

**BOYS AND GIRLS CLUBS OF THE
EMERALD COAST, INC.
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
Fort Walton Beach, FL

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statement of activities, functional expenses and cash flows for the year 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 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 audit. We conducted our audit 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 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 Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary as of December 31, 2018 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We previously audited Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary's financial statements and their report dated June 20, 2018 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating statements of financial position and activities on pages 15 - 16 are presented for purposes of additional analysis and are 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 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.

Coastal Accounting

COASTAL ACCOUNTING OF NW FLORIDA, PA
Certified Public Accountants & Consultants

Destin, FL
June 25, 2019

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2017)

ASSETS	2018	2017
Current assets		
Cash - unrestricted	\$ 197,225	\$ 58,540
Cash - restricted	77,134	184,970
Contributions receivable, net	8,700	4,113
Grants receivable	138,736	58,112
Investments - unrestricted	1,829,548	2,367,341
Investments - restricted	1,900,168	2,039,363
Deposits	194	194
Prepaid expenses	24,091	4,000
Prepaid insurance	213,688	206,584
Total current assets	4,389,484	4,923,217
Land, buildings and equipment, net	23,758,667	24,265,520
Other assets	-	2,543
TOTAL ASSETS	\$ 28,148,151	\$ 29,191,280
LIABILITIES		
Current liabilities		
Accounts payable	\$ 53,898	\$ 31,743
Accrued expenses	83,012	68,818
Deferred revenue	100	100
Insurance note payable	207,516	206,584
Current portion notes payable	35,200	-
Total current liabilities	379,726	307,245
Long-term liabilities		
Long-term portion notes payable	197,994	-
TOTAL LIABILITIES	577,720	307,245
NET ASSETS		
Without donor restrictions	25,389,189	26,605,724
With donor restrictions	2,181,242	2,278,311
TOTAL NET ASSETS	27,570,431	28,884,035
TOTAL LIABILITIES AND NET ASSETS	\$ 28,148,151	\$ 29,191,280

See independent auditor's report and notes to financial statements.

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	Total 2018	2017
SUPPORT AND REVENUES				
Program and activity fees	\$ 1,197,901	\$ -	\$ 1,197,901	\$ 1,102,242
Contributions	53,189	127,926	181,115	182,189
Grants	477,293	181,022	658,315	532,818
In-kind revenue	1,072,861	-	1,072,861	944,728
Special events	215,916	-	215,916	148,002
Interest income	612	-	612	854
Investment income	(71,744)	(95,292)	(167,036)	501,925
Rent	25,787	-	25,787	74,596
Other	40,000	-	40,000	6,300
Gain on asset disposal	457,203	-	457,203	267
Total support and other revenue	<u>3,469,018</u>	<u>213,656</u>	<u>3,682,674</u>	<u>3,493,921</u>
Net assets released from restrictions:				
Satisfaction of program requirements	<u>310,725</u>	<u>(310,725)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES AFTER NET ASSETS RELEASED FROM RESTRICTIONS	<u>3,779,743</u>	<u>(97,069)</u>	<u>3,682,674</u>	<u>3,493,921</u>
EXPENSES				
Program services	4,276,676	-	4,276,676	3,911,723
Management and general	543,069	-	543,069	564,060
Fundraising	<u>176,533</u>	<u>-</u>	<u>176,533</u>	<u>186,580</u>
TOTAL EXPENSES	<u>4,996,278</u>	<u>-</u>	<u>4,996,278</u>	<u>4,662,363</u>
CHANGE IN NET ASSETS	(1,216,535)	(97,069)	(1,313,604)	(1,168,442)
NET ASSETS - BEGINNING	<u>26,605,724</u>	<u>2,278,311</u>	<u>28,884,035</u>	<u>30,052,477</u>
NET ASSETS - ENDING	<u>\$ 25,389,189</u>	<u>\$ 2,181,242</u>	<u>\$ 27,570,431</u>	<u>\$ 28,884,035</u>

See independent auditor's report and notes to financial statements.

