

Audited Financial Statements



**BOYS & GIRLS CLUB
OF HOLLYWOOD**

December 31, 2019

Quigley & Miron

Boys and Girls Club of Hollywood
Audited Financial Statements
Table of Contents
December 31, 2019

Page
Number

Independent Auditor's Report..... 1

Audited Financial Statements

Statement of Financial Position..... 3

Statement of Activities 4

Statement of Functional Expenses..... 5

Statement of Cash Flows..... 6

Notes to Financial Statements..... 7

Suite 1660
3550 Wilshire Boulevard
Los Angeles, California 90010

Telephone: (213) 639-3550
Facsimile: (213) 639-3555

Suite 700
1999 South Bascom Avenue
Campbell, California 95008

Telephone: (408) 614-0100
Facsimile: (213) 639-3555

Independent Auditor's Report

Board of Directors
Boys and Girls Club of Hollywood
Hollywood, California

We have audited the accompanying financial statements of the Boys and Girls Club of Hollywood, a nonprofit organization, which comprise the statement of financial position as of December 31, 2019, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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 Club of Hollywood as of December 31, 2019, and the changes in its net assets and 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 financial statements of the Boys and Girls Club of Hollywood as of December 31, 2018, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 27, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Los Angeles, California
October 29, 2020

A handwritten signature in black ink that reads "Ziegler & Miron". The signature is written in a cursive, flowing style.

Boys and Girls Club of Hollywood
Statement of Financial Position
December 31, 2019
(with comparative totals for 2018)

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 1,197,200	\$ 1,027,583
Restricted cash held for future club renovation	174,919	188,691
Investments—Note 3	3,577,865	3,165,632
Grants and pledges receivable—Note 4	48,190	25,000
Other receivables—Note 4	21,524	5,500
Other current assets	17,847	715
Property and equipment, net—Note 5	7,061,250	7,178,747
	<u>7,061,250</u>	<u>7,178,747</u>
Total Assets	<u>\$ 12,098,795</u>	<u>\$ 11,591,868</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 15,090	\$ 10,030
Employee benefits payable	36,971	66,284
Deposits	5,500	5,500
	<u>57,561</u>	<u>81,814</u>
Total Liabilities	57,561	81,814
Net Assets		
Without donor restrictions	8,223,776	8,261,581
With donor restrictions—Note 6	3,817,458	3,248,473
	<u>12,041,234</u>	<u>11,510,054</u>
Total Net Assets	12,041,234	11,510,054
Total Liabilities and Net Assets	<u>\$ 12,098,795</u>	<u>\$ 11,591,868</u>

See notes to financial statements.

Boys and Girls Club of Hollywood
Statement of Activities
Year Ended December 31, 2019
(with comparative totals for 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
Operating Activities				
Public Support				
Contributions and grants	\$ 390,419	\$ 207,190	\$ 597,609	\$ 559,284
Government grants and contracts	66,000		66,000	20,652
Fundraising events, net				
Gross revenue	114,670		114,670	292,429
Less cost direct benefits to donors	(78,377)		(78,377)	(100,579)
Fundraising Events, Net	36,293		36,293	191,850
Total Public Support	492,712	207,190	699,902	771,786
Revenue				
Membership income	78,915		78,915	76,476
Interest and dividend income	4,958	137,642	142,600	149,782
Total Revenue	83,873	137,642	221,515	226,258
Net Assets Released from Restrictions				
	287,853	(287,853)		
Total Public Support and Revenue	864,438	56,979	921,417	998,044
Expenses				
Program services	943,965		943,965	892,039
Supporting services				
Management and general	147,650		147,650	175,426
Fund development	98,013		98,013	80,206
Total Expenses	1,189,628		1,189,628	1,147,671
Change in Net Assets from Operations	(325,190)	56,979	(268,211)	(149,627)
Nonoperating Activities				
Investment return, net—Note 3	29,909	512,006	541,915	(417,740)
Rental income—Note 8	253,198		253,198	215,850
Other income	4,278		4,278	8,550
Total Nonoperating Activities	287,385	512,006	799,391	(193,340)
Change in Net Assets	(37,805)	568,985	531,180	(342,967)
Net Assets at Beginning of Year	8,261,581	3,248,473	11,510,054	11,853,021
Net Assets at End of Year	\$ 8,223,776	\$ 3,817,458	\$ 12,041,234	\$ 11,510,054

See notes to financial statements.

