

Brigade Boys & Girls Club, Inc.

Financial Statements

*For the Year Ended December 31, 2016
(with Comparative Totals for 2015)*



Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Brigade Boys & Girls Club, Inc.

We have audited the accompanying financial statements of Brigade Boys & Girls Club, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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 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 Brigade Boys & Girls Club, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Brigade Boys & Girls Club, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 9, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Eany & Company, L.L.P.

Wilmington, North Carolina
May 8, 2017

Brigade Boys & Girls Club, Inc.
Statement of Financial Position
As of December 31, 2016

	2016						2015 Comparative Total
	Unrestricted		Board Designated	Temporarily Restricted	Permanently Restricted Endowment	Total	
	Operations	Property					
ASSETS							
Current Assets							
Cash & cash equivalents	\$ 104,287	\$ -	\$ -	\$ 33,971	\$ -	\$ 138,258	\$ 39,424
Grant & other receivables	161,722	-	-	57,943	-	219,665	221,519
Total Current Assets	266,009	-	-	91,914	-	357,923	260,943
Assets Whose Use is Limited (Note 10)							
Board designated	-	-	359,308	-	-	359,308	591,453
Endowment	-	-	-	-	267,079	267,079	143,348
Total Assets Whose Use is Limited	-	-	359,308	-	267,079	626,387	734,801
Property							
Land	-	25,000	-	-	-	25,000	25,000
Buildings	-	2,855,643	-	-	-	2,855,643	2,855,643
Furniture & fixtures	-	44,604	-	-	-	44,604	44,604
Equipment	-	227,954	-	-	-	227,954	225,410
Technology	-	374,392	-	-	-	374,392	374,392
Vehicles	-	275,093	-	-	-	275,093	275,093
	-	3,802,686	-	-	-	3,802,686	3,800,142
Less: Accumulated depreciation	-	(2,294,064)	-	-	-	(2,294,064)	(2,178,827)
Property, Net	-	1,508,622	-	-	-	1,508,622	1,621,315
Total Assets	\$ 266,009	\$ 1,508,622	\$ 359,308	\$ 91,914	\$ 267,079	\$ 2,492,932	\$ 2,617,059
LIABILITIES & NET ASSETS							
Current Liabilities							
Accounts payable	\$ 16,557	\$ -	\$ -	\$ -	\$ -	\$ 16,557	\$ 53,995
Payroll taxes payable	-	-	-	-	-	-	-
Current maturities of debt	-	4,000	-	-	-	4,000	124,448
Total Current Liabilities	16,557	4,000	-	-	-	20,557	178,443
Due to (from)	-	-	-	-	-	-	-
Long-term notes payable (Note 7)	-	23,538	-	-	-	23,538	27,538
Total Liabilities	16,557	27,538	-	-	-	44,095	205,981
Net Assets							
Unrestricted	249,452	1,481,084	359,308	-	-	2,089,844	2,195,176
Temporarily restricted	-	-	-	91,914	-	91,914	72,554
Permanently restricted	-	-	-	-	267,079	267,079	143,348
Total Net Assets	249,452	1,481,084	359,308	91,914	267,079	2,448,837	2,411,078
Total Liabilities & Net Assets	\$ 266,009	\$ 1,508,622	\$ 359,308	\$ 91,914	\$ 267,079	\$ 2,492,932	\$ 2,617,059

The Accompanying Notes are an Integral Part of these Financial Statements

Brigade Boys & Girls Club, Inc.
Statement of Activities
For the Year Ended December 31, 2016