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)

	<u>Program Expenses</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2018</u>	<u>2017</u>
EXPENSES					
Wages and related benefits					
Wages	\$ 1,550,882	\$ 314,894	\$ 14,090	\$ 1,879,866	\$ 1,812,125
Employee benefits	167,637	48,246	2,615	218,498	194,191
Payroll taxes	116,215	22,482	1,056	139,753	135,210
Retirement plan expense	28,169	4,212	119	32,500	28,254
Total wages and related benefits	<u>1,862,903</u>	<u>389,834</u>	<u>17,880</u>	<u>2,270,617</u>	<u>2,169,780</u>
Other expenses					
Depreciation	504,280	2,128	-	506,408	497,416
Rent	1,022,312	11,884	3,810	1,038,006	898,180
Utilities	161,404	6,880	674	168,958	162,698
Curriculum expense	203,744	-	-	203,744	181,470
Insurance	185,912	18,265	12,282	216,459	180,362
Interest	10,486	-	-	10,486	-
Office	50,180	-	2,728	52,908	67,043
Professional fees	30,377.00	33,454.00	491.00	64,322	69,734.00
Fundraising	-	-	103,376.00	103,376	59,778.00
Property taxes	53,690.00	2,826.00	-	56,516	60,553.00
Bank & investment fees	22,195	32,518	469	55,182	48,488
Repairs and maintenance	79,623	-	-	79,623	94,361
Transportation	22,849	-	-	22,849	49,061
Conferences and meetings	15,977	37,930	1,846	55,753	57,702
Miscellaneous	-	1,014	-	1,014	-
Marketing	-	-	28,968	28,968	6,167
Dues and subscriptions	28,854	6,336	4,009	39,199	35,994
Awards and recognition	21,890	-	-	21,890	23,576
Total operating expenses	<u>2,413,773</u>	<u>153,235</u>	<u>158,653</u>	<u>2,725,661</u>	<u>2,492,583</u>
TOTAL EXPENSES	<u>\$ 4,276,676</u>	<u>\$ 543,069</u>	<u>\$ 176,533</u>	<u>\$ 4,996,278</u>	<u>\$ 4,662,363</u>

See independent auditor's report and notes to financial statements.

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,313,604)	\$ (1,168,442)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	506,408	497,416
Investment (income) loss	167,036	(501,925)
(Increase) decrease in assets		
Contributions receivable, net	(4,587)	(1,191)
Grants receivable	(80,624)	(20,739)
Prepaid expense	(20,091)	-
Prepaid insurance	(7,104)	(29,423)
Other assets	2,543	2,106
Increase (decrease) in liabilities		
Accounts payable	22,155	16,204
Accrued expenses	14,194	1,064
<i>Net cash flows from operating activities</i>	<u>(713,674)</u>	<u>(1,204,930)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sale of investments	2,156,751	2,759,356
Purchase of investments	(1,835,073)	(1,558,980)
Purchase of property and equipment	(268,484)	-
Gain on disposal of property and equipment	457,203	-
<i>Net cash flows from investing activities</i>	<u>510,397</u>	<u>1,200,376</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on insurance note payable	(206,584)	(177,161)
Proceeds from insurance note payable	207,516	206,584
Payments on notes payable	(31,169)	-
Proceeds from notes payable	264,363	-
<i>Net cash flows from financing activities</i>	<u>234,126</u>	<u>29,423</u>
NET CHANGE IN CASH	30,849	24,869
CASH AT BEGINNING OF YEAR	<u>243,510</u>	<u>218,641</u>
CASH AT END OF YEAR	<u><u>\$ 274,359</u></u>	<u><u>\$ 243,510</u></u>
RECONCILIATION OF CASH TO STATEMENT OF FINANCIAL POSITION		
Cash - unrestricted	\$ 197,225	\$ 58,540
Cash - restricted	<u>77,134</u>	<u>184,970</u>
Total cash at end of year	<u><u>\$ 274,359</u></u>	<u><u>\$ 243,510</u></u>

See independent auditor's report and notes to financial statements.

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Boys and Girls Clubs of the Emerald Coast, Inc. is a not-for-profit organization incorporated under the laws of the State of Florida in 1967, for the purpose of inspiring and empowering all young people and their families, in partnership with the community, to achieve their full potential to be great. The Boys and Girls Clubs of the Emerald Coast, Inc. is primarily supported through donor contributions, membership fees, special events, and grants.

The Boys and Girls Clubs of the Emerald Coast Foundation, Inc. is a not-for-profit organization organized under the laws of the State of Florida on July 29, 2005, to support and carry out charitable and educational functions of the Boys and Girls Clubs of the Emerald Coast, Inc. by providing financial support and other aid to the Boys and Girls Clubs of the Emerald Coast, Inc. and to its beneficiaries as directed by the Boys and Girls Clubs of the Emerald Coast, Inc. as a supporting organization.

