase of investments	(2,358,679)	(3,454,605)
Purchase of property and equipment	(22,663)	(20,143)
	<u>186,026</u>	<u>180,830</u>
Net cash provided by investing activities		
Cash flows from financing activities		
Proceeds from contributions, non-operating	800,484	-
Net repayments on line of credit	-	(75,000)
	<u>800,484</u>	<u>(75,000)</u>
Net cash provided by (used in) financing activities		
Net increase (decrease) in cash and cash equivalents	861,372	(128,267)
Cash and cash equivalents, beginning	612,564	740,831
Cash and cash equivalents, end	<u>\$ 1,473,936</u>	<u>\$ 612,564</u>

The Boys and Girls Clubs of Hartford, Inc.

**Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	2018	2017
Reconciliation of change in net assets to net cash used in operating activities		
Change in net assets	\$ 5,550,165	\$ 402,211
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	458,297	473,378
Net realized and unrealized gains on investments	(409,408)	(564,615)
Bad debt expense	49,045	-
Change in value of assets held in trust	(2,697,053)	(346,531)
Proceeds from contributions, non-operating	(800,484)	-
Changes in operating assets and liabilities		
Grants and other receivables	(2,214,624)	(169,723)
Prepaid expenses	(2,500)	8,065
Accounts payable and accrued liabilities	6,896	(11,608)
Deferred revenue	(65,472)	(25,274)
Net cash used in operating activities	\$ (125,138)	\$ (234,097)

See Notes to Financial Statements.

The Boys and Girls Clubs of Hartford, Inc.

Notes to Financial Statements June 30, 2018 and 2017

Note 1 - Organization and summary of significant accounting policies

Organization and operations

The Boys and Girls Clubs of Hartford, Inc. (the "Organization"), affiliated with The Boys and Girls Clubs of America, maintains several facilities in Hartford, Connecticut. The Organization provides programs of academic, cultural and social enrichment, in addition to health and life skills, and physical and recreational activities. Support is received from various sources, including grants, the United Way, private foundations, private charitable organizations and earnings from endowment funds.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements report information regarding the Organization's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

Unrestricted - Net assets which are not subject to explicit donor-imposed stipulations, or to those imposed by operation of law. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted - Net assets whose use by the Organization is subject to explicit donor-imposed stipulations or to those imposed by operation of law, which can be fulfilled by actions of the Organization pursuant to those stipulations or which expire by the passage of time. The change in temporarily restricted net assets is impacted primarily by gifts with time and donor constraints, such as restricted annual fund gifts, unconditional pledges and deferred giving instruments.

Permanently restricted - Net assets subject to explicit donor-imposed stipulations, or to those imposed by operation of law, that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the investment return on these assets for unrestricted purposes. Such assets primarily represent the historic dollar amount of the donor-restricted endowment gifts and the fair value of certain assets held in trust. The change in permanently restricted net assets is impacted by the addition of donor-restricted gifts as well as by the change in value of certain assets held in trust.

Measure of operations

The accompanying statements of activities distinguish between operating and non-operating activities. Operating activities include all revenues and expenses which are an integral part of the Organization's programs and supporting activities. Non-operating activities primarily include grants and contributions for capital purposes, investment return in excess of amounts utilized for operations, the change in the value of assets held in trust, depreciation and other non-operating gains and losses.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid short-term instruments with an original maturity of three months or less when acquired. Cash equivalents as of June 30, 2018 and 2017 were \$558,716 and \$338,200, respectively.

The Boys and Girls Clubs of Hartford, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

Grants and contracts revenue, receivables and deferred revenue

Government grants are recognized when eligible grant costs are incurred. Receivables are recognized to the extent costs have been incurred, but not reimbursed. Deferred revenue results when grant monies collected exceed grant costs incurred. Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of funds to grantors. As of the date of the financial statements, the Organization has not been informed by any funding organization of any funds which are required to be returned.

Allowances for receivables

Allowances for pledges, grants and other receivables are determined by management based on an assessment of their collectability. Management considers past history, current economic conditions and overall viability of the obligor. Receivables are written off only when management believes amounts will not be collected. Receivables are considered past due based on invoice or pledge date.

Investments

The Organization reports investments at fair value (see Note 5) and reflects any gains or losses in the statements of activities. Gains and losses are considered unrestricted unless restricted by donor stipulation or law. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized. Nonmonetary investments received as gifts are immediately sold and recorded at the realized value.

