**Audited Financial Statements**

BOYS & GIRLS CLUB
OF HOLLYWOOD

**December 31, 2022**

Quigley & Miron

**Boys and Girls Club of Hollywood**
**Audited Financial Statements**
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**December 31, 2022**

**Quigley & Miron**

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## Independent Auditor's Report

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

### Opinion

We have audited the accompanying financial statements of Boys and Girls Club of Hollywood (Club), a nonprofit organization, which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Club as of December 31, 2022, 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.

### Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Club and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Club's ability to continue as a going concern for one year after the date that the financial statements are issued.

### Auditor Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Club's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Club's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

**Report on Summarized Comparative Information**

We have previously audited the financial statements of the Boys and Girls Club of Hollywood as of December 31, 2021, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 22, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Quigley & Miron

Los Angeles, California
July 27, 2023

**Boys and Girls Club of Hollywood**
**Statement of Financial Position**
**December 31, 2022**
**(with comparative totals for 2021)**

| | 2022 | 2021 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 1,392,308 | $ 1,063,226 |
| Restricted cash—cash held for future club renovation | 174,919 | 174,919 |
| Investments—Note 3 | 1,329,656 | 1,421,410 |
| PCF endowment fund—Note 3 | 3,503,792 | 4,309,212 |
| Grants and contributions receivable—Note 4 | 106,916 | 112,374 |
| Prepaid expenses and other assets | 6,156 | 6,156 |
| Operating lease right-of-use asset—Note 12 | 2,879 | |
| Property and equipment, net—Note 5 | 6,544,544 | 6,739,482 |
| **Total Assets** | **$ 13,061,170** | **$ 13,826,779** |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Accounts payable and accrued expenses | $ 57,475 | $ 58,799 |
| Salaries and employee benefits payable | 44,717 | 58,390 |
| Operating lease liability—Note 12 | 2,879 | |
| Deposits | 5,500 | 5,500 |
| **Total Liabilities** | **110,571** | **122,689** |
| **Net Assets** | | |
| Without donor restrictions | 8,933,932 | 8,616,511 |
| With donor restrictions—Note 6 | 4,016,667 | 5,087,579 |
| **Total Net Assets** | **12,950,599** | **13,704,090** |
| **Total Liabilities and Net Assets** | **$ 13,061,170** | **$ 13,826,779** |

See notes to financial statements.

**Boys and Girls Club of Hollywood**
**Statement of Activities**
**Year Ended December 31, 2022**
**(with summarized comparative totals for 2021)**

| | Without Donor Restrictions | With Donor Restrictions | 2022 Total | 2021 Total |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| **Public Support and Revenue** | | | | |
| Contributions and grants | $ 738,503 | $ 212,956 | $ 951,459 | $ 845,155 |
| Government grants | 3,000 | | 3,000 | 35,000 |
| PPP grant—Note 7 | | | | 216,000 |
| Fundraising events | | | | |
| Gross revenue | 150,923 | | 150,923 | 141,506 |
| Less cost direct benefits to donors | (36,753) | | (36,753) | (39,622) |
| **Fundraising Events, Net** | **114,170** | | **114,170** | **101,884** |
| In-kind contributions—Note 9 | 46,814 | | 46,814 | 85,366 |
| Program revenue | 9,300 | | 9,300 | 30 |
| Interest and dividend income | 34,583 | 173,216 | 207,799 | 222,550 |
| Other income | 3,433 | | 3,433 | 2,624 |
| Net assets released from restriction | 597,448 | (597,448) | | |
| **Total Public Support and Revenue** | **1,547,251** | **(211,276)** | **1,335,975** | **1,508,609** |
| **Expenses** | | | | |
| Youth program services | 1,071,509 | | 1,071,509 | 978,674 |
| Supporting services | | | | |
| Management and general | 119,747 | | 119,747 | 113,523 |
| Fund development | 160,971 | | 160,971 | 138,169 |
| **Total Expenses** | **1,352,227** | | **1,352,227** | **1,230,366** |
| **Change in Net Assets from Operations** | **195,024** | **(211,276)** | **(16,252)** | **278,243** |
| **Nonoperating Activities** | | | | |
| Investment return, net—Note 3 | (117,918) | (859,636) | (977,554) | 264,826 |
| Rental income, net of property taxes of $28,354 and $18,722 respectively—Note 10 | 240,315 | | 240,315 | 228,752 |
| **Total Nonoperating Activities** | **122,397** | **(859,636)** | **(737,239)** | **493,578** |
| **Change in Net Assets** | **317,421** | **(1,070,912)** | **(753,491)** | **771,821** |
| **Net Assets at Beginning of Year** | **8,616,511** | **5,087,579** | **13,704,090** | **12,932,269** |
| **Net Assets at End of Year** | **$ 8,933,932** | **$ 4,016,667** | **$ 12,950,599** | **$ 13,704,090** |