	2016					Total	2015 Comparative Total
	Unrestricted		Board Designated	Temporarily Restricted	Permanently Restricted Endowment		
	Operations	Property					
SUPPORT & REVENUE							
Support							
Grants (Note 6)	\$ 195,056	\$ -	\$ -	\$ 720,652	\$ -	\$ 915,708	\$ 987,741
Contributions	429,472	-	-	-	-	429,472	429,627
Golf tournament, net	-	-	-	-	17,971	17,971	30,352
Other special events, net	95,945	-	-	-	-	95,945	74,031
In-kind contributions	41,909	-	-	-	-	41,909	-
Assets released from restrictions	701,292	-	-	(701,292)	-	-	-
Total Support	<u>1,463,674</u>	<u>-</u>	<u>-</u>	<u>19,360</u>	<u>17,971</u>	<u>1,501,005</u>	<u>1,521,751</u>
Revenue							
Program fees & other	569,826	-	-	-	-	569,826	598,755
Investment income (Note 10)	-	-	41,256	-	-	41,256	(20,434)
Interest income	6	-	19,963	-	-	19,969	24,203
Total Revenue	<u>569,832</u>	<u>-</u>	<u>61,219</u>	<u>-</u>	<u>-</u>	<u>631,051</u>	<u>602,524</u>
Total Support & Revenue	<u>2,033,506</u>	<u>-</u>	<u>61,219</u>	<u>19,360</u>	<u>17,971</u>	<u>2,132,056</u>	<u>2,124,275</u>
EXPENSES							
Program	1,608,843	103,713	-	-	-	1,712,556	1,833,118
Administrative	231,502	12,741	-	-	-	244,243	162,536
Fundraising	137,498	-	-	-	-	137,498	76,655
Total Expenses	<u>1,977,843</u>	<u>116,454</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,094,297</u>	<u>2,072,309</u>
Change in Net Assets	<u>55,663</u>	<u>(116,454)</u>	<u>61,219</u>	<u>19,360</u>	<u>17,971</u>	<u>37,759</u>	<u>51,966</u>
Net Assets, Beginning, as Restated (See Note 2)	42,146	1,561,577	591,453	72,554	143,348	2,411,078	2,333,817
Onslow County Asset Acquisition (Note 3)	-	-	-	-	-	-	25,295
Transfers	151,643	35,961	(293,364)	-	105,760	-	-
Net Assets, Ending	<u>\$ 249,452</u>	<u>\$ 1,481,084</u>	<u>\$ 359,308</u>	<u>\$ 91,914</u>	<u>\$ 267,079</u>	<u>\$ 2,448,837</u>	<u>\$ 2,411,078</u>

The Accompanying Notes are an Integral Part of these Financial Statements

Brigade Boys & Girls Club, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2016

	2016			2015 Comparative Total
	Program	Administrative	Fundraising	
Salaries & Related				
Salaries expense	\$ 938,703	\$ 144,227	\$ 92,385	\$ 1,175,315
Payroll tax expense	79,534	11,930	7,953	99,417
Pension expense	28,827	4,324	2,883	36,034
Health insurance	55,950	8,393	5,595	69,938
Workers compensation	14,486	2,173	1,448	18,107
Total Salaries & Related	1,117,500	171,047	110,264	1,398,811
Program expenses	47,869	-	-	47,869
Professional expenses	7,108	17,771	508	25,387
Supplies, recreation, & other	7,222	3,611	3,610	14,443
Telephone	15,552	1,430	894	17,876
Postage & shipping	1,327	190	378	1,895
Occupancy	46,549	8,728	2,909	58,186
Repair	42,808	4,756	-	47,564
Printing	16,391	3,512	3,512	23,415
Travel	52,584	11,268	11,268	75,120
Conferences & workshops	13,864	1,733	1,733	17,330
Insurance	38,353	3,527	2,204	44,084
Dues	14,840	3,710	-	18,550
Participant - food	133,334	-	-	133,334
In-kind	41,909	-	-	41,909
Contract services	1,746	219	218	2,183
Miscellaneous	9,887	-	-	9,887
Subtotal	1,608,843	231,502	137,498	1,977,843
Interest	-	1,217	-	1,217
Depreciation	103,713	11,524	-	115,237
Total Expenses	\$ 1,712,556	\$ 244,243	\$ 137,498	\$ 2,094,297

The Accompanying Notes are an Integral Part of these Financial Statements

Brigade Boys & Girls Club, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2016

