

Audited Financial Statements



**BOYS & GIRLS CLUB
OF HOLLYWOOD**

December 31, 2020

Quigley & Miron

Boys and Girls Club of Hollywood
Audited Financial Statements
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December 31, 2020

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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, 2020, 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, 2020, 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, 2019, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Los Angeles, California
December 16, 2021

Boys and Girls Club of Hollywood
Statement of Financial Position
December 31, 2020
(with comparative totals for 2019)

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 1,358,542	\$ 1,197,200
Restricted cash		
Cash held for R.E.A.D.S. literacy program	500,000	
Cash held for future club renovation	174,919	174,919
PPP advance—Note 8	106,000	
Investments—Note 3	4,069,784	3,577,865
Grants and pledges receivable—Note 4		48,190
Government grants receivable—Note 5	11,810	18,524
Other receivables	1,000	3,000
Other current assets	5,535	17,847
Property and equipment, net—Note 6	6,881,870	7,061,250
Total Assets	<u>\$ 13,109,460</u>	<u>\$ 12,098,795</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 12,674	\$ 15,090
Salaries and employee benefits payable	53,017	36,971
PPP advance—Note 8	106,000	
Deposits	5,500	5,500
Total Liabilities	<u>177,191</u>	<u>57,561</u>
Net Assets		
Without donor restrictions	8,206,327	8,223,776
With donor restrictions—Note 7	4,725,942	3,817,458
Total Net Assets	<u>12,932,269</u>	<u>12,041,234</u>
Total Liabilities and Net Assets	<u>\$ 13,109,460</u>	<u>\$ 12,098,795</u>

See notes to financial statements.

Boys and Girls Club of Hollywood
Statement of Activities
Year Ended December 31, 2020
(with comparative totals for 2019)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020 Total</u>	<u>2019 Total</u>
Operating Activities				
Public Support				
Contributions and grants	\$ 643,874	\$ 525,000	\$ 1,168,874	\$ 597,609
Government grants	90,000	11,810	101,810	66,000
Fundraising events, net				
Gross revenue				114,670
Less cost direct benefits to donors				(78,377)
Fundraising Events, Net				36,293
Total Public Support	733,874	536,810	1,270,684	699,902
Revenue				
Membership income	2,810		2,810	78,915
Interest and dividend income	2,450	145,561	148,011	142,600
Total Revenue	5,260	145,561	150,821	221,515
Net Assets Released from Restrictions				
	179,427	(179,427)		
Total Public Support and Revenue	918,561	502,944	1,421,505	921,417
Expenses				
Youth program services	979,279		979,279	943,965
Supporting services				
Management and general	119,425		119,425	147,650
Fund development	96,099		96,099	98,013
Total Expenses	1,194,803		1,194,803	1,189,628
Change in Net Assets from Operations	(276,242)	502,944	226,702	(268,211)
Nonoperating Activities				
Investment return, net—Note 3	18,083	405,540	423,623	541,915
Rental income—Note 10	238,447		238,447	253,198
Other income	2,263		2,263	4,278
Total Nonoperating Activities	258,793	405,540	664,333	799,391
Change in Net Assets	(17,449)	908,484	891,035	531,180
Net Assets at Beginning of Year	8,223,776	3,817,458	12,041,234	11,510,054
Net Assets at End of Year	\$ 8,206,327	\$ 4,725,942	\$ 12,932,269	\$ 12,041,234

See notes to financial statements.

Boys and Girls Club of Hollywood
Statement of Functional Expenses
Year Ended December 31, 2020
(with comparative totals for 2019)

	Youth Program Services	Supporting Services		2020 Total	2019 Total
		Management and General	Fund Development		
Salaries	\$ 457,328	\$ 56,146	\$ 40,130	\$ 553,604	\$ 530,566
Employee benefits	69,835	8,574	6,128	84,537	80,958
Payroll taxes	30,544	3,750	2,680	36,974	38,658
Total Personnel Expenses	557,707	68,470	48,938	675,115	650,182
Depreciation and amortization	196,914	1,333	821	199,068	186,167
Professional and consulting fees	15,814	22,507	43,939	82,260	114,422
Repairs and maintenance	60,522	410	252	61,184	44,751
Insurance	41,850	2,235	175	44,260	38,689
Program supplies	43,237			43,237	56,711
Utilities	28,438	192	119	28,749	20,263
Property taxes		18,570		18,570	19,018
Telephone	10,491	1,288	921	12,700	13,070
Supplies	7,152	878	628	8,658	10,495
Scholarships	6,000			6,000	16,500
Equipment rental	5,715	39	23	5,777	5,036
Staff development	3,201	393	281	3,875	9,109
Marketing	2,208			2,208	885
Merchant fees		2,013		2,013	2,954
Miscellaneous		1,093		1,093	867
Conferences and meetings	30	4	2	36	509
Cost of direct benefit to donors					78,377
Total Expenses by Function	979,279	119,425	96,099	1,194,803	1,268,005
Less expenses included with revenues on the statements of activities					
Less cost of direct benefits to donors					(78,377)
Total Expenses	\$ 979,279	\$ 119,425	\$ 96,099	\$ 1,194,803	\$ 1,189,628

See notes to financial statements.