See notes to financial statements.

**Boys and Girls Club of Hollywood**
**Statement of Functional Expenses**
**Year Ended December 31, 2022**
**(with summarized comparative totals for 2021)**

| | Youth Program Services | Supporting Services: Management and General | Supporting Services: Fund Development | Fundraising Events | 2022 Total | 2021 Total |
|---|---|---|---|---|---|---|
| Salaries | $ 426,674 | $ 74,956 | $ 74,956 | $ | $ 576,586 | $ 507,717 |
| Employee benefits—Note 11 | 57,051 | 10,022 | 10,022 | | 77,095 | 78,482 |
| Payroll taxes | 28,835 | 5,066 | 5,066 | | 38,967 | 34,780 |
| **Total Personnel Expenses** | **512,560** | **90,044** | **90,044** | | **692,648** | **620,979** |
| Depreciation and amortization | 202,613 | 1,371 | 845 | | 204,829 | 201,844 |
| Professional and consulting fees | 20,626 | 20,626 | 65,629 | | 106,881 | 151,553 |
| Collaborative programs | 70,867 | | | | 70,867 | 7,825 |
| Program supplies | 68,287 | | | | 68,287 | 32,207 |
| Repairs and maintenance | 67,454 | 457 | 281 | | 68,192 | 59,560 |
| Insurance | 40,418 | 1,915 | 169 | | 42,502 | 39,642 |
| Utilities | 37,047 | 251 | 154 | | 37,452 | 33,451 |
| Cost of direct benefit to donors | | | | 36,753 | 36,753 | 39,622 |
| Scholarships | 21,000 | | | | 21,000 | 28,500 |
| Other expenses | 11,721 | 1,696 | 2,005 | | 15,422 | 14,008 |
| Membership dues | 8,022 | | | | 8,022 | 16,416 |
| Telephone | 4,864 | 855 | 855 | | 6,574 | 14,925 |
| Equipment rental | 5,062 | 34 | 21 | | 5,117 | 4,881 |
| Merchant fees | | 2,498 | | | 2,498 | 2,517 |
| Marketing and promotion | 968 | | 968 | | 1,936 | 2,058 |
| **Total Expenses by Function** | **1,071,509** | **119,747** | **160,971** | **36,753** | **1,388,980** | **1,269,988** |
| Less expenses included with revenues on the statements of activities | | | | | | |
| Less cost of direct benefits to donors | | | | (36,753) | (36,753) | (39,622) |
| **Total Expenses** | **$ 1,071,509** | **$ 119,747** | **$ 160,971** | **$** | **$ 1,352,227** | **$ 1,230,366** |

See notes to financial statements.

**Boys and Girls Club of Hollywood**
**Statement of Cash Flows**
**Year Ended December 31, 2022**
**(with comparative totals for 2021)**

| | 2022 | 2021 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Change in net assets | $ (753,491) | $ 771,821 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 204,829 | 201,844 |
| Noncash lease expenses | 8,360 | |
| Investment (gains) losses | 951,461 | (296,434) |
| Changes in operating assets and liabilities: | | |
| Grants and contributions receivable | 5,458 | (112,374) |
| Government grants receivable | | 12,810 |
| Prepaid expenses and other assets | | (621) |
| Accounts payable and accrued expenses | (1,324) | 46,125 |
| Salaries and employee benefits payable | (13,673) | 5,373 |
| PPP advance | | (106,000) |
| Operating lease liability | (8,360) | |
| **Net Cash Provided by Operating Activities** | **393,260** | **522,544** |
| **Cash Flows from Investing Activities** | | |
| Purchase of property and equipment | (9,891) | (59,456) |
| Purchase of investments | (54,287) | (1,369,404) |
| Proceeds from sales of investments | | 5,000 |
| **Net Cash Used in Investing Activities** | **(64,178)** | **(1,423,860)** |
| **Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash** | **329,082** | **(901,316)** |
| **Cash, Cash Equivalents, and Restricted Cash at Beginning of Year** | **1,238,145** | **2,139,461** |
| **Cash, Cash Equivalents, and Restricted Cash at End of Year** | **$ 1,567,227** | **$ 1,238,145** |
| **Supplementary Disclosures** | | |
| Income taxes paid | $ | $ |
| Interest paid | $ | $ |

