ACCOUNTING + CONSULTING

BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
AND
BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION

Combined Financial Statements
As of and For Year Ended June 30, 2018

(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of the
Boys & Girls Clubs of Central Orange Coast
and Boys & Girls Clubs of Central Orange Coast Foundation

We have audited the accompanying combined financial statements of Boys & Girls Clubs of Central Orange Coast and Boys & Girls Clubs of Central Orange Coast Foundation, (the Organization), which comprise the combined financial position as of June 30, 2018, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

KSJG, LLP

November 6, 2018

KSJG, LLP
100 Spectrum Center Drive, Suite 1000, Irvine, California 92618

BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION

Combined Statement of Financial Position
June 30, 2018

	Clubs	Foundation	Combined
Unrestricted current assets:			
Cash and cash equivalents	$ 1,074,766	$ 180,156	$ 1,254,922
Investments (Note 2)	--	2,465,967	2,465,967
Contributions and grants receivable, net of allowance for uncollectible accounts of $2,171	530,200	--	530,200
Other assets	63,176	--	63,176
Total unrestricted current assets	1,668,142	2,646,123	4,314,265
Property and equipment, net (Note 4)	3,554,557	1,379,583	4,934,140
Total unrestricted assets	5,222,699	4,025,706	9,248,405
Temporarily restricted current assets:			
Cash and cash equivalents	1,171,372	--	1,171,372
Promises to give, net (Note 3)	36,500	--	36,500
	1,207,872	--	1,207,872
Temporarily restricted long-term assets:			
Promises to give, net (Note 3)	34,854	--	34,854
Total temporarily restricted assets (Note 11)	1,242,726	--	1,242,726
Total assets	$ 6,465,425	$ 4,025,706	$ 10,491,131

(Statement of combined financial position continued on the following page)

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION**

**Combined Statement of Financial Position
(Continued)
June 30, 2018**

	Clubs	Foundation	Combined
Current liabilities:			
Accounts payable	$ 123,155	$ --	$ 123,155
Accrued expenses (Note 5)	292,379	--	292,379
Current portion of mortgage payable (Note 7)	--	25,274	25,274
Total current liabilities	415,534	25,274	440,808
Long-term liabilities:			
Long-term accrued expenses (Note 5)	23,000	--	23,000
Mortgage payable (Note 7)	--	1,010,344	1,010,344
Total liabilities	438,534	1,035,618	1,474,152
Commitments (Note 9)			
Net assets (Note 11):			
Unrestricted	4,784,165	2,990,088	7,774,253
Temporarily restricted	1,242,726	--	1,242,726
Total net assets	6,026,891	2,990,088	9,016,979
Total liabilities and net assets	$ 6,465,425	$ 4,025,706	$ 10,491,131

BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION

Combined Statement of Activities
Year Ended June 30, 2018

	Clubs	Foundation	Combined
Unrestricted net assets:			
Public support:			
Contributions	$ 793,332	$ 56,000	$ 849,332
Support provided by Foundation	185,000	(185,000)	--
Special events, net of direct cost (Note 10)	402,783	--	402,783
Trust and other foundations	1,554,585	--	1,554,585
Member registrations	831,924	--	831,924
Grant income	1,023,924	50,000	1,073,924
United Way	125,416	--	125,416
Donated services	132,993	--	132,993
Donated facilities	587,318	--	587,318
Donated materials	105,701	--	105,701
Total public support and revenues	5,742,976	(79,000)	5,663,976
Other revenue:			
Investment income, net	--	130,083	130,083
Rental and other income	61,102	14,382	75,484
Total other revenue	61,102	144,465	205,567
Net assets released from restriction	41,064	--	41,064
Total public support and revenue	5,845,142	65,465	5,910,607
Expenses:			
Program services	4,996,701	23,398	5,020,099
Supporting activities:			
Management and general	347,246	2,925	350,171
Fundraising	414,170	2,925	417,095
Total supporting services expenses	761,416	5,850	767,266
Total expenses	5,758,117	29,248	5,787,365
Change in unrestricted net assets	87,025	36,217	123,242