	2016					Total	2015 Comparative Total
	Unrestricted		Board Designated	Temporarily Restricted	Permanently Restricted Endowment		
	Operations	Property					
Cash Flows From Operating Activities							
Cash Collections for:							
Support	\$ 1,429,841	\$ -	\$ -	\$ 13,138	\$ 17,971	\$ 1,460,950	\$ 1,443,148
Program revenue	569,832	-	-	-	-	569,832	598,755
Investment income	-	-	19,963	-	-	19,963	28,163
Other income	-	-	-	-	-	-	-
Less: Cash Payments for:							
Salary & payroll tax	(1,445,096)	-	-	-	-	(1,445,096)	(1,421,251)
Other operating expenses	(528,276)	(12,741)	-	-	-	(541,017)	(561,059)
Net Cash Provided (Used) By Operating Activities	<u>26,301</u>	<u>(12,741)</u>	<u>19,963</u>	<u>13,138</u>	<u>17,971</u>	<u>64,632</u>	<u>87,756</u>
Cash Flows From Investing Activities							
Purchases of property, net	-	(2,544)	-	-	-	(2,544)	(86,397)
Purchases of investment, net	-	-	284,925	-	(123,731)	161,194	(36,722)
Asset purchase - Onslow County	-	-	-	-	-	-	25,295
Net Cash Provided (Used) By Investing Activities	<u>-</u>	<u>(2,544)</u>	<u>284,925</u>	<u>-</u>	<u>(123,731)</u>	<u>158,650</u>	<u>(97,824)</u>
Cash Flows From Financing Activities							
Proceeds from loans	-	-	-	-	-	-	110,202
Principal payments on loans	(92,248)	(32,200)	-	-	-	(124,448)	(78,051)
Transfers	151,643	47,485	(304,888)	-	105,760	-	-
Net Cash Provided (Used) By Financing Activities	<u>59,395</u>	<u>15,285</u>	<u>(304,888)</u>	<u>-</u>	<u>105,760</u>	<u>(124,448)</u>	<u>32,151</u>
Net Increase (Decrease) in Cash	85,696	-	-	13,138	-	98,834	22,083
Cash & Cash Equivalents, Beginning	18,591	-	-	20,833	-	39,424	17,341
Cash & Cash Equivalents, Ending	<u>\$ 104,287</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,971</u>	<u>\$ -</u>	<u>\$ 138,258</u>	<u>\$ 39,424</u>
Reconciliation of Net Income to Cash							
Provided (Used) By Operating Activities:							
Change in net assets	\$ 55,663	\$ (116,454)	\$ 61,219	\$ 19,360	\$ 17,971	\$ 37,759	\$ 51,966
Depreciation	-	103,713	-	-	-	103,713	108,933
Unrealized (gain) loss	-	-	(41,256)	-	-	(41,256)	24,394
Receivables (increase) decrease	8,076	-	-	(6,222)	-	1,854	(78,603)
Payables (decrease) increase	(37,438)	-	-	-	-	(37,438)	(18,934)
Net Cash Provided (Used) By Operating Activities	<u>\$ 26,301</u>	<u>\$ (12,741)</u>	<u>\$ 19,963</u>	<u>\$ 13,138</u>	<u>\$ 17,971</u>	<u>\$ 64,632</u>	<u>\$ 87,756</u>
Supplemental Disclosure							
Interest paid						<u>\$ 1,217</u>	<u>\$ 4,513</u>
Income tax paid						<u>\$ -</u>	<u>\$ -</u>

The Accompanying Notes are an Integral Part of these Financial Statements

Brigade Boys & Girls Club, Inc.
Notes to Financial Statements
December 31, 2016

1. PURPOSE AND ACTIVITIES

Brigade Boys & Girls Club, Inc.'s (the "Club") mission is to inspire and enable all young people, especially those most in need, to reach their full potential as productive, caring, and responsible citizens. The Club's vision is to provide a world-class club experience that assures success is within reach of every young person who walks through the Club's doors, with all members staying on track to graduate from high school with a plan for the future, demonstrating good character and citizenship, and living a healthy lifestyle. The Club's purpose is to provide and facilitate out-of-school time experiences that inspire and empower club youth to achieve success and champion opportunities for all young people.