Principles of Consolidation

The consolidated financial statements include the accounts of the Boys and Girls Clubs of the Emerald Coast, Inc. and the Boys and Girls Clubs of the Emerald Coast Foundation, Inc. The Boys and Girls Clubs of the Emerald Coast, Inc. has both an economic interest in the Boys and Girls Clubs of the Emerald Coast Foundation, Inc. and control of the Boys and Girls Clubs of the Emerald Coast Foundation, Inc. through a majority voting interest in its governing board. All material inter-entity transactions have been eliminated. Hereinafter, the Boys and Girls Clubs of the Emerald Coast, Inc. and the Boys and Girls Clubs of the Emerald Coast Foundation, Inc. will be referred to as "the Organization".

Basis of Accounting

The Organization follows standards of accounting and financial reporting prescribed for voluntary health and welfare agencies. It uses the accrual basis of accounting, which reflects all significant receivables, payables, and other liabilities. All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Pledges for contributions, if any, are recorded when received and allowances are provided for amounts if determined to be uncollectible. Program and activity fees are recognized in the period to which the fees relate.

The costs of providing the various programs and other activities have been detailed in the accompanying Consolidated Statement of Functional Expenses and summarized on a functional basis in the Consolidated Statement of Activities. Salaries and other expenses, which are associated with a specific program, are charged directly to that program.

Salaries and other expenses, which benefit more than one program, are allocated to the various programs based on the relative benefit provided. Most administrative expenses are allocated to the various programs based on each program's salary expense.

Revenue Recognition

The Organization has adopted the recommendations of the Financial Accounting Standards Board (FASB) in FASB Accounting Standards Codification (ASC) 958 "Not-for-Profit Organizations." Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets; without donor restrictions and with donor restrictions, depending on the existence and/or nature of any donor restriction.

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Contributions are recognized when the donor makes a promise to give to the Organization. The long-term portion of promises to give are reported at their present value as net assets with donor restrictions. As these assets become current, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in FASB Accounting Standards Codification (ASC) 958 "Not-for-Profit Organizations." Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets as follows:

Net assets without donor restrictions - Net assets not restricted by donors, or donor-imposed restrictions have expired. Board designated or appropriated amounts are reported as net assets without donor restrictions since the Board has the authority to change or withdraw such designations or appropriations.

Net assets with donor restrictions - Net assets which contain donor-imposed restrictions that require the organization to use or expend the assets as specified.

Cash and Cash Equivalents

It is the Organization's policy to treat as cash equivalents short-term, highly liquid investments that are readily convertible to known amounts of cash and that are so near to maturity that they present insignificant risk of changes in value because of changes in interest rates.

Investments

The Organization's investments are in mutual funds and money market accounts and are classified as "available for sale" securities in accordance with the Investments Subtopic of the Not-for-Profit Entities Topic of the FASB ASC. The investments are measured at fair value using quoted prices in active markets for identical assets (Level 1 Inputs). All realized and unrealized gains and losses are included in the change in net assets for the year.

Donated Space, Materials and Services

Donated space and materials are reflected in the accompanying statements at their estimated fair values and reported as in-kind revenue. No material amounts have been reflected in the financial statements for donated services; however, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific program services and campaign solicitation.

When the value of donated space use is ascertainable and meets the criteria for recognition in the Statement of Activities, it is reflected in the accompanying financial statements as in-kind revenue and expense. Rent and utility expenses are recorded at estimated fair value. For the year ended December 31, 2018, the Organization recorded in-kind rent and utilities of \$1,072,861.

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.

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost, or at fair market value if donated. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. The Organization follows the practice of capitalizing acquisitions of assets in excess of \$1,500. Depreciation expense is reported in the Consolidated Statement of Activities as a decrease in net assets without donor restrictions, and is calculated using the straight-line method with useful lives ranging from 5 to 39 years.

Contributions Receivable, net

Contributions receivable represents donors' unconditional promises to give as of December 31, 2018. Accounting policies generally accepted in the United States of America require an allowance for doubtful accounts. The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all promises to give to determine the collectability of the pledge. After all attempts to collect on a pledge have been exhausted, the receivable is written off against the allowance. As of December 31, 2018, the Organization had total contributions receivable of \$23,097 and an allowance for doubtful accounts of \$14,397.