**Boys and Girls Club of Hollywood
Statement of Functional Expenses
Year Ended December 31, 2019
(with comparative totals for 2018)**

	Program Services	Supporting Services		Fundraising Events	2019 Total	2018 Total
		Management and General	Fund Development			
Salaries	\$ 438,297	\$ 53,809	\$ 38,460	\$	\$ 530,566	\$ 521,676
Employee benefits	66,878	8,211	5,869		80,958	70,326
Payroll taxes	31,935	3,921	2,802		38,658	36,594
Total Personnel Expenses	537,110	65,941	47,131		650,182	628,596
Depreciation and amortization	184,153	1,246	768		186,167	192,199
Professional and consulting fees	15,559	51,595	47,268		114,422	106,354
Cost of direct benefit to donors				78,377	78,377	100,579
Program supplies	56,711				56,711	29,889
Repairs and maintenance	44,266	300	185		44,751	41,097
Insurance	36,344	2,193	152		38,689	37,262
Utilities	20,044	136	83		20,263	21,433
Property taxes		19,018			19,018	18,095
Scholarships	16,500				16,500	
Telephone	10,797	1,326	947		13,070	11,966
Supplies	8,670	1,064	761		10,495	9,786
Staff development	7,525	924	660		9,109	8,986
Equipment rental	4,981	34	21		5,036	7,389
Merchant fees		2,954			2,954	5,056
Marketing	885				885	11,055
Miscellaneous		867			867	1,506
Conferences and meetings	420	52	37		509	17,002
Total Expenses by Function	943,965	147,650	98,013	78,377	1,268,005	1,248,250
Less expenses included with revenues on the statement of activities						
Less cost of direct benefits to donors				(78,377)	(78,377)	(100,579)
Total Expenses	\$ 943,965	\$ 147,650	\$ 98,013	\$	\$ 1,189,628	\$ 1,147,671

See notes to financial statements.

Boys and Girls Club of Hollywood
Statement of Cash Flows
Year Ended December 31, 2019
(with comparative totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 531,180	\$ (342,967)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	186,167	192,199
Investment (gains) losses	(573,840)	383,179
Changes in operating assets and liabilities:		
Grants and pledges receivable	(23,190)	87,100
Other receivables	(16,024)	1,348
Other current assets	(17,132)	283
Accounts payable and accrued expenses	5,060	5,570
Employee benefits payable	(29,313)	6,512
	<u>62,908</u>	<u>333,224</u>
Net Cash Provided by Operating Activities	62,908	333,224
Cash Flows from Investing Activities		
Purchase of property and equipment	(68,670)	(112,408)
Purchase of investments	(50,000)	(75,886)
Proceeds from sales of investments	211,607	68,456
	<u>92,937</u>	<u>(119,838)</u>
Net Cash Provided by (Used in) Investing Activities	92,937	(119,838)
Net Increase in Cash, Cash Equivalents, and Restricted Cash	155,845	213,386
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	<u>1,216,274</u>	<u>1,002,888</u>
Cash, Cash Equivalents, and Restricted Cash at End of Year	<u>\$ 1,372,119</u>	<u>\$ 1,216,274</u>
Supplementary Disclosures		
Income taxes paid	<u>\$</u>	<u>\$</u>
Interest paid	<u>\$</u>	<u>\$</u>

See notes to financial statements.

Boys and Girls Club of Hollywood
Notes to Financial Statements
December 31, 2019
(with comparative totals for 2018)

Note 1—Organization and Summary of Significant Accounting Policies

Organization—The Boys and Girls Club of Hollywood (Club) is a California not-for-profit public benefit corporation and a member of the Boys and Girls Club of America, Inc. The Club offers academic and youth development services to boys and girls at a facility located in Hollywood, California. The Club's principal funding sources are contributions, grants, government contracts, rentals and investment earnings.

The Club is affiliated with the Boys and Girls Club of Hollywood Foundation (Foundation), however, the Club does not have an economic interest in or control of the Foundation, and therefore the financial statements are not consolidated or combined. During the years ended December 31, 2019 and 2018, the Club received \$145,200 and \$150,200, respectively, in donations from the Foundation.

Program Service Accomplishments—The Boys and Girls Club of Hollywood contributes to the future of the community by building the leaders of tomorrow and preparing students for the workforce. Academic success is the cornerstone of the Club's programs and services. The Club provides its students a safe place to enjoy learning opportunities, promoting excellence in the areas of technology, math, science, fine arts and leadership. The Club ensures that its students advance to the next grade level on time, are prepared to graduate high school and have a plan for their future.