During 2016, the Club served approximately 3,104 youth aged 5 - 18 in New Hanover, Onslow, and Pender Counties in Southeastern North Carolina.

The Club's activities are guided by the Boys & Girls Club of America's (BGCA) Formula for Impact. This is a research-based theory of change that describes how individual Clubs and the Movement as a whole will increase the Club's impact exponentially on the young people of America. It is a road map for implementing the BGCA National Commission's recommendations. Each element of the Formula for Impact incorporates research into the ways that young people grow and thrive, as well as analysis of the best practices and traditions of highly effective clubs. The Formula for Impact calls for continual measurement and assessment of club programs and services, implementation of best practices, and, most importantly, of youth outcomes. By implementing the Formula for Impact, the Club is evolving from being "outcome-intended" to "outcome-driven." As an outcome-driven organization, the entire organization shares clear goals for youth, which are broken down into age-specific milestones and everyone is on board with a clear plan to achieve them. All programs and activities are coordinated, purposeful, and designed to advance one or more of the priority outcomes. The Club sets organizational targets and monitors its performance. As a result, the Club is able to describe its impact with not only inspiring stories about individual young people, but also with outcome measurement data.

The Club is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income related to its exempt purpose is not subject to income tax and contributions may be deductible within limits by the donor.

Brigade Boys & Girls Club, Inc.
Notes to Financial Statements
December 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Club prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit organizations using the accrual basis of accounting. Accordingly, income is recognized when earned and expenses are recorded when incurred. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Club's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Club's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Contributions

Unrestricted contributions are recognized when cash or ownership of donated assets is unconditionally promised to the Club.

Temporarily restricted contributions are recognized as contribution income in the statement of activities when cash or ownership of donated assets is unconditionally promised to the Club and subsequently released to the unrestricted fund when expenses have been incurred in satisfaction of those restrictions.

The Club 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 recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Club reports expirations of donor restriction when the donated or acquired long-lived assets are placed in service.

A substantial number of unpaid volunteers have made significant contributions of their time to further the Club's programs, principally in membership development, program planning, and fundraising. These donated services were not recorded in 2016 or 2015 since the criteria for recognition under generally accepted accounting principles was not met.

Brigade Boys & Girls Club, Inc.
Notes to Financial Statements
December 31, 2016

Net Assets

The financial statements report net assets and changes in net assets in classes that are based upon the existence or absence of restrictions on use that are placed by its donors as follows:

- a) **Unrestricted net assets** are resources available to support operations, including property. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Club, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- b) **Unrestricted board designated net assets** are investments and certificates of deposit designated by the Board of Directors to be invested with income available to fulfill the Club's mission. For example, the Board of Directors has authorized up to \$100,000 as collateral for short-term borrowing for capital expenditures and operations. See Note 9 for details.
- c) **Temporarily restricted net assets** are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Club's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by the Club, unless the donor provides more specific directions about the period of its use.

- d) **Permanently restricted endowment net assets** are resources whose use by the Club is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the Club's donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class. See Note 9.

All revenues and net gains are reported as increases in unrestricted net assets in the statement of activities, unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses other than losses on endowment investments are reported as decreases in unrestricted net assets. Net losses on endowment investments reduce temporarily restricted net assets to the extent that the net gains of the fund from prior years are unspent and classified there; remaining losses are classified as decreases in unrestricted net assets. If an endowment fund has no net gains from prior years, such as when a fund is newly established, net losses are classified as decreases in unrestricted net assets.

Brigade Boys & Girls Club, Inc.
Notes to Financial Statements
December 31, 2016

Change in Accounting

Prior to fiscal year 2016, the Club consistently recognized revenue from cost reimbursement grants when management believed it was probable that all costs would be allowed and the full grant commitment would be received. In 2016, the Club changed its method of accounting for cost reimbursement grants so that revenue is recognized as program expenditures are incurred. This change resulted in the following restatement of the 2015 financial statements.