Compensated Absences

Employees of the Organization are entitled to paid time off depending on job classification, length of service, and other factors. Eligible employees begin to accrue paid time off on the first day of employment; however, they are not eligible to use the paid time off until after a 90 day probationary period; earned paid time off benefits from the prior year greater than 40 hours lapse. In the event of termination, an employee may be eligible to receive the vacation days accrued for the current calendar year only (to be paid at CEO's discretion). The Organization was not liable for any accrued compensated absences at December 31, 2018.

Income Taxes

The Organization qualifies as a tax-exempt exemption under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. The Organization is not aware of any uncertain tax positions that would require disclosure or accrual in accordance with generally accepted accounting principles. With few exceptions, the Organization is no longer subject to federal, state or local income tax examinations by tax authorities for years before 2015.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Comparative Data

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 – LAND, BUILDINGS AND EQUIPMENT, NET

Land, buildings and equipment at December 31, 2018 is summarized as follows:

Buildings and improvements	\$ 14,570,475
Land and improvements	12,032,935
Furniture and equipment	515,340
Vehicles	<u>829,536</u>
	27,948,286
Less accumulated depreciation	<u>(4,189,619)</u>
Land buildings and equipment, net	<u>\$ 23,758,667</u>

Depreciation expense for the year ended December 31, 2018 was \$506,408.

NOTE 3 – INVESTMENTS

The following is a summary of the investments held by the Organization at December 31, 2018:

Asset	Cost	Fair Value	Cumulative Unrealized Gain (Loss)
<i>Investments</i>			
Mutual funds	\$ 3,714,495	\$ 3,729,716	\$ 15,221
Cash accounts	<u>77,134</u>	<u>77,134</u>	<u>-</u>
Total	<u>\$ 3,791,629</u>	<u>\$ 3,806,850</u>	<u>\$ 15,221</u>

Reconciliation of fair value of investments to the Statement of Financial Position:

Investments - unrestricted	\$ 1,829,548
Investments - restricted	<u>1,900,168</u>
Totals	<u>\$ 3,729,716</u>

Investment income in the Consolidated Statement of Activities consisted of the following for the year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 53,552	\$ 62,158	\$ 115,710
Realized gain (loss)	146,303	(9,979)	136,324
Unrealized gain (loss)	<u>(271,599)</u>	<u>(147,471)</u>	<u>(419,070)</u>
Total	<u>\$ (71,744)</u>	<u>\$ (95,292)</u>	<u>\$ (167,036)</u>

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 4 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2018 consisted of the following:

Boeing STEM Outreach Program	\$ 50,000
Hank Aaron Chasing the Dream Scholarship	4,500
Project After School Program	182,671
Donor restricted endowment fund to benefit South Walton County Club	<u>1,944,071</u>
Total	\$ <u>2,181,242</u>

NOTE 5 – ENDOWMENT FUNDS

The State of Florida enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective July 1, 2012, the provisions of which apply to endowment funds existing on or established after that date. The Organization has determined that \$1,944,071 of Organization's net assets with donor restrictions meet the definition of endowment funds under UPMIFA.

The Organization interprets UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions 1) the original value of gifts donated to the perpetual endowment, 2) the original value of subsequent gifts to the perpetual endowment, and 3) accumulations to the perpetual 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 is also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. As a result of the interpretation, the endowment funds are underwater at December 31, 2018, by \$55,929.

In accordance with UPMIFA, the Organization considers the following factors in making a determination of whether to invest or appropriate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization 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 the Organization
7. The investment policies of the Organization

Income from the assets held is available for program, operations, and emergency capital repair expenses of the Organization's South Walton Club.

Endowment net asset composition by type of fund as of December 31, 2018:

	<u>With Donor Restrictions</u>
Donor-restricted endowment fund established in 2011 to benefit the South Walton County Club in Santa Rosa Beach, Florida	\$ <u>1,944,071</u>

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5 – ENDOWMENT FUNDS (CONTINUED)

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

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 2,039,363
Investment income/(loss)	<u>(95,292)</u>
Endowment net assets, end of year	<u>\$ 1,944,071</u>

The Organization's endowment investment policy is based on fundamental financial principles that include prudent asset allocation, risk assessment and long-term planning. The investment policy emphasizes total return, which allows the funds to utilize current dividend and interest income, and over time, a portion of the aggregate return from capital appreciation, in an attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Within this framework, specific investment objectives for endowment investments include liquidity, preservation of capital, preservation of purchasing power, and long-term growth of capital.