Boys and Girls Club of Hollywood
Statement of Cash Flows
Year Ended December 31, 2020
(with comparative totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 891,035	\$ 531,180
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	199,068	186,167
Investment gains	(456,289)	(573,840)
Changes in operating assets and liabilities:		
Grants and pledges receivable	48,190	(23,190)
Government grants receivable	6,714	(18,524)
Other receivables	2,000	2,500
Other current assets	12,312	(17,132)
Accounts payable and accrued expenses	(2,416)	5,060
Salaries and employee benefits payable	16,046	(29,313)
PPP advance	106,000	
Net Cash Provided by Operating Activities	822,660	62,908
Cash Flows from Investing Activities		
Purchase of property and equipment	(19,688)	(68,670)
Purchase of investments	(35,630)	(50,000)
Proceeds from sales of investments		211,607
Net Cash Provided by (Used in) Investing Activities	(55,318)	92,937
Net Increase in Cash, Cash Equivalents, and Restricted Cash	767,342	155,845
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	1,372,119	1,216,274
Cash, Cash Equivalents, and Restricted Cash at End of Year	<u>\$ 2,139,461</u>	<u>\$ 1,372,119</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, 2020
(with comparative totals for 2019)

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, 2020 and 2019, the Club received \$145,200 and \$145,200, 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.

During the year ended December 31, 2020, the following positive outcomes were achieved:

- Reading Comprehension—The Club began a specialized reading program our students. Over 198 hours of class time was held for 30 students.
- Education and Digital Equity—The Club provided 1,000+ hours of online academic support (Aug-Dec).
- Economic Equity—Through the Corona Care Fund, the Club distributed \$25,000 in cash and gift cards to our families.
- Food Insecurity—The Club provided 10,530 lunches/snacks served onsite to our children and youth.
- Support for Working Families—The Club provided free onsite childcare for essential workers
- Workforce Stability—100% staff retention with no reduction in salaries.

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, 2020 and 2019. 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 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,358,542	\$ 1,197,200
Restricted cash held for R.E.A.D.S. literacy program	500,000	
Restricted cash held for future club renovations	174,919	174,919
PPP advance	106,000	
Total Cash, Cash Equivalents, and Restricted Cash	<u>\$ 2,139,461</u>	<u>\$ 1,372,119</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 \$2,500 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, 2020 and 2019 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, 2020 and 2019 and has determined that an allowance for potential losses due to credit risk is not necessary.

Recently Adopted Accounting Principles

Revenue Recognition—In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The Club has adopted ASU No. 2014-09 for the year ended December 31, 2020, 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

Contributions—In June 2018, FASB issued 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.

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, employee benefits, and payroll taxes 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.

Reclassifications—Certain amounts in 2019 have been reclassified to conform with the 2020 financials statement presentation.

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, 2020 to cover operating expenses for the next fiscal year:

Cash and cash equivalents, net of donor restrictions	\$	759,062
Investments		130,051
Other receivables		<u>1,000</u>
Current Availability of Financial Assets	\$	<u>890,113</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.

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.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.

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, 2020 and 2019.

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, 2020 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
PCF agency fund	\$ 3,939,733	\$	\$	\$ 3,939,733
Common stocks	13,294	13,294		
Corporate bonds	5,016		5,016	
California tax-exempt mutual fund	111,741		111,741	
Totals	<u>\$ 4,069,784</u>	<u>\$ 13,294</u>	<u>\$ 116,757</u>	<u>\$ 3,939,733</u>

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	<u>\$ 3,577,865</u>	<u>\$ 11,994</u>	<u>\$ 67,439</u>	<u>\$ 3,498,432</u>

Investment activity for the years ended December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Investment gains	\$ 456,289	\$ 573,840
Investment management fees	(32,666)	(31,925)
Investment Return, Net	423,623	541,915
Interest and dividend income	148,011	142,600
Total Investment Return	<u>\$ 571,634</u>	<u>\$ 684,515</u>

A reconciliation of the Club's Level 3 assets at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Balance at Beginning of Year	\$ 3,498,432	\$ 2,955,008
Interest and dividend income	145,561	137,642
Investment gains	438,206	543,931
Investment management fees	(32,666)	(31,925)
Transfers out of Level 3	(109,800)	(106,224)
Balance at End of Year	<u>\$ 3,939,733</u>	<u>\$ 3,498,432</u>

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

Note 4—Grants and Pledges Receivable

Grants and pledges receivable at December 31, 2019 consist of amounts pledged by charitable organizations and individuals for Club programs or future periods which amounted to \$48,190. There were no grants or pledges receivable at December 31, 2020.

Note 5—Government Grants Receivable

Government grants receivable at December 31, 2020 and 2019 consist of amounts due from various government agencies under agreements for services provided by the Club which amounted to \$11,810 and \$18,524, respectively.