Property and equipment

The Organization capitalizes all expenditures for property and equipment with a cost in excess of \$1,000 and a useful life of greater than three years. Purchased property and equipment are carried at cost less accumulated depreciation. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated lives for financial reporting purposes are as follows:

<u>Asset</u>	<u>Estimated lives</u>
Building and improvements	5 - 40 years
Furniture, fixtures, computers, equipment and vehicles	3 -7 years

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the statement of activities for the period.

The Boys and Girls Clubs of Hartford, Inc.

Notes to Financial Statements June 30, 2018 and 2017

Impairment of long-lived assets

The Organization reviews its long-lived assets for impairment whenever events or circumstances indicate the carrying amount of the assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. There were no impairment losses during 2018 or 2017.

Contributions

Contributions received, including unconditional promises to give ("pledges"), are recognized as revenue in the period received. Contributions subject to donor-imposed stipulations which are met in the same reporting period are reported as unrestricted support. Pledges scheduled to be received after the fiscal year-end are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Pledges subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that being when the conditions upon which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair values. Contributions to be received after one year are discounted at the appropriate rate to calculate the present value of the contribution. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

Gifts of long-lived assets

The Organization reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions of acquired long-lived assets when placed in service.

Contributed services

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs and various committee assignments. No amounts have been recorded in the financial statements for these donated volunteer services for the years ended June 30, 2018 and 2017 as they do not meet the criteria for recognition.

The Organization did receive donations for specific materials, supplies and services by various individuals and organizations that do meet the criteria for recognition. These are recorded at fair value at the date of donation, and have been included in revenue and expenses or capital assets in the period received. The following have been recorded in the financial statements: donated use of facilities of \$34,816 for both years ended June 30, 2018 and 2017; donated materials and supplies of \$49,368 and \$10,090 for the years ended June 30, 2018 and June 30, 2017, respectively; and donated services of \$96,429 for the year ended June 30, 2018.

The Boys and Girls Clubs of Hartford, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

Income taxes

The Organization is organized as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code and, as such, is not subject to federal or state corporate income taxes. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). The Organization's federal information returns prior to fiscal year 2015 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. If the Organization had unrelated business income taxes, it would recognize interest and penalties associated with any tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the statements of financial position.

Functional expenses

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

Reclassifications

Certain prior year information has been reclassified to conform to the current year presentation.

Use of estimates

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

Subsequent events

The Organization has evaluated events and transactions for potential recognition or disclosure through December 4, 2018, which is the date the financial statements were available to be issued.

Note 2 - Pledges receivable

Pledges receivable as of June 30, 2018 consist of the following:

One year and less	\$	979,750
One to five years		1,359,981
Greater than five years		112,500
		<hr/>
		2,452,231
Less		
Discount to present value (3%)		(130,862)
Allowance for bad debt expense		(49,045)
		<hr/>
		2,272,324
Less current portion		(979,750)
		<hr/>
Non-current portion, net	\$	<u>1,292,574</u>

The Boys and Girls Clubs of Hartford, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 3 - Investments

Investments as of June 30, 2018 and 2017 consist of the following:

	2018	2017
Domestic mutual funds		
Large Cap	\$ 1,818,710	\$ 1,799,585
Mid Cap	720,855	748,045
Small Cap	422,009	506,045
International mutual funds	1,748,707	1,660,995
Domestic bond funds	1,094,501	920,795
International bond funds	128,526	183,680
Other funds	258,771	239,832
Money market funds	192,520	124,903
Total	\$ 6,384,599	\$ 6,183,880

Net investment return for the years ended June 30, 2018 and 2017 consists of the following:

	2018	2017
Interest and dividend income	\$ 128,383	\$ 115,479
Less investment expenses	(36,085)	(30,730)
Interest and dividend income, net	92,298	84,749
Net realized and unrealized gains	409,408	564,615
Total investment return, net	501,706	649,364
Less amount utilized for operations	(304,620)	(302,891)
Investment return, net of amount utilized for operations	\$ 197,086	\$ 346,473

Note 4 - Assets held in trust

The Organization is the beneficiary of four perpetual trusts (the "Trusts") administered by a third-party financial institution. The Organization's interest in the net assets of each trust is included in the statements of financial position as assets held in trust and classified as permanently restricted net assets. The income distributed from the Trusts for 2018 and 2017 was \$336,410 and \$274,573, respectively. The value of the assets held in trust at June 30, 2018 and 2017 was \$9,242,164 and \$6,545,111, respectively.