The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term objective is to produce, after investment expenses, a minimum annual compound total rate of return equal to the Consumer Price Index (CPI) plus 300 basis points (3%) for spending, plus an additional 200 basis points (2%) on an annualized basis. Actual returns in any given year may vary from this amount.

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 earnings (interest and dividends). The Organization targets a diversified asset allocation.

Endowment funds are maintained in a pooled investment portfolio. Interest, dividends, and realized and unrealized gains and losses in the investment pools are allocated monthly to the endowment funds in proportion to each fund's share in the investment pool.

NOTE 6 – UNDERWATER ENDOWMENTS

From time to time, the fair value of assets associated with the individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires The Organization to retain as a fund of perpetual duration. Deficiencies of this nature exist in the donor restricted endowment fund, which together have original gift value of \$2,000,000 and a current fair value of \$1,944,071 resulting in a deficiency of \$55,929. The deficiencies resulted from unfavorable market fluctuations. The Organization has a policy that allows spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The Organization did not spend from the underwater endowment in 2018.

NOTE 7 – INSURANCE NOTES PAYABLE

In December 2018 the Organization's insurance policies renewed. The policies were financed through the respective carrier. The notes do not state any interest charged but have fees that total less than 1% of the balances financed.

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 8– RETIREMENT PLAN

The Organization participates in a qualified retirement plan in which the Organization makes a matching contribution equal to 5% of each eligible employee's annual gross salary. Employees are eligible to participate in the plan after one full year of continuous service. Employees become 100% vested immediately upon entry into the plan. Retirement plan expenses for the year ended December 31, 2018 totaled \$32,500.

NOTE 9 – CONTINGENCIES

The insurance policy for windstorm coverage became effective December 2018. The hurricane deductible amount is \$667,294, which represents 5% of the insured value of the buildings and improvements which are listed on the policies at \$13,345,889.

NOTE 10 – GRANTS

During 2018, the Organization received grant funds from the Office of Justice Programs (OJP) totaling \$48,969. The funds received were restricted to be used for mentoring.

During 2018, the Organization received grant funds from the Department of Education (DOE) totaling \$129,847. The funds were restricted for programming.

During 2018, the Organization received grant funds from the Department of Education (DOE) totaling \$188,331. The funds were restricted for 21st Century Community learning center programming at various clubs.

During 2018, the Organization received grant funds from the Destin Charity Wine Auction Foundation totaling \$182,671 (net of auction lot expenses). The funds were restricted for the Project After School Program.

In addition to the aforementioned grants, the Organization received various restricted and unrestricted grant funds in 2018. The various grant funds received totaled \$108,497.

NOTE 11 – EXTRAORDINARY EVENTS

During 2018, the Organization sold a property in Crestview for \$855,000. Net of closing costs the Organization received \$728,582 and recognized a gain on the disposal of \$457,203 on the Consolidated Statement of Activities.

NOTE 12 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general use because of donor restrictions.

Financial assets at year end	\$ 4,151,705
Less those unavailable for general expenditures:	
Donor restricted funds	<u>(2,181,242)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>1,970,463</u>

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 13 – LONG-TERM NOTES PAYABLE

The Organization has two long-term notes payable. These notes are collateralized by the property they finance. At December 31, 2018, long-term notes payable totaled \$233,194 and are classified below:

Long-term notes payable

	Interest					
	rate	Installment	Term	Due	Collateral	Balance
Banccorp	4.25%	\$ 2,869	84 months	October 2024	Thomas Bus	\$ 177,612
Banccorp	4.75%	\$ 842	84 months	March 2025	Mini-bus	<u>55,582</u>
Total long-term notes payable						\$ 233,194
Less current portion of long-term notes payable						<u>(35,200)</u>
Long-term portion of notes payable						<u>\$ 197,994</u>

Future maturities of long-term notes payable are as follows:

2019	\$ 35,200
2020	36,610
2021	38,238
2022	39,938
2023	41,716
Thereafter	<u>41,492</u>
Total	<u>\$ 233,194</u>

NOTE 14 – SUBSEQUENT EVENTS

The Organization continues to go through litigation to finalize an accepted offer to sell a 24.28 acre parcel of land in Santa Rosa Beach, Florida for \$5,500,000. The buyer put down a \$50,000 earnest money deposit, and the closing date was to be on or before March 7, 2018. Due to ongoing litigation with the developer, the closing is expected to occur in 2019.

The Organization has evaluated events through June 25, 2019 (the date the financial statements were available to be issued) and determined no other events occurred which require accrual or disclosure in the financial statements for the year ended December 31, 2018.