In 2019, the following positive outcomes were achieved:

- The Club served an average of 155 students each day during the school year
- The Club served an average of 184 students each day during the summer
- 300 volunteers dedicated their time and service to our students
- The Club provided 26,712 snacks and meals to students in 2019
- 370 students participated in community-based program services
- 90% of the Club's students advance to the next grade level

Financial Statement Presentation—The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Club recognizes contributions, including unconditional promises to give, as revenue in the period received. The Club reports information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions. The net assets of the Club and changes therein are classified and reported as follows:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of the Club. These net assets may be used at the discretion of the Club's management and the board of directors.

Boys and Girls Club of Hollywood
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of the Club and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit the Club to use all or part of the income earned on related investments for general or specific purposes.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Measure of operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of membership, fundraising, and interest and dividend earned on investments. Nonoperating activities are limited to resources that generate return from investments, rental income, and other activities considered to be of a more unusual or nonrecurring nature.

Income Taxes—The Club is a nonprofit entity, exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). Accordingly, no provision has been made for income taxes in the financial statements. In addition, the Club has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered *'more likely than not'* to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at December 31, 2019 and 2018. Generally, the Club's information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Cash, Cash Equivalents, and Restricted Cash—The Club considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash, cash equivalents, and restricted cash at December 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,197,200	\$ 1,027,583
Restricted cash held for future club renovations	174,919	188,691
Total Cash, Cash Equivalents, and Restricted Cash	<u>\$ 1,372,119</u>	<u>\$ 1,216,274</u>

Investments—Investments are recorded at fair market value.

Boys and Girls Club of Hollywood
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Property and Equipment—Property and equipment are stated at cost when purchased, or estimated fair market value at the date of gift or bequest. Depreciation is provided on the straight-line method over the following estimated useful lives:

Building and improvements	39 years
Furniture and equipment	5 years
Computer equipment and software	3 years

Individual property items valued at less than \$1,000 are expensed when purchased or donated.

Donated Services—A substantial number of volunteers have donated significant amounts of time to the Club and its programs. These donated services are not reflected in the accompanying financial statements as they do not meet the criteria for recognition under current accounting standards.

Concentration of Credit Risk—Financial instruments which potentially subject the Club to concentrations of credit risk consist of cash and cash equivalents, receivables, and investments. The Club places its cash and cash equivalent balances with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. In the normal course of operations, such cash balances may exceed the FDIC insurance limits. Receivables are due from well-known charitable organizations with substantial assets, government entities and other entities well-known to the Club. The Club’s management has assessed the credit risk associated with the cash and cash equivalents balances and receivables outstanding at December 31, 2019 and 2018 and has determined that an allowance for potential uncollectible amounts is not necessary. The Club’s investments are principally managed by a large broker-dealer. The Club’s management has assessed the credit risk associated with the investments held at December 31, 2019 and 2018 and has determined that an allowance for potential losses due to credit risk is not necessary.

Recently Adopted Accounting Principles

Contributions—In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 clarifies the definition of an exchange transaction. As a result, not-for-profit entities (NFPs) are to account for most federal grants as donor-restricted conditional contributions rather than as exchange transactions (the prevalent practice today). An accommodation (“simultaneous release” option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today. Donors are to use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/right of release) to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements. No new disclosures are required. ASU No. 2018-08 has been adopted by the Club for the year ended December 31, 2019, however, the retrospective approach requires that organizations reflect the effect of the new guidance in the earliest year presented in the financial statements and noted that there was no material effect on the financial statements.

Boys and Girls Club of Hollywood
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Restricted Cash—In February 2016, FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU No. 2016-18 clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The guidance requires entities to present the change in restricted cash and restricted cash equivalents with cash and cash equivalents to reconcile amounts on the balance sheet to the statement of cash flows. Entities are required to disclose the nature of the restrictions, as well as reconcile the totals in the statement of cash flows to cash, cash equivalents, restricted cash, and restricted cash equivalents on the balance sheet when these are shown in more than one line item. The Club has adopted ASU No. 2016-18 on a retrospective basis for the year ended December 31, 2019, and has adjusted the presentation of the financial statements accordingly.

Functional Expenses—The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program services and supporting services benefitted. Salaries, payroll taxes and employee benefits are allocated based on time and effort of employees and are used to allocate all indirect expenses. Program expense, property taxes, bad debt expense, and bank charges are directly allocated. Depreciation and amortization are allocated based on space estimates. All other expenses are indirectly allocated based on the time and effort of employees.