The Boys and Girls Clubs of Hartford, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 5 - Fair value measurements

The Organization values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Financial assets carried at fair value at June 30, 2018 and 2017 are classified in the tables below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2018</u>				
Domestic mutual funds				
Large Cap	\$ 1,818,710	\$ -	\$ -	\$ 1,818,710
Mid Cap	720,855	-	-	720,855
Small Cap	422,009	-	-	422,009
International mutual funds	1,748,707	-	-	1,748,707
Domestic bond funds	1,094,501	-	-	1,094,501
International bond funds	128,526	-	-	128,526
Other funds	258,771	-	-	258,771
Money market funds	192,520	-	-	192,520
Assets held in trust	-	-	9,242,164	9,242,164
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 6,384,599</u>	<u>\$ -</u>	<u>\$ 9,242,164</u>	<u>\$ 15,626,763</u>

The Boys and Girls Clubs of Hartford, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2017</u>				
Domestic mutual funds				
Large Cap	\$ 1,799,585	\$ -	\$ -	\$ 1,799,585
Mid Cap	748,045	-	-	748,045
Small Cap	506,045	-	-	506,045
International mutual funds	1,660,995	-	-	1,660,995
Domestic bond funds	920,795	-	-	920,795
International bond funds	183,680	-	-	183,680
Other funds	239,832	-	-	239,832
Money market funds	124,903	-	-	124,903
Assets held in trust	-	-	6,545,111	6,545,111
Total	<u>\$ 6,183,880</u>	<u>\$ -</u>	<u>\$ 6,545,111</u>	<u>\$ 12,728,991</u>

Investments in mutual, bond and money market funds are valued using market prices in active markets (Level 1). Mutual funds and money market funds held are open-ended funds that are registered with the Securities and Exchange Commission and are valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds and money market funds are deemed to be actively traded.

The Organization's beneficial interests in assets held in trust are classified as Level 3. The fair value of the Organization's beneficial interests in assets held in trust is based on the fair values of the underlying investments within these agreements, which are established by the trustee using fair values in an active market for similar assets. The trustee provides the Organization with investment statements and valuations of its portion of the trusts at year end. These are evaluated annually by the Organization without adjustments. As such, the Company is not required to provide certain quantitative disclosures regarding the valuation methods used because they were unobtainable.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization's policy is to recognize transfers in and transfers out of the various levels as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers during the years ended June 30, 2018 and 2017.

The Boys and Girls Clubs of Hartford, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

Changes in assets measured at fair value using Level 3 inputs for the year ended June 30, 2018 and 2017 are as follows:

	2018	2017
Balance, beginning	\$ 6,545,111	\$ 6,198,580
Income earned	118,028	97,964
Realized and unrealized gains	565,473	523,140
Cash disbursements	(336,410)	(274,573)
Contributions	2,349,962	-
	\$ 9,242,164	\$ 6,545,111

Note 6 - Property and equipment

Property and equipment as of June 30, 2018 and 2017 are as follows:

	2018	2017
Land	\$ 169,500	\$ 169,500
Buildings and improvements	8,629,735	8,622,591
Computers and equipment	160,285	144,766
Furniture and fixtures	266,426	266,426
Vehicles	181,635	181,635
	9,407,581	9,384,918
Less accumulated depreciation	(5,335,010)	(4,876,713)
Total	\$ 4,072,571	\$ 4,508,205

Note 7 - Line of credit

The Organization has a \$75,000 line of credit (the "Line") with HEDCO, Inc. under its nonprofit revolving loan fund program, which is funded by the Hartford Foundation for Public Giving. The Line bears interest at 4% per annum on any outstanding balance and matures on September 30, 2018. There was no outstanding balance at June 30, 2018 and 2017. Total interest expense paid on the Line was \$0 in 2018 and \$982 in 2017.

The Boys and Girls Clubs of Hartford, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 8 - Endowment

The Organization's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors (the "Board") to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act ("CTUPMIFA") 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, the Organization 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 expenditure by the Board in a manner consistent with the standard of prudence prescribed by CTUPMIFA. In accordance with CTUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the various funds;
2. The purposes of the Organization and donor-restricted endowment funds;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation (depreciation) of investments;
6. Other resources of the Organization; and
7. The Organization's investment policies.