SUPPLEMENTARY INFORMATION

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

	<u>Clubs</u>	<u>Foundation</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
ASSETS				
Current assets				
Cash - unrestricted	\$ 139,499	\$ 57,726	\$ -	\$ 197,225
Cash - restricted	-	77,134	-	77,134
Contributions receivable, net	7,340	1,360	-	8,700
Grants receivable	138,736	-	-	138,736
Investments - unrestricted	-	1,829,548	-	1,829,548
Investments - restricted	-	1,900,168	-	1,900,168
Deposits	194	-	-	194
Prepaid expenses	24,091	-	-	24,091
Prepaid insurance	213,688	-	-	213,688
Total current assets	523,548	3,865,936	-	4,389,484
Land, buildings and equipment, net	283,387	23,475,280	-	23,758,667
TOTAL ASSETS	<u>\$ 806,935</u>	<u>\$ 27,341,216</u>	<u>\$ -</u>	<u>\$ 28,148,151</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 45,278	\$ 8,620	\$ -	\$ 53,898
Accrued expenses	83,012	-	-	83,012
Deferred revenue	-	100	-	100
Insurance note payable	207,516	-	-	207,516
Current portion notes payable	35,200	-	-	35,200
Total current liabilities	371,006	8,720	-	379,726
Long-term liabilities				
Long-term portion notes payable	197,994	-	-	197,994
TOTAL LIABILITIES	<u>569,000</u>	<u>8,720</u>	<u>-</u>	<u>577,720</u>
NET ASSETS				
Without donor restrictions	764	25,388,425	-	25,389,189
With donor restrictions	237,171	1,944,071	-	2,181,242
TOTAL NET ASSETS	<u>237,935</u>	<u>27,332,496</u>	<u>-</u>	<u>27,570,431</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 806,935</u>	<u>\$ 27,341,216</u>	<u>\$ -</u>	<u>\$ 28,148,151</u>

See independent auditors report.

BOYS AND GIRLS CLUBS OF THE EMERALD COAST, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Clubs		Foundation		Eliminating	Consolidated
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Entries	Total
SUPPORT AND REVENUES						
Program and activity fees	\$ 1,197,901	\$ -	\$ -	\$ -	\$ -	\$ 1,197,901
Contributions	53,189	127,926	-	-	-	181,115
Foundation contributions	1,053,632	-	-	-	(1,053,632)	-
Grants	477,293	181,022	-	-	-	658,315
In-kind revenue	1,072,861	-	-	-	-	1,072,861
Special events	215,916	-	-	-	-	215,916
Interest income	612	-	-	-	-	612
Investment income	-	-	(71,744)	(95,292)	-	(167,036)
Rent	-	-	25,787	-	-	25,787
Other	-	-	40,000	-	-	40,000
Gain on asset disposal	-	-	457,203	-	-	457,203
Total support and revenues	<u>4,071,404</u>	<u>308,948</u>	<u>451,246</u>	<u>(95,292)</u>	<u>(1,053,632)</u>	<u>3,682,674</u>
Net assets released from restrictions						
Satisfaction of program requirements	<u>310,725</u>	<u>(310,725)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES AFTER NET ASSETS RELEASED FROM RESTRICTIONS	<u>4,382,129</u>	<u>(1,777)</u>	<u>451,246</u>	<u>(95,292)</u>	<u>(1,053,632)</u>	<u>3,682,674</u>
EXPENSES						
Program services	3,833,339	-	1,496,969	-	(1,053,632)	4,276,676
Management and general	468,049	-	75,020	-	-	543,069
Fundraising	<u>176,533</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176,533</u>
TOTAL EXPENSES	<u>4,477,921</u>	<u>-</u>	<u>1,571,989</u>	<u>-</u>	<u>(1,053,632)</u>	<u>4,996,278</u>
CHANGE IN NET ASSETS	(95,792)	(1,777)	(1,120,743)	(95,292)	-	(1,313,604)
NET ASSETS - BEGINNING	<u>96,556</u>	<u>238,948</u>	<u>26,509,168</u>	<u>2,039,363</u>	<u>-</u>	<u>28,884,035</u>
NET ASSETS - ENDING	<u>\$ 764</u>	<u>\$ 237,171</u>	<u>\$ 25,388,425</u>	<u>\$ 1,944,071</u>	<u>\$ -</u>	<u>\$ 27,570,431</u>

See independent auditors report.