(Statement of combined activities continued on the following page)

BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION

Combined Statement of Activities (Continued) Year Ended June 30, 2018

	Clubs	Foundation	Combined
Temporarily restricted net assets:			
Public support:			
Capital campaign	$ 1,263,790	$ --	$ 1,263,790
Net assets released from restriction	(41,064)	--	(41,064)
Change in temporarily restricted net assets	1,222,726	--	1,222,726
Change in net assets	1,309,751	36,217	1,345,968
Net assets, beginning of year	4,717,140	2,953,871	7,671,011
Net assets, end of year	$ 6,026,891	$ 2,990,088	$ 9,016,979

BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION

Combined Statement of Functional Expenses
Year Ended June 30, 2018

	CLUBS			
		Supporting Services		
	Program Services	Management and General	Fundraising	2018 Totals
Salaries	$ 2,576,540	$ 169,048	$ 300,327	$ 3,045,915
Payroll taxes	188,768	12,385	22,003	223,156
Employee benefits	185,708	12,184	21,647	219,539
Total salaries and related expenses	2,951,016	193,617	343,977	3,488,610
Contract services	94,280	3,990	15,732	114,002
Professional fees	48,892	32,509	3,925	85,326
Occupancy (building, ground and utilities)	425,803	10,735	10,735	447,273
Equipment	48,543	6,426	2,410	57,379
Postage	--	--	6,093	6,093
Promotions	10,805	1,063	7,461	19,329
Supplies	147,260	--	--	147,260
Program events	120,404	--	--	120,404
Transportation	29,764	335	335	30,434
Scholarships and awards	46,446	--	--	46,446
Printing and copying	548	--	4,095	4,643
Organizational dues	11,202	562	2,274	14,038
Conference and board meetings	30,544	21,966	12,478	64,988
Insurance	14,435	19,848	416	34,699
Donated services	132,993	--	--	132,993
Donated facilities	587,318	--	--	587,318
Donated materials	105,701	--	--	105,701
Miscellaneous	--	39,240	--	39,240
Total expenses before depreciation	4,805,954	330,291	409,931	5,546,176
Depreciation	190,747	16,955	4,239	211,941
Total expenses	$ 4,996,701	$ 347,246	$ 414,170	$ 5,758,117
Percentage of Total	86.78%	6.03%	7.19%	100.00%

(Combined statement of functional expenses continued on the following page)

BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION

Combined Statement of Functional Expenses
(Continued)
Year Ended June 30, 2018

	FOUNDATION			
		Supporting Services		
	Program Services	Management and General	Fundraising	2018 Totals
Property tax	$ 1,467	$ 183	$ 183	$ 1,833
Miscellaneous	5,598	700	700	6,998
Total expenses before depreciation	7,065	883	883	8,831
Depreciation	16,333	2,042	2,042	20,417
Total expenses	$ 23,398	$ 2,925	$ 2,925	$ 29,248
Percentage of Total	80.00%	10.00%	10.00%	100.00%

BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION

Combined Statement of Cash Flows
Year Ended June 30, 2018

	Clubs	Foundation	Combined
Cash flows from operating activities:			
Change in net assets	$ 1,309,751	$ 36,217	$ 1,345,968
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation	211,941	20,417	232,358
Realized and unrealized (gain) in investments, net	--	(69,592)	(69,592)
Increase (decrease) in cash from changes in operating assets and liabilities:			
Contribution and grants receivable	(423,836)	--	(423,836)
Promises to give, net	(66,500)	--	(66,500)
Other current assets	(14,497)	--	(14,497)
Accounts payable	16,640	--	16,640
Accrued expenses	92,074	--	92,074
Net cash provided by (used in) operating activities	1,125,573	(12,958)	1,112,615
Cash flows from investing activities:			
Purchases of property and equipment	(231,660)	(350,000)	(581,660)
Purchases of investments	--	(729,608)	(729,608)
Proceeds from sale of investments	--	1,095,342	1,095,342
Net cash (used in) provided by investing activities	(231,660)	15,734	(215,926)
Cash flows from financing activities:			
Repayments of mortgage payable	--	(14,382)	(14,382)
Net cash provided by financing activities	--	(14,382)	(14,382)
Net increase (decrease) in cash and cash equivalents	893,913	(11,606)	882,307
Cash and cash equivalents, beginning of year	1,352,225	191,762	1,543,987
Cash and cash equivalents, end of year	$ 2,246,138	$ 180,156	$ 2,426,294