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

Comparative Totals for 2018—The accompanying financial statements include certain prior-year summarized comparative financial 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 audited financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Boys and Girls Club of Hollywood
Notes to Financial Statements—Continued

Note 2—Availability and Liquidity

The Club's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$300,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts, common stocks, and corporate bonds.

The following represents the availability and liquidity of the Club's financial assets at December 31, 2019 to cover operating expenses for the next fiscal year:

Cash and cash equivalents	\$	1,197,200
Investments		577,865
Grants and pledges receivable		28,190
Other receivables		21,524
		<hr/>
Current Availability of Financial Assets	\$	<u>1,824,779</u>

Note 3—Investments and Fair Value

In determining the fair value of investments, the Club utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Club determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are characterized in one of the following levels:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the Club at the measurement date. The Club's Level 1 assets consist of common stocks at December 31, 2019 and 2018.

Level 2—Valuations based on observable inputs (other than Level 1), such as quoted prices for similar assets at the measurement date, quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly. The Club's Level 2 assets consist of corporate bonds and tax exempt mutual funds at December 31, 2019 and 2018.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment. The Club's Level 3 assets consist of agency funds held at a community foundation at December 31, 2019 and 2018

The Club may utilize a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by the Club to value private investments is the Net Asset Value (NAV) per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. The Club had no assets or liabilities classified at NAV as a practical expedient during the years ended December 31, 2019 and 2018.

Boys and Girls Club of Hollywood
Notes to Financial Statements—Continued

Note 3—Investments and Fair Value—Continued

Fair values of investments measured on a recurring basis at December 31, 2019 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
PCF Agency Fund	\$ 3,498,432	\$	\$	\$ 3,498,432
Common stocks	11,994	11,994		
Corporate bonds	5,039		5,039	
California tax-exempt mutual fund	62,400		62,400	
Totals	\$ 3,577,865	\$ 11,994	\$ 67,439	\$ 3,498,432

Fair values of investments measured on a recurring basis at December 31, 2018 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
PCF Agency Fund	\$ 2,955,008	\$	\$	\$ 2,955,008
Common stocks	148,171	148,171		
Corporate bonds	54,253		54,253	
California tax-exempt mutual fund	8,200		8,200	
Totals	\$ 3,165,632	\$ 148,171	\$ 62,453	\$ 2,955,008

Investment activity for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Investment gains (losses)	\$ 573,840	\$ (383,179)
Investment management fees	(31,925)	(34,561)
Investment Return, Net	541,915	(417,740)
Interest and dividend income	142,600	149,782
Total Investment Return	\$ 684,515	\$ (267,958)

A reconciliation of the Club's Level 3 assets at December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Balance at Beginning of Year	\$ 2,955,008	\$ 3,337,350
Interest and dividend income	137,642	145,607
Investment gains (losses)	543,931	(370,461)
Investment management fees	(31,925)	(32,488)
Transfers out of Level 3	(106,224)	(125,000)
Balance at End of Year	\$ 3,498,432	\$ 2,955,008

Boys and Girls Club of Hollywood
Notes to Financial Statements—Continued

Note 4—Receivables

Grants and pledges receivable at December 31, 2019 and 2018 consist of amounts pledged by charitable organizations and individuals for Club programs or future periods.

Other receivables at December 31, 2019 and 2018 consist of amounts due from various government agencies under contract agreements for services provided by the Club.

Note 5—Property and Equipment, Net

Net property and equipment consists of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 7,233,291	\$ 7,164,621
Furniture and other equipment	231,166	231,166
Computer equipment and software	138,536	138,536
	<u>7,602,993</u>	<u>7,534,323</u>
Less accumulated depreciation and amortization	(1,520,743)	(1,334,576)
Depreciable Property and Equipment, Net	6,082,250	6,199,747
Land	979,000	979,000
Property and Equipment, Net	<u>\$ 7,061,250</u>	<u>\$ 7,178,747</u>

Total depreciation expense recorded during the years ended December 31, 2019 and 2018 was \$186,167 and \$192,199, respectively.

In October 2016 the Club completed the renovation and enhancement project of the Club's facilities (Project). The accumulated costs of the Project were capitalized in building and improvements. The remaining restricted donations for the Project will be used for future maintenance and repairs as well as other renovations and enhancements. The Project was partially funded by a \$2,500,000 State of California grant (Grant) which placed a deed restriction on the Club property, requiring that it be used for youth activities through June 30, 2031. Should the Grant covenant be violated through change of service or sale of the property, the entire Grant becomes due and payable.