**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, 2022 and 2021, the Club received $215,200 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, 2022, the following positive outcomes were achieved:

- Education and Digital Equity—The Club enhances the lives of 272 students in 2022 through educational and youth development programs, reached 300 students through community outreach activities, and impacted 1,000 family members.
- Food Insecurity—The Club served 18,426 lunches/snacks onsite to students from the California Sunrise Foundation throughout the year providing youth with good nutrition to assist with sustaining and improving their health.
- Support for Working Families—The Club provided free programs and services to all students. Working parents were able to have access to programs and services at no charge as we continue to adhere to our core mission of serving those who need us most.
- 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.

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.

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

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. It is the policy of the Club to record contributions that are restricted by the donor as an increase in net assets without donor restrictions if the restriction expires in the reporting period recognized.

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 program fees, 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, 2022 and 2021. 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. Restricted cash at December 31, 2022 and 2021 consists of cash held for future club renovations (see Note 6).

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported on the statement of financial position to the sum total of cash, cash equivalents, and restricted cash reported on the statement of cash flows at December 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| **Cash Accounts Reported in the Statement of Financial Position** | | |
| Cash and cash equivalents | $ 1,392,308 | $ 1,063,226 |
| Restricted cash held for future club renovations | 174,919 | 174,919 |
| **Total Cash, Cash Equivalents, and Restricted Cash Reported in the Statement of Cash Flows** | **$ 1,567,227** | **$ 1,238,145** |

Investments—Investments are recorded at fair market value, based on investment prices provided by the broker-dealer investment custodian. Interest and dividends earned on investments is recognized when received and reported as interest and dividend income under public support and revenue in the statement of activities. Gains and losses on investments are recognized as changes in their fair market values occur in the period reported and are reported on the statement of activities under the investment return, net caption.

Property and Equipment—Property and equipment are stated at cost when purchased, or estimated fair market value at the date of gift or bequest.

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

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 value at less than $2,500 are expensed when purchased or donated.

Recently Adopted Accounting Principles

Leases—In February 2016, the the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This standard requires lessees to recognize the assets and liabilities that arise from the leases on the balance sheet. Additionally, in July 2018, the FASB issued ASU 2018-11 *Leases (Topic 842)–Targeted Improvements,* which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative effect adjust to the opening balance of net assets without donor restrictions in the period of adoption. The Club adopted ASU No. 2016-02 and its related amendments on a retrospective approach as of January 1, 2022, which resulted in the recognition of an operating right-of-use asset totaling $5,216, as well as an operating lease liability totaling $5,216. The Club elected to adopt the transition relief from provisions ASU 2018-11 as of January 1, 2022, without restating any prior year amounts or disclosures.

Gifts-in-Kind—In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires increased transparency around the use and valuation of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit entities. Under the updated guidance, gifts-in-kind are required to be presented as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, and to be disaggregated in the notes to the financial statements by the category that depicts the type of contributed nonfinancial assets. Additional disclosures are required regarding qualitative information denoting whether the gifts-in-kind were monetized or utilized during the reporting period; the entity's policy, if any, about monetizing rather than utilizing contributed nonfinancial assets; and the valuation techniques and inputs used to arrive at a fair value measure. The Club has adopted ASU No. 2020-07 for the year ended December 31, 2022 on a retrospective basis, which resulted in no change to revenue previously reported and no effect on revenue reported for the years ended December 31, 2022 and 2021.

Concentration of Credit Risk—Financial instruments which potentially subject the Club to concentrations of credit risk consist of cash and cash equivalents, investments in securities, and receivables.