Supplemental schedule of non-cash financing activities:

During the year ended June 30, 2018, the Foundation financed a portion of the building purchased for the corporate office through the issuance of a mortgage payable for $1,050,000 (Note 7).

See accompanying notes to combined financial statements

BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION

Notes to Combined Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Boys & Girls Clubs of Central Orange Coast (the Clubs) is a not-for-profit organization whose mission is to ensure every child has mentors and champions in life. Since its founding in 1941, the Clubs has spearheaded new initiatives and provided greater access to programs for children and families, keeping its eye on reducing community challenges and empowering those served. The Clubs commitment is simple: no matter what background, socio-economic status, or obstacle, every child and teen served will receive a first-class mentoring experience and the support they need to succeed.

In 2017, the Clubs has launched a Pursuing Greatness capital campaign which has a financial goal to raise $6.0 million. The Clubs plans to use these proceeds for capital improvements for its four locations (Santa Ana, Irvine, Costa Mesa, and Newport Beach) and to support the Clubs' long-term financial stability. As of June 30, 2018, the Clubs has received or promised to be given $1.2 million which is classified as temporarily restricted net assets. Construction is slated for summer 2019.

During 2016, the Clubs expanded its footprint through central Orange County with the completion of a merger between Boys & Girls Club of Santa Ana and Boys Club of the Harbor Area. The Organization was renamed Boys & Girls Clubs of Central Orange Coast serving Costa Mesa, Irvine, Newport Beach, Santa Ana, and Orange. In each of these cities, it offer programs and services with an emphasis on increasing access to 21st century skills for the youth served through science, technology, engineering, arts, and math (STEAM) education.

Boys & Girls Clubs of Central Orange Coast Foundation (the Foundation) is a not-for-profit public benefit corporation in which the Clubs has a controlling interest. The Foundation was incorporated in the State of California in December 1994, for the purpose of receiving, holding, investing, disposing of, or otherwise administering property, bequests, and endowments and to make expenditures to or for the benefit of the Clubs. The Foundation provides donors with the opportunity to support the Clubs through planned gifts that maximize efficiency and long term financial and estate planning and allows donors an option to leave a legacy gift that will support the Clubs and the kids we serve for generations to come.

The Clubs and Foundation (together, the Organization) use the following significant accounting policies:

Basis of Presentation - The financial statements of the Clubs and the Foundation and the combined financial statements of the Organization have been prepared on the accrual basis of accounting.

(Note 1 continued on the following page)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued) - Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- *Unrestricted Net Assets* – Net assets that are not subject to donor-imposed stipulations. Expenses of this fund include management and program expenses.

- *Temporarily Restricted Net Assets* – Net assets that are subject to donor-imposed stipulations that require passage of time or the occurrence of a specific event. The Clubs promises to give are included in this net asset category until collected and the donor restrictions have been met.

- *Permanently Restricted Net Assets* – Net assets subject to donor-imposed restrictions that require a balance to be kept in perpetuity. Investment income earned on these net assets are unrestricted. The Organization had no permanently restricted net assets as of June 30, 2018.

The Organization records gifts of cash and other assets as temporarily restricted promises to give if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from donor restrictions. Promises to give with donor-imposed restrictions that are received and spent in the same year have been recorded as temporarily restricted with the corresponding amount reclassified to unrestricted net assets in the accompanying combined statement of activities.

Principles of Combination – The accompanying combined financial statements are presented in conformity with accounting principles generally accepted in the United States of America. All significant inter-entity transactions and balances have been eliminated.