Boys and Girls Club of Hollywood
Notes to Financial Statements—Continued

Note 6—Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Club renovation and enhancement	\$ 174,919	\$ 188,691
Scholarship fund	43,824	60,324
Music program	28,262	19,450
Healthy Habits Kitchen	23,831	
	<u>270,836</u>	<u>268,465</u>
Total Subject to Purpose Restrictions	270,836	268,465
Subject to time restrictions:		
General operations	28,190	25,000
Transportation Needs	10,000	
Power Hour Education Program	10,000	
	<u>48,190</u>	<u>25,000</u>
Total Time Restrictions	48,190	25,000
Subject to appropriation:		
PCF Endowment Fund	498,432	
	<u>498,432</u>	
Total Subject to Appropriation	498,432	
Held in perpetuity:		
PCF Endowment Fund	3,000,000	3,000,000
Underwater endowment		(44,992)
	<u>3,000,000</u>	<u>2,955,008</u>
Total Held in Perpetuity	3,000,000	2,955,008
Total Net Assets With Donor Restrictions	<u>\$ 3,817,458</u>	<u>\$ 3,248,473</u>

In October 2016 the Club completed the renovation and enhancement project of the Club's facilities (Project). The accumulated costs of the Project were capitalized in building and improvements. The remaining restricted donations for the Project will be used for future maintenance and repairs as well as other renovations and enhancements. The Project was partially funded by a \$2,500,000 State of California grant (Grant) which placed a deed restriction on the Club property, requiring that it be used for youth activities through June 30, 2031. Should the Grant covenant be violated through change of service or sale of the property, the entire Grant becomes due and payable.

Boys and Girls Club of Hollywood
Notes to Financial Statements—Continued

Note 6—Net Assets with Donor Restrictions—Continued

Net assets released from donor restrictions for the year ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions:		
Healthy Habits Kitchen	\$ 91,169	\$
Scholarship fund	16,500	
Community Impact Arts Program	14,000	
Music program	11,188	10,475
Power Hour Education Program	10,000	
Club renovation and enhancement	13,772	73,211
Security upgrades		75,000
Passenger van		33,000
Other		20,000
Anti-bullying program		10,000
	<u>156,629</u>	<u>221,686</u>
Total Satisfaction of Purpose Restrictions	156,629	221,686
Satisfaction of time restrictions:		
General operations	25,000	112,100
	<u>25,000</u>	<u>112,100</u>
Total Satisfaction of Time Restrictions	25,000	112,100
Satisfaction of appropriation and expenditure:		
PCF Endowment Fund	106,224	125,000
	<u>106,224</u>	<u>125,000</u>
Total Satisfaction of Appropriation and Expenditure	106,224	125,000
Total Net Assets With Donor Restrictions	<u>\$ 287,853</u>	<u>\$ 458,786</u>

In March 2017, the Club was notified of a \$3,000,000 gift to a community foundation for the benefit of the Club. The gift agreement provides for annual distributions to the Club of \$100,000, adjusted for inflation, until the funds are depleted. The annual distribution is restricted to the funding of programming, scholarships, and facility maintenance expenses at the Club. As required by GAAP, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Club has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), adopted by the State of California, 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 Club classifies as net assets with donor restrictions (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment, and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Club in a manner consistent with the standard of prudence prescribed by UPMIFA.

Boys and Girls Club of Hollywood
Notes to Financial Statements—Continued

Note 7—Endowment Net Assets

In accordance with UPMIFA, the Club considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Club 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 Club
- 7) The investment policies of the Club

Return Objectives and Risk Parameters—The Club has adopted investment and spending policies for endowment assets set by the donor and the donor advised fund that 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. Endowment assets include those assets of donor-restricted funds that the Club must hold in perpetuity.

Strategies Employed for Achieving Objectives—To satisfy its long-term rate-of-return objectives, the Club 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 Club targets a diversified asset allocation to achieve its long-term return objectives within prudent risk restraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy—The Club currently seeks to promote growth of its endowment funds for the purpose of creating a fund that will generate income for support of the Club operations in the future. The gift agreement provides for annual distributions to the Club of \$100,000, adjusted for inflation, until the funds are depleted. The annual distribution is restricted to the funding of programing, scholarships, and facility maintenance expenses at the Club. The board-designated endowment spending policy authorizes the Board of Directors to distribute \$25,000 on a quarterly basis. In establishing these policies, the Club and donor considered the long-term expected return on its endowment, as well as the operational needs of the Club. Accordingly, over the long term, the Club expects the current spending policy to allow its endowment to achieve annual growth above inflation. This is consistent with the Club’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Funds held with the Pasadena Community Foundation (PCF) are subject to distribution and spending policies of PCF.