Note 6—Property and Equipment, Net

Net property and equipment consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Building and improvements	\$ 7,248,727	\$ 7,233,291
Furniture and other equipment	231,166	231,166
Computer equipment and software	142,788	138,536
	<u>7,622,681</u>	<u>7,602,993</u>
Less accumulated depreciation and amortization	<u>(1,719,811)</u>	<u>(1,520,743)</u>
Depreciable Property and Equipment, Net	5,902,870	6,082,250
Land	<u>979,000</u>	<u>979,000</u>
Property and Equipment, Net	<u>\$ 6,881,870</u>	<u>\$ 7,061,250</u>

Total depreciation expense recorded during the years ended December 31, 2020 and 2019 was \$199,068 and \$186,167, 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 7—Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
R.E.A.D.S. literacy program	\$ 500,000	\$
Club renovation and enhancement	174,919	174,919
Music program	38,262	28,262
Scholarship fund	37,824	43,824
Financial education program	15,000	
Healthy Habits Kitchen	8,394	23,831
Total Subject to Purpose Restrictions	774,399	270,836
Subject to time restrictions:		
Music program	11,810	
General operations		28,190
Transportation needs		10,000
Power Hour education program		10,000
Total Subject to Time Restrictions	11,810	48,190
Subject to appropriation		
PCF Endowment Fund	939,733	498,432
Total Subject to Appropriation	939,733	498,432
Held in perpetuity		
PCF Endowment Fund	3,000,000	3,000,000
Total Held in Perpetuity	3,000,000	3,000,000
Total Net Assets with Donor Restrictions	\$ 4,725,942	\$ 3,817,458

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 7—Net Assets with Donor Restrictions—Continued

Net assets released from donor restrictions for the year ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions:		
Healthy Habits Kitchen	\$ 15,437	\$ 91,169
Scholarship fund	6,000	16,500
Community Impact Arts Program		14,000
Music program		11,188
Power Hour Education Program		10,000
Club renovation and enhancement		13,772
	<u>21,437</u>	<u>156,629</u>
Satisfaction of 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>
Satisfaction of appropriation and expenditure		
PCF Endowment Fund	109,800	106,224
	<u>109,800</u>	<u>106,224</u>
Total Net Assets Released from Donor Restrictions	<u>\$ 179,427</u>	<u>\$ 287,853</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 programing, 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 8—PPP Advance

On April 24, 2020, the Club received \$106,000 in Paycheck Protection Program (PPP) funding from the U.S. Small Business Administration (SBA), in response to the COVID-19 pandemic (see Note 14). While these funds carry loan repayment terms, all funds received were forgiven under present terms of PPP in the upcoming fiscal year. The Club elected to record PPP grant revenue only upon receipt of the forgiveness letter from the SBA.

On February 4, 2021, subsequent to year-end, the Club received an additional \$110,000 in PPP funding from the SBA. While these funds carry loan repayment terms, it is the opinion of management that all funds will be forgiven under the present terms of PPP.

Note 9—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.

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

Note 9—Endowment Net Assets—Continued

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.

Changes in endowment net assets for the years ended December 31, 2020 and 2019 were as follows:

	<u>Subject to Appropriation</u>	<u>Held in Perpetuity</u>	<u>Total</u>
Endowment Net Assets at December 31, 2018	\$ (44,992)	\$ 3,000,000	\$ 2,955,008
Interest and dividend 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	604,656	3,000,000	3,604,656
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
Interest and dividend income	145,561		145,561
Realized and unrealized gain on investments	438,206		438,206
Investment management fees	(32,666)		(32,666)
Total Investment Return on Endowment Funds	551,101		551,101
Appropriation of expenditure pursuant to spending-rate policy	(109,800)		(109,800)
Endowment Net Assets at December 31, 2020	\$ 939,733	\$ 3,000,000	\$ 3,939,733

Note 10—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 \$238,447 and \$253,198 for the years ended December 31, 2020 and 2019, respectively.

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

Note 11—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, 2020 and 2019. Plan contribution expense for the years ended December 31, 2020 and 2019 amounted to \$14,338 and \$13,379, respectively.

Note 12—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, 2020, future minimum annual rental payments payable under the lease agreements with remaining terms in excess of one year are as follows:

Year Ending December 31,

2021	\$	3,301
2022		3,301
2023		2,860
2024		2,545
2025		424
Total	\$	<u>12,431</u>

Note 13—Recent Accounting Pronouncements

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.

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

Note 14—Risks and Uncertainties

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. The Club is continuing to monitor the ongoing impact of the pandemic response on its overall operations. At the time of this reporting, the cumulative financial impact of the pandemic on the Club cannot be fully determined, therefore no related adjustment has been made to these financial statements.

Note 15—Subsequent Events

Management has evaluated subsequent events through December 16, 2021, which is the date the financial statements were available to be issued, and concluded that, other than the PPP funding and forgiveness detailed in Note 8, no material subsequent events have occurred that would require adjustment to the financial statements or disclosures in the notes to the financial statements.