	<u>Grants Revenue</u>	<u>Change in Net Assets</u>	<u>Ending Net Assets</u>
December 31, 2015 balances, as previously reported	\$ 998,265	\$ 62,490	\$ 2,499,180
Effect of change in accounting for grant revenue	<u>(10,524)</u>	<u>(10,524)</u>	<u>(88,102)</u>
December 31, 2015 balances, restated	<u>\$ 987,741</u>	<u>\$ 51,966</u>	<u>\$ 2,411,078</u>

Cash and Cash Equivalents

The Club considers all highly liquid investments with an original maturity of three months or less to be cash equivalents, which were as follows at December 31:

	<u>2016</u>	<u>2015</u>
South State Bank - Checking	\$ 5,197	\$ 37,035
First Citizens Bank - Checking	-	1,326
BB&T - Savings	18,000	-
BB&T - Checking	<u>115,061</u>	<u>1,063</u>
Total Cash & Cash Equivalents	<u>\$ 138,258</u>	<u>\$ 39,424</u>

Property and Equipment

Property and equipment are stated at cost or at the fair market value at the date of gift if donated. Expenditures of an ordinary maintenance or repair nature are expensed as incurred and major renewals or improvements are capitalized. Equipment is capitalized if it has a cost of \$500 or more and a useful life of more than one year. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

Building	39 years
Improvements	10 - 15 years
Furniture & equipment	5 - 7 years
Vehicles	5 years
Technology	3 years

Land, buildings, and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

Brigade Boys & Girls Club, Inc.
Notes to Financial Statements
December 31, 2016

Income Taxes

Accounting principles generally accepted in the United States of America require the Club's management to evaluate tax positions taken by the Club and recognize a tax liability (or asset) if the Club has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Club has analyzed the tax positions taken and has concluded that as of December 31, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Club is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Club believes it is not subject to income tax examinations for years prior to 2013.

Expense Recognition and Allocation

The cost of providing the Club's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using objective bases, such as time spent, salaries, square feet, and other bases. Total expenses are \$2,231,795, which includes \$137,498 of expenses directly related to ancillary fundraising events.

Administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Club. Administrative activities include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others. Fundraising costs, including advertising, are expensed as incurred even though they may result in contributions received in future years.

Prior Year

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Club's financial statements for the year then ended, from which the summarized information was derived. Certain reclassifications of prior year comparative amounts have been made in order to conform to the current year presentation.

Brigade Boys & Girls Club, Inc.
Notes to Financial Statements
December 31, 2016

Subsequent Events

Subsequent events have been evaluated through May 8, 2017, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

3. ONSLOW COUNTY ASSET ACQUISITION

Effective January 1, 2015, the Club acquired the resources of Brigade Boys & Girls Club of Onslow County ("Onslow County"). The substance of the transaction was that Onslow County contributed its net assets to the Club. The transaction was documented in an Asset Purchase Agreement dated December 31, 2014, whereby the Club obtained all assets and no prior obligations of the Onslow County Club. The net assets conveyed included cash, program supplies, and equipment of nominal value. The total net asset value of \$25,295 has been recorded as a non-operating contribution in the accompanying financial statements for the year ended December 31, 2015.

4. RETIREMENT PLAN COMMITMENT

All employees over the age of 21 who have completed a minimum of 1,000 hours of service per year are eligible to participate in the pension plan, which is administered by Qualified Retirement Plan Solutions. In 2016, the Club amended the Plan to require the employer to contribute 3% of eligible participant's annual salary to the Plan each year and up to an additional 3% to match the employee's contribution. An employee fully vests in five years. Prior to 2016, the Club was contributing a flat 10% of eligible participant's annual salary to the Plan each year. Retirement obligations of \$36,034 were incurred by the Club in 2016 and \$56,162 in 2015.

5. LEASES

The Club leases its Pender County and Onslow County locations under month to month leases. Lease expense totaled \$11,915 for all locations in 2016.