The activities and financial position of the Foundation for the year ended June 30, 2018, are included in the companying combined financial statements pursuant to the principles established by accounting principles generally accepted in the United States of America as the members of the Clubs Board of Directors comprise a majority voting interest in the Foundation Board of Directors.

(Note 1 continued on the following page)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents - For purposes of the combined statement of cash flows, the Organization considers highly liquid investments and investments with original maturities of three months or less to be cash and cash equivalents. This includes a money market mutual fund which is also considered a cash equivalent. The Organization places its temporary cash investments with high credit quality financial institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

Contribution and Grants Receivable - During 2018, the Organization contracted with school districts, charities and foundations, Boys & Girls Clubs of America, and the Department of Education for the provision of services with Orange County. Some of the contracts have been written as expense reimbursement grants. These grants are payable upon the submission of specified documentation. An allowance for bad debt has been established based on a percentage of receivables, although management expects collection of the entire receivable.

Promises to Give – Unconditional contributions, including promises to give, recorded at estimated fair value, are recognized as revenue when the promise to give is receivable on a discounted cash flow model. Conditional promises to give are not included as revenue until such time as the conditions are substantially met.

Property and Equipment - Property and equipment are stated at cost, or if donated, at the fair market value at the date of donation. The building improvements, equipment, and furniture are depreciated using the straight-line method over estimated useful lives of 3 to 40 years.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Compensated absences - The Organization accrues for employees' earned but unused time off.

Functional Allocation of Expenses - The cost of providing various programs and other activities have been summarized on a functional basis in the combined statement of activities. Accordingly, certain costs have been allocated among the program sand supporting services benefited.

(Note 1 continued on the following page)

BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION

Notes to Combined Financial Statements
(Continued)
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - The Organization is exempt from Federal and state income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and Section 23701 of the California Revenue and Taxation Code and, therefore, has made no provision for income taxes in the accompanying combined financial statements. In addition, neither the Clubs nor the Foundation has been determined by the Internal Revenue Service (IRS) to be a “private foundation” within the meaning of the IRC Section 509 (a). Further, the Clubs is a voluntary health and welfare organization, as defined in the IRC Section 170(b)(1)(A), to which contributions are tax deductible.

The Foundation is an organization described in IRC Section 509(a)(3): a supporting organization for a publicly supported organization. Donations to the Foundation are also tax deductible.

There was no unrelated business income for the year ended June 30, 2018.

The Organization does not believe its combined financial statements include (or reflect) any uncertain tax positions.

Use of Estimates - The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Donated Services – Contributions of services are recognized if the services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by a donation. Other volunteer services that do not meet these criteria are not recognized in the combined financial statements, as there is no objective basis for deriving their value. Donated services for the year ended June 30, 2018 is reflected in the accompanying combined financial statements as its estimated fair value of $132,993.

Donated Facilities – Donated use of 29 school classrooms and playground facilities at 50 school sites in the Santa Ana Unified School District, Orange Unified School District and Newport-Mesa Unified School District for the year ended June 30, 2018, is reflected in the accompanying combined financial statements at its estimated fair value of $587,318.

Donated Materials – Donated materials are reflected in the accompanying combined financial statements at their estimated market values at the date of receipt. Materials valued at $105,701 were donated to the Clubs and are included in donated materials in the Organization’s combined statement of activities for the year ended June 30, 2018.

(Note 1 continued on the following page)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Expense - Advertising and promotional costs are charged to operations when incurred. At June 30, 2018, advertising and promotional costs totaled $33,592.

Recent Accounting Pronouncements - In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update is meant to simplify and improve how a not-for-profit organization classifies its net assets, presents its cash flows, and reports its investment returns. In addition, the update provides for enhanced disclosures about the liquidity and availability of an organization's assets, the classification of its expenses by both nature and function, and the methodology of allocating such expenses to programs and supporting services. The new standard will be effective for the Organization's fiscal year ending June 30, 2019. Management is currently evaluating the impact of the adoption of this standard.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers:* Topic 606. Under Topic 606, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The Organization is currently assessing the impact of Topic 606 on the combined financial statements. Topic 606 will be effective for the Organization's fiscal year ending June 30, 2020.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Under ASU No. 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

ASU No. 2016-02 is effective for fiscal year ending June 30, 2021. The Organization is in the process of assessing the potential impact of the ASU on its combined financial statements.