The Club places its cash and cash equivalents with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per institution. Such cash balances may exceed FDIC insurance limits during the normal course of business. Cash held in investment accounts at investment custodians is insured by the Securities Investors Protection Corporation (SIPC) up to $250,000 and the investments in securities are insured up to $500,000, per institution. SIPC insurance protects the custody function of the investment custodian; it does not provide protection against fluctuations in market value. At times, such balances are in excess of the SIPC coverage limits.

The Club is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf. The Club's management has assessed the credit risk associated with its cash deposits and investments held at December 31, 2022 and 2021 and believes it is not exposed to any significant credit risk with its cash and cash equivalents and investments, however, due to the current risk and uncertainties affecting financial institutions (see Note 13), the related impact cannot be reasonably estimated at this time.

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

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, 2022 and 2021 and has determined that an allowance for potential uncollectible amounts is not necessary.

Contracts with Customers—Accounting standards require an organization to recognize revenue arising from contracts with customers at the time the customer obtains control of a contracted goods or service.
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.

Revenue Recognition—The Club's revenue recognition policies are as follows:

Government grants—Revenues from government grants are reported as increases in net assets without donor restrictions as allowable expenditures under such agreements as incurred. The amounts expended in excess of reimbursements are reported as grants receivable. Amounts received in excess of amounts expended are recorded as deferred revenue.

Fundraising events—The Club conducts special fundraising events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of benefits received by the participants at the event. The Club values such benefits at actual cost.

Program revenue—Program revenues are recognized at the time services are provided.

Rental income—Rental income is recognized at the time services are provided.

In-Kind Contributions—The Club records the value of donated program supplies and services at their fair value at the date of donation. In-kind services are recognized only if they (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

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. Collaborative programs, program expense, bad debt expense, membership dues, and bank charges are directly charged to the program or supporting service benefitted. 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 2021 have been reclassified to conform with the 2022 financials statement presentation.

## 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, 2022 to cover operating expenses for the next fiscal year:

| | 2022 | 2021 |
|---|---|---|
| Financial assets | | |
| Cash, cash equivalents, and restricted cash | $ 1,567,227 | $ 1,238,145 |
| Investments | 1,329,656 | 1,421,410 |
| Grants and pledges receivable | 106,916 | 112,374 |
| **Total Financial Assets** | **3,003,799** | **2,771,929** |
| Less noncurrent net assets subject to purpose restrictions | (405,959) | (665,993) |
| **Current Availability of Financial Assets** | **$ 2,597,840** | **$ 2,105,936** |

## 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, 2022 and 2021.

At December 31, 2022 and 2021, Club investments consist of endowment funds held in perpetuity with Pasadena Community Foundation totaling $3,503,792 and $4,309,212, respectively (see note 8), and funds held with various investment custodians totaling $1,329,656 and $1,421,410, respectively.

**Note 3—Investments and Fair Value**—*Continued*

Fair values of investments measured on a recurring basis at are as follows:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| PCF endowment fund | $ 3,503,792 | $ | $ | $ 3,503,792 |
| Corporate bonds | 1,208,236 | | 1,208,236 | |
| Mutual funds | 105,719 | 105,719 | | |
| Common stocks | 15,701 | 15,701 | | |
| **Totals** | **$ 4,833,448** | **$ 121,420** | **$ 1,208,236** | **$ 3,503,792** |

Fair values of investments measured on a recurring basis at December 31, 2021 are as follows:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| PCF endowment fund | $ 4,309,212 | $ | $ | $ 4,309,212 |
| Corporate bonds | 1,280,136 | | 1,280,136 | |
| Mutual funds | 126,453 | 126,453 | | |
| Common stocks | 14,821 | 14,821 | | |
| **Totals** | **$ 5,730,622** | **$ 141,274** | **$ 1,280,136** | **$ 4,309,212** |

Investment activity for the years ended December 31, 2022 and 2021 were as follows:

| | 2022 | 2021 |
|---|---|---|
| Investment gains (losses) | $ (951,461) | $ 296,434 |
| Investment management fees | (26,093) | (31,608) |
| **Investment Return, Net** | **(977,554)** | **264,826** |
| Interest and dividend income | 207,799 | 222,550 |
| **Total Investment Return** | **$ (769,755)** | **$ 487,376** |