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 177,562	\$ 391,102	\$ 568,664
Board-designated endowment funds	<u>5,771,218</u>	<u>-</u>	<u>-</u>	<u>5,771,218</u>
Total funds	<u>\$ 5,771,218</u>	<u>\$ 177,562</u>	<u>\$ 391,102</u>	<u>\$ 6,339,882</u>

The Boys and Girls Clubs of Hartford, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

Changes in endowment net assets for the year ended June 30, 2018 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,589,285	\$ 160,519	\$ 391,102	\$ 6,140,906
Investment return	87,183	7,749	-	94,932
Net appreciation	371,705	36,959	-	408,664
Appropriations	<u>(276,955)</u>	<u>(27,665)</u>	<u>-</u>	<u>(304,620)</u>
Endowment net assets, end of year	<u>\$ 5,771,218</u>	<u>\$ 177,562</u>	<u>\$ 391,102</u>	<u>\$ 6,339,882</u>

Endowment net asset composition by type of fund for the year ended June 30, 2017 was as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 160,519	\$ 391,102	\$ 551,621
Board-designated endowment funds	<u>5,589,285</u>	<u>-</u>	<u>-</u>	<u>5,589,285</u>
Total funds	<u>\$ 5,589,285</u>	<u>\$ 160,519</u>	<u>\$ 391,102</u>	<u>\$ 6,140,906</u>

Changes in endowment net assets for the year ended June 30, 2017 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,274,082	\$ 129,456	\$ 391,102	\$ 5,794,640
Investment return	76,725	7,816	-	84,541
Net appreciation	513,389	51,227	-	564,616
Appropriations	<u>(274,911)</u>	<u>(27,980)</u>	<u>-</u>	<u>(302,891)</u>
Endowment net assets, end of year	<u>\$ 5,589,285</u>	<u>\$ 160,519</u>	<u>\$ 391,102</u>	<u>\$ 6,140,906</u>

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 applicable law requires the Organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2018 and 2017, there were no such deficiencies.

The Boys and Girls Clubs of Hartford, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

Return objectives and risk parameters: The Organization adheres to investment and spending policies for endowment assets that attempt to provide a reasonably predictable stream of funding to the Organization's operating budget while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity as well as board-designated funds. According to the investment policy, as approved by the Board, the endowment assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. It is recognized that short-term market fluctuations may cause variations in account performance.

Strategies employed for achieving objectives: To satisfy its long-term rate of return objectives, the Organization 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). The Organization targets a diversified asset allocation in order to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy: The Organization has a policy of appropriating for distribution each year an amount not to exceed 5% of the five year (20 quarters) moving average of the endowment's fair value. These amounts shall be calculated through the calendar year-end preceding the fiscal year for which the distribution is planned. Over the long-term, the Organization expects the current spending policy to allow its endowment to grow at a rate that is consistent with its objective of maintaining the purchasing power of the endowment assets while providing additional real growth through new gifts and investment return.

Note 9 - Board-designated net assets

Board-designated net assets of \$629,371 as of June 30, 2018 have been established for The Boys & Girls Club of Hartford Capital/Endowment Campaign (the "Campaign").

In fiscal year 2018, the Organization began internally soliciting contributions for the Campaign and rolled out the Campaign to the general public in the fall of 2018. Funds raised from the Campaign will be applied at the discretion of the Board (1) to the capital costs of the new construction projects ("Clubhouses") and operational funding at sites to be determined by the Board (the "Project") and/or (2) to an endowment to support the Project. Should the Board determine that the annual draw from the endowment, as determined by the Board from time to time in its discretion, is in excess of the amount required to support the new Clubhouses and continuing programs of the Organization, such excess may be used to support other Club activities.

Board-designated net assets also include \$5,771,218 and \$5,589,285 of board-designated endowment funds as of June 30, 2018 and 2017, respectively (see Note 8). Board-designated net assets for both the capital campaign and the endowment totaled \$6,400,589 and \$5,589,285 as of June 30, 2018 and 2017, respectively.