Brigade Boys & Girls Club, Inc.
Notes to Financial Statements
December 31, 2016

6. GRANTS

Grants awarded consist of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
NC Department of Juvenile Justice - Juvenile Restitution Program	\$ 26,216	\$ 26,216
NC Department of Juvenile Justice - Youth Court Grant	34,500	31,998
NC Department of Crime Control & Public Safety - Division of Governor's Crime Commission	32,537	79,691
NC Department of Health & Human Services - Power Hour & Smart Moves	99,699	183,049
NC Department of Health & Human Services - Food Program	77,051	86,356
NC Department of Health & Human Services - Food Program	70,875	56,749
U.S. Department of Justice - OJP Grant	<u>52,000</u>	<u>72,000</u>
Total Government Grants	392,878	536,059
Lehto Foundation	50,000	50,000
United Way	70,600	87,100
City of Wilmington	79,150	37,582
Onslow County	50,750	45,000
City of Jacksonville	-	15,000
Cape Fear Memorial	40,000	25,000
Davies Foundation	50,000	60,000
Eshelman Foundation	50,000	40,000
Boys & Girls Clubs of America	36,330	59,000
Altria	40,000	10,000
Babies Hospital Foundation	12,000	-
ZAC Foundation	10,000	-
Bank of America	7,500	-
Other	<u>26,500</u>	<u>23,000</u>
Total Grants	<u>\$ 915,708</u>	<u>\$ 987,741</u>

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7. LONG-TERM NOTES PAYABLE

Long-term debt consists of the following:

	<u>2016</u>
Note payable from the City of Wilmington with monthly payments of \$333 that are due until September 2024. The note is secured by a deed of trust.	<u>\$ 27,538</u>
Total	<u>\$ 27,538</u>

Maturities of long-term debt in each of the five years subsequent to year end 2016 and thereafter are as follows:

2017	\$ 4,000
2018	4,000
2019	4,000
2020	4,000
2021	4,000
Thereafter	<u>7,538</u>
Total Debt	27,538
Less: Current maturities	<u>(4,000)</u>
Total Long-Term Debt	<u>\$ 23,538</u>

8. BOARD DESIGNATED RESERVE FUND LINE OF CREDIT ACCESS

In April 2016, the Board of Directors authorized an operating line of credit with borrowings up to \$100,000 from the Board Designated Reserve Fund. As of December 31, 2016, the Club had no outstanding borrowings.

9. PERMANENT ENDOWMENT AND BOARD DESIGNATED RESERVE FUNDS

In November 2007, the Board of Directors designated available unrestricted resources as a Board Designated Endowment Fund ("Board Designated Endowment") to support the mission of the Club. Since the amount resulted from an internal designation and was not donor-restricted, it has been classified and reported as unrestricted net assets. In April 2016, the Board of Directors changed the name of the Board Designated Endowment to the Board Designated Reserve Fund (the "Board Reserve Fund") to distinguish it from the Permanent Endowment Fund.

In March 2013, the Board of Directors established a fund to be known as the Brigade Permanent Endowment Fund (the "Permanent Endowment Fund") to enable the Club to more completely fulfill its mission.

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In April 2016, the Board of Directors revised a spending policy for both the Permanent Endowment Fund and the Board Reserve Fund which, by resolution, supersedes all other spending policies for these two funds. In accordance with the revised policy, the Brigade CEO, with the approval of both the Chairman and the Treasurer, may make a withdrawal for operating purposes, not more than once in any calendar year, of 5% of the combined balance of the Board Reserve Fund and the Permanent Endowment Fund, provided that the combined balance exceeds \$500,000. The combined balance is defined to be the average of the total values of the two funds at December 31st for each of the three years preceding the withdrawal. The percentage of the funds drawn from the Permanent Endowment Fund may not exceed the percentage drawn from the Board Reserve Fund. No other distribution from the Board Reserve Fund or use of the Board Reserve Fund as security for any loan of any kind shall be permitted, unless such distribution has been approved in advance by a vote of not less than three-quarters of the members of the Board of Directors. Subject to approval of the Finance Committee, monies from the Board Reserve Fund may be transferred to the Permanent Endowment Fund as matching funds for contributions to the Permanent Endowment Fund.

Investment Return Objectives, Risk Parameters, and Strategies

The Club has adopted investment policies, approved by the Board of Directors, for endowment and reserve assets that attempt to provide reasonable return on invested assets. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, with acceptable levels of risk. Endowment and reserve assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity, while growing the funds if possible. Therefore, the Club expects its endowment and reserve assets, over time, to produce an average rate of return equal to the market rate. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total invested funds; investment assets and allocation between asset classes and strategies are managed to not expose the funds to unacceptable levels of risk.