A reconciliation of the Club's Level 3 assets at December 31, 2022 and 2021 is as follows:

| | 2022 | 2021 |
|---|---|---|
| **Balance at Beginning of Year** | **$ 4,309,212** | **$ 3,939,733** |
| Interest and dividend income | 173,216 | 207,525 |
| Investment gains (losses) | (833,543) | 304,362 |
| Investment management fees | (26,093) | (31,608) |
| Transfers out of Level 3 | (119,000) | (110,800) |
| **Balance at End of Year** | **$ 3,503,792** | **$ 4,309,212** |

**Note 4—Grants and Contributions Receivable**

Grants and contributions receivable consist of amounts pledged by charitable organizations and individuals for general operations which amounted to $106,916 and $112,374 at December 31, 2022 and 2021, respectively.

## Note 5—Property and Equipment, Net

Net property and equipment consist of the following at December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Building and improvements | $ 7,269,582 | $ 7,259,691 |
| Furniture and other equipment | 233,315 | 233,315 |
| Computer equipment and software | 189,131 | 189,131 |
| | 7,692,028 | 7,682,137 |
| Less accumulated depreciation and amortization | (2,126,484) | (1,921,655) |
| **Depreciable Property and Equipment, Net** | **5,565,544** | **5,760,482** |
| Land | 979,000 | 979,000 |
| **Property and Equipment, Net** | **$ 6,544,544** | **$ 6,739,482** |

Depreciation expense recorded during the years ended December 31, 2022 and 2021 totaled $204,829 and $201,844, 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.

## Note 6—Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2022 and 2021 consist of the following:

| | 2022 | 2021 |
|---|---|---|
| Subject to expenditure for specified purpose: | | |
| Club renovation and enhancement | $ 174,919 | $ 174,919 |
| R.E.A.D.S. literacy program | 125,000 | 481,750 |
| Scholarship fund | 56,040 | 9,324 |
| Health and Wellness programs | 30,000 | |
| Music program | 10,000 | |
| Tomorrow's Leaders | 10,000 | |
| **Total Subject to Purpose Restrictions** | **405,959** | **665,993** |
| Subject to time restrictions: | | |
| General operations | 106,916 | 112,374 |
| **Total Subject to Time Restrictions** | **106,916** | **112,374** |
| Held in perpetuity: | | |
| PCF endowment fund | 3,503,792 | 4,309,212 |
| **Total Held in Perpetuity** | **3,503,792** | **4,309,212** |
| **Total Net Assets with Donor Restrictions** | **$ 4,016,667** | **$ 5,087,579** |

**Note 6—Net Assets with Donor Restrictions**—*Continued*

Net assets released from donor restrictions for the year ended December 31, 2022 and 2021 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Satisfaction of purpose restrictions: | | |
| R.E.A.D.S. literacy program | $ 356,750 | $ |
| Scholarship fund | 9,324 | 6,000 |
| Healthy Habits Kitchen | | 15,437 |
| **Total Satisfaction of Purpose Restrictions** | **366,074** | **21,437** |
| Satisfaction of time restrictions: | | |
| General operations | 112,374 | 28,190 |
| Transportation Needs | | 10,000 |
| Power Hour Education Program | | 10,000 |
| **Total Satisfaction of Time Restrictions** | **112,374** | **48,190** |
| Satisfaction of appropriation and expenditure: | | |
| PCF endowment fund | 119,000 | 109,800 |
| **Total Satisfaction of Appropriation and Expenditure** | **119,000** | **109,800** |
| **Total Net Assets Released from Donor Restrictions** | **$ 597,448** | **$ 179,427** |

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.

**Note 7—PPP Grant**

On April 24, 2020, the Club received $106,000 in Paycheck Protection Program (PPP) funding from the U.S. Small Business Administration (SBA). On February 4, 2021 the Club received an additional $110,000 in PPP funding from the SBA. The Club elected to recorded PPP grant revenue only upon receipt of the forgiveness letters from the SBA. All funds were forgiven during the year ended December 31, 2021.

## Note 8—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:

- The duration and preservation of the fund
- The purposes of the Club and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Club
- The investment policies of the Club

<u>Return Objectives and Risk Parameters</u>—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.