Boys and Girls Club of Hollywood
Notes to Financial Statements—Continued

Note 7—Endowment Net Assets—Continued

Changes in endowment net assets for the years ended December 31, 2019 and 2018 were as follows:

	<u>Subject to Appropriation</u>	<u>Held in Perpetuity</u>	<u>Total</u>
Endowment Net Assets at December 31, 2017	\$ 337,350	\$ 3,000,000	\$ 3,337,350
Investment income	145,607		145,607
Realized and unrealized loss on investments	(370,461)		(370,461)
Investment management fees	(32,488)		(32,488)
Total Investment Return on Endowment Funds	80,008	3,000,000	3,080,008
Appropriation of expenditure pursuant to spending-rate policy	(125,000)		(125,000)
Endowment Net Assets at December 31, 2018	(44,992)	3,000,000	2,955,008
Investment income	137,642		137,642
Realized and unrealized gain on investments	543,931		543,931
Investment management fees	(31,925)		(31,925)
Total Investment Return on Endowment Funds	649,648		649,648
Appropriation of expenditure pursuant to spending-rate policy	(106,224)		(106,224)
Endowment Net Assets at December 31, 2019	\$ 498,432	\$ 3,000,000	\$ 3,498,432

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, endowment funds with original gift values of \$3,000,000 had a fair value of \$2,955,008 and deficiencies of \$44,992, which were reported in net assets with donor restrictions.

Boys and Girls Club of Hollywood
Notes to Financial Statements—Continued

Note 8—Rental Income

The Club currently leases space to two tenants, requiring monthly payments of \$4,800 and \$13,750, plus applicable property taxes and utilities. One of the agreements is currently on a month to month basis and the other through December 31, 2020. Rental income associated with these leases amounted to \$253,198 and \$215,850 for the years ended December 31, 2019 and 2018, respectively.

Note 9—Pension Plan

A defined contribution pension plan of the Boys and Girls Clubs of America (Plan) provides pension coverage to participating Boys and Girls Clubs in the United States of America. The Plan covers qualified full-time and part-time employees with more than one year of service. Contributions are made to the Plan based upon a board-approved contribution rate applied to each employee's qualified salaries and wages. The contribution rate was 3% for each of the years ended December 31, 2019 and 2018. Plan contribution expense for the years ended December 31, 2019 and 2018 amounted to \$18,553 and \$17,362, respectively.

Note 10—Commitments and Contingencies

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 the funds to the grantors. Although it is considered a possibility, the Board deems the contingency remote, since by accepting the gifts and their terms, it has accommodated the objectives of the grantor under the provisions of the gift.

The Club leases office equipment under non-cancellable operating leases. As of December 31, 2019, future minimum annual rental payments payable under the lease agreements with remaining terms in excess of one year are as follows:

<u>Year Ending December 31,</u>	
2020	\$ 2,562
2021	3,301
2022	3,301
2023	2,860
2024	2,545
Thereafter	424
Total	\$ <u>14,993</u>

Boys and Girls Club of Hollywood
Notes to Financial Statements—Continued

Note 11—Recent Accounting Pronouncements

Revenue Recognition—In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2019. The guidance permits the use of either a retrospective or cumulative effect transition method. The Club is evaluating whether this will have a material impact on its financial statements.

Leases—In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for nonprofit organizations with fiscal years beginning after December 15, 2020, with early adoption permitted. The Club is currently evaluating the impact that the adoption of ASU No. 2016-02 will have on its financial statements.

Note 12—Subsequent Events

In early March 2020, the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, is being severely impacted, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. In response, the federal government developed the Paycheck Protection Program (PPP) to provide a direct incentive for small businesses to keep their workers on the payroll. On April 21, 2020, the Club received \$106,000 in PPP funding through a bank from the Small Business Administration. While these funds carry loan repayment terms, it is the opinion of management that all funds received will be forgiven under the present terms of the PPP. No adjustments have been made to these financial statements as a result of this uncertainty.

Subsequent to year end, the Club received a \$500,000 gift from a donor who wishes to remain anonymous.

Management has evaluated subsequent events through October 29, 2020, which is the date the financial statements were available to be issued, and concluded that, other than as noted above, no material subsequent events have occurred that would require adjustment to the financial statements or disclosures in the notes to the financial statements.