The Boys and Girls Clubs of Hartford, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 10 - Temporarily restricted net assets

Temporarily restricted net assets as of June 30, 2018 and 2017 are available for the following purposes:

	2018	2017
Earnings from perpetual endowment subject to time restriction	\$ 177,562	\$ 160,519
Program related	379,168	349,266
Time restriction	2,472,324	149,000
Capital campaign	-	51,000
Technology	2,510	25,000
	\$ 3,031,564	\$ 734,785
Total temporarily restricted net assets	\$ 3,031,564	\$ 734,785

Net assets were released as follows:

	2018	2017
Program related	\$ 809,988	\$ 657,872
Time restriction	176,665	150,980
Technology	22,490	-
	1,009,143	808,852
Net assets released from operations	800,484	-
Capital campaign	\$ 1,809,627	\$ 808,852
Total	\$ 1,809,627	\$ 808,852

Note 11 - Permanently restricted net assets

Permanently restricted net assets are restricted endowments in which the principal is invested in perpetuity and the income is expendable to support operations, as well as certain perpetual trusts. Permanently restricted net assets at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Assets held in trust	\$ 9,242,164	\$ 6,545,111
Donor-restricted endowment funds	391,102	391,102
	\$ 9,633,266	\$ 6,936,213
Total permanently restricted net assets	\$ 9,633,266	\$ 6,936,213

The Boys and Girls Clubs of Hartford, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 12 - Operating leases

The Organization leases a vehicle and office equipment under operating lease agreements which expire at various times through June 2023. Monthly lease payments range from \$34 to \$541. Total rental expense for all operating leases for the years ended June 30, 2018 and 2017 was \$18,860 and \$16,786, respectively.

Future minimum lease payments required under noncancelable operating leases with initial lease terms in excess of one year as of June 30, 2018 are as follows:

2019	\$	18,637
2020		12,690
2021		11,910
2022		8,823
2023		5,906
Total	\$	57,966

Note 13 - Pension plan

The Organization maintains a 401(k) plan that covers all eligible employees. The Organization matches 4% of the participant's 401(k) contributions and will make a safe harbor employer contribution in an amount equal to 4% of the employee's eligible compensation. The safe harbor employer contributions are fully vested in the year the contribution is made. 401(k) retirement expense for the years ended June 30, 2018 and 2017 was \$88,211 and \$67,795, respectively.

Note 14 - Asylum Hill Club unrestricted endowment disclosure

The following disclosure is made pursuant to a contribution agreement between the Asylum Hill Boys and Girls Club Development Association, Inc. (the "Asylum Hill Club") and the Organization dated January 11, 2005, regarding the terms of an unrestricted endowment contribution for the benefit of the Asylum Hill Club. Results are shown below for fiscal years ended June 30, 2018 and 2017:

	2018	2017
Board-designated endowment assets for the benefit of the Asylum Hill Club	\$ 1,825,849	\$ 1,769,050
Appropriations from Asylum Hill Club board-designated endowment for operations	\$ 84,024	\$ 82,646
Asylum Hill Club maintenance and operating expenses	\$ 510,052	\$ 452,410

These amounts are included as part of the Organization's endowment in Note 7.

The Boys and Girls Clubs of Hartford, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 15 - Concentrations

Credit risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and receivables. The Organization maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits. The Organization has not experienced any losses in such accounts. At June 30, 2018 and 2017, the Organization had cash balances that exceeded federally insured limits of approximately \$1,260,000 and \$390,000, respectively.

Concentrations of credit risk with respect to grants receivable are limited to contractual agreements with various federal and state organizations. Contributions and pledges receivable are limited to contributions from various foundations, businesses and individuals.

Market risk

The Organization invests in various debt and equity securities. These investment securities are recorded at fair value. Accordingly, the investment securities can fluctuate because of interest rates, reinvestment, credit, market and other risks depending on the nature of the specific investment. Therefore, it is at least reasonably possible that these factors will result in changes in the value of the Organization's investments which could materially affect amounts reported in the financial statements. The Organization's investments are placed within a wide array of institutions with high credit ratings and their performance is reviewed periodically by the Finance Committee of the Board.

Note 16 - Commitments and subsequent event

In April 2018, the State of Connecticut Department of Mental Health and Addiction Services ("DMHAS") approved a \$7,000,000 capital improvements bond fund grant program for the Organization, to assist with construction of a new facility in the south end of Hartford to meet the needs of youth residing in the area. The Board formally approved the grant contract in September 2018. Payments will be made under this grant on a quarterly basis upon submission, review and approval of required expenditure reports. Funds can only be utilized for the construction of the facility. If the construction with funds provided under this grant ceases to be used for its approved purpose within ten years from the date of final payment, an amount equal to the amount of such funds minus 10% for each full year which has elapsed from the date of the final payment shall be repaid by the Organization to DMHAS.

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Independent Member of Nexia International

cohnreznick.com