<u>Strategies Employed for Achieving Objectives</u>—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.

<u>Spending Policy and How the Investment Objectives Relate to Spending Policy</u>—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.

### Note 8—Endowment Net Assets—*Continued*

Changes in endowment net assets held in perpetuity for the years ended December 31, 2022 and 2021 were as follows:

| | | |
|---|---|---|
| **Endowment Net Asset at December 31, 2020** | **$** | **3,939,733** |
| Interest and dividend income | | 207,525 |
| Realized and unrealized gain on investments | | 304,362 |
| Investment management fees | | (31,608) |
| **Total Investment Return on Endowment Funds** | | **480,279** |
| Appropriation of expenditure pursuant to spending-rate policy | | (110,800) |
| **Endowment Net Assets at December 31, 2021** | | **4,309,212** |
| Interest and dividend income | | 173,216 |
| Realized and unrealized loss on investments | | (833,543) |
| Investment management fees | | (26,093) |
| **Total Investment Return on Endowment Funds** | | **(686,420)** |
| Appropriation of expenditure pursuant to spending-rate policy | | (119,000) |
| **Endowment Net Assets at December 31, 2022** | **$** | **3,503,792** |

### Note 9—In-Kind Contributions

For the years ended December 31, 2022 and 2021, in-kind contributions are included in the statement of activities under public support and revenue and included in the respective expense captions in the statement of functional expenses as follows:

| | | **2022** | | **2021** |
|---|---|---|---|---|
| Program supplies | $ | 46,814 | $ | 22,116 |
| Professional and consulting fees | | | | 63,250 |
| **Totals** | **$** | **46,814** | **$** | **85,366** |

The following fair value techniques are used to value in-kind contributions:

Program supplies—The Club values snacks and lunches for program supplies at actual costs incurred by donor.

Professional and consulting fees—Valued using provided fair market value rate of services provided from donor.

The Club uses in-kind program supplies and professional and consulting fees in its youth program services.

### Note 10—Rental Income, Net

The Club currently leases space to two tenants, requiring monthly payments of $5,000 and $14,300, plus applicable property taxes and utilities on month-to-month leases. Rental income net of property taxes associated with these leases amounted to $240,315 and $228,753, respectively, for the years ended December 31, 2022 and 2021.

## 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, 2022 and 2021. Plan contribution expense for the years ended December 31, 2022 and 2021 amounted to $5,967 and $6,358, 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.

In February 2019, the Club signed a lease agreement for office equipment under a non-cancellable operating lease agreement which expires February 2024. The lease calls for monthly payments of $212 over the term of the lease.

Future minimum annual rental commitments by year for this operating lease with maturity greater than one year from December 31, 2022 are as follows:

| Year Ending December 31, | | |
|---|---|---|
| 2023 | | $ 2,545 |
| 2024 | | 424 |
| | **Gross Rental Payments** | **2,969** |
| Less effect of discounting | | (90) |
| | **Operating Lease Liability** | **$ 2,879** |

With the adoption of ASU 2016-02, an operating lease right-of-use asset and an operating lease liability were recorded related to this operating lease using the lease term and monthly rental amounts , and a discount rate of 5%, amounting to $2,879 and $2,879 at December 31, 2022.

Equipment rental expense totaled $2,545 for each of the years ended December 31, 2022 and 2021, respectively.

## Note 13–Risks and Uncertainties

In March 2023, subsequent to year-end, the shut-down of certain financial institutions raised economic concerns over disruption in the U.S. banking system. The U.S. government took certain actions to strengthen public confidence in the U.S. banking system, however, there can be no certainty that the actions taken by the U.S. government will be effective in mitigating the effects of financial institution failures on the economy, which may include limits on access to short-term liquidity in the near term or other adverse effects. As disclosed in Note 1, at times, the Club maintains cash and cash equivalents and investment balances in excess of federally insured limits. Given the uncertainty of the situation, the related financial impact cannot be reasonably estimated at this time.

### Note 14—Subsequent Events

Management evaluated all activities of the Club through July 27, 2023, which is the date the financial statements were available to be issued, and concluded that, other than the banking crisis described in Note 13, no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.