Composition of and changes in endowment and reserve net assets for the year ended December 31, 2016 were as follows:

	Board Designated Reserve	Permanently Restricted Endowment
Endowment net assets, beginning	\$ 591,453	\$ 143,348
Additions	-	17,971
Net appreciation	61,219	-
Amounts appropriated for expenditure	(187,604)	-
Transfers	<u>(105,760)</u>	<u>105,760</u>
Endowment net assets, ending	<u>\$ 359,308</u>	<u>\$ 267,079</u>

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10. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited consist of various investments including mutual funds, certificates of deposit, and an insurance asset recorded at fair market value, which are Board designated or restricted.

Accounting standards have established a hierarchy for ranking the quality and reliability of the information used in determining fair values. Assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

In determining fair value, the Club uses various valuation approaches within the fair value measurement framework. For example, equity securities and equity mutual funds listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy.

Investments are recorded at fair value and consist of the following:

	December 31, 2016			December 31, 2015		
	Investment Cost	Quoted Prices in Active Markets for Identical Assets (Level 1)	Unrealized Gain (Loss)	Investment Cost	Quoted Prices in Active Markets for Identical Assets (Level 1)	Unrealized Gain (Loss)
Mutual Funds						
UBS - Board Designated Reserve	\$ 314,814	\$ 338,922	\$ 24,108	\$ 303,600	\$ 393,690	\$ 90,090
UBS - Permanent Endowment	250,875	267,079	16,204	79,812	143,348	63,536
CD South State Bank						
Board Designated Reserve	-	-	-	178,320	178,320	-
Insurance Asset	17,638	20,386	2,748	17,638	19,443	1,805
Total	<u>\$ 583,327</u>	<u>\$ 626,387</u>	<u>\$ 43,060</u>	<u>\$ 579,370</u>	<u>\$ 734,801</u>	<u>\$ 155,431</u>

Investment income shown in statement of activities:

Change in unrealized gain (loss)	\$ 41,256	\$ (24,349)
Realized gain (loss)	-	3,915
	<u>\$ 41,256</u>	<u>\$ (20,434)</u>
Interest (including interest on cash)	<u>\$ 19,969</u>	<u>\$ 24,203</u>

11. RISK MANAGEMENT

The Club is exposed to various risks of loss in the ordinary course of business as a result of torts, theft of, damage to, or destruction of assets, business interruption, allegations of liability, natural disasters, employee and officer errors and omissions, and employee workers' compensation and medical claims.

The Club purchases commercial insurance coverage against risk of loss due to errors and omissions, property damage and theft, and various other insurable risks. The Club carries commercial general liability insurance in the amount of \$3,000,000 and umbrella coverage of \$5,000,000 for 2016 with a deductible of \$500 for all covered perils. For 2016 and 2015, the deductible for losses due to windstorm and/or hail is \$5,000 plus 1% per occurrence.

For 2016 and 2015, the Club was insured for workers' compensation and employers' liability. Excess liability insurance is purchased to provide coverage above the underlying limits for general liability, auto liability, employers' liability, and employee benefits liability. No claim payment has exceeded insurance coverage in the past three fiscal years where insurance coverage applies, subject to the deductibles and retentions noted above.

12. CONCENTRATIONS OF RISK

Amounts held in financial institutions occasionally may be in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. The Club deposits its cash with high quality financial institutions, and management believes the Club is not exposed to significant credit risk on those amounts.

A significant portion, approximately 16%, of the Club's 2016 total support and revenue came from the North Carolina state government.

The majority of the Club's support and revenue is received from corporations, foundations, and individuals located in the Wilmington, North Carolina area and from organizations in the state of North Carolina. As such, the Club's ability to generate resources via contributions and grants is dependent upon the economic health of that area and of the state of North Carolina. An economic downturn could cause a decrease in support and revenue that coincides with an increase in demand for the Club's services.