Subsequent Events - The Organization evaluated subsequent events through November 6, 2018, the date these combined financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in these combined financial statements.

NOTE 2 - FAIR VALUE MEASUREMENTS

The carrying value of financial instruments in the combined financial statements approximates fair value.

On July 1, 2008, the Organization adopted the provisions of ASC 820-10 *(formerly Statement of Financial Accounting Standard No. 157, Fair Value Measurements)*, for fair value measurements of financial assets and financial liabilities, and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the combined financial statements on a recurring basis. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The assets that are recorded at fair value on a recurring basis are investments. The Organization has no financial liabilities or non-financial items that are recorded at fair value on a recurring basis.

The carrying value of financial instruments in the combined financial statements approximates fair value.

On July 1, 2008, the Organization adopted the provisions of ASC 820-10 *(formerly Statement of Financial Accounting Standard No. 157, Fair Value Measurements)*, for fair value measurements of financial assets and financial liabilities, and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the combined financial statements on a recurring basis. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The assets that are recorded at fair value on a recurring basis are investments. The Organization has no financial liabilities or non-financial items that are recorded at fair value on a recurring basis.

(Note 2 continued on the following page)

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

ASC 820-10 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

- Level 1: fair values are based on quoted prices in active markets for identical assets and liabilities. The Foundation’s Level 1 assets include common stock, preferred stock, other pooled funds and bonds, and mutual funds.
- Level 2: fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the asset. The Foundation’s Level 2 assets include balances held in Orange County Community Foundation Funds.
- Level 3: fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. The Organization had no Level 3 assets.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair values may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering from sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

(Note 2 continued on the following page)

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION**

**Notes to Combined Financial Statements
(Continued)
June 30, 2018**

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2018:

	Assets at Fair Value as of June 30, 2018			
	Level 1	*Level 2*	*Level 3*	*Total*
Common stock	$ 959,214	$ --	$ --	$ 959,214
Preferred stock	26,580	--	--	26,580
Other pooled funds and bonds	1,066,388	--	--	1,066,388
Mutual funds	300,751	--	--	300,751
Orange County Community Foundation Fund	--	113,034	--	113,034
Total	$ 2,352,933	$ 113,034	$ --	$ 2,465,967

NOTE 3 - PROMISES TO GIVE

Unconditional promises to give that are expected to be collected within one year are recorded at their estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using the three-year U.S. Treasury note rate applicable in the year in which the promise was made. Management believes that all promises to give are fully collectible.

Included in promises to give at June 30, 2018 are the following:

Amounts due in	
Less than one year	$ 36,500
One to five years	35,000
Total promises to give	71,500
Less: unamortized discount	(146)
Net promises to give	$ 71,354

BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION

Notes to Combined Financial Statements
(Continued)
June 30, 2018

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018 consist of the following:

	Clubs	Foundation	Combined
Land	$ 534,411	$ --	$ 534,411
Buildings and improvements	3,203,896	1,400,000	4,603,896
Capital improvements	1,826,068	--	1,826,068
Equipment	362,998	--	362,998
Automobiles	98,412	--	98,412
Teen Centers	662,194	--	662,194
Furniture and fixtures	463,004	--	463,004
Total	7,150,983	1,400,000	8,550,983
Less: accumulated depreciation	(3,596,426)	(20,417)	(3,616,843)
	$ 3,554,557	$ 1,379,583	$ 4,934,140

Depreciation expense totaled $232,358 for fiscal year ended June 30, 2018.

NOTE 5 - ACCRUED EXPENSES

Accrued expenses at June 30, 2018 are summarized as follows:

	Clubs	Foundation	Combined
Salaries and benefits	$ 205,032	$ --	$ 205,032
Vacation	59,832	--	59,832
Scholarships	23,000	--	23,000
Other	27,515	--	27,515
	$ 315,379	$ --	$ 315,379

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION**

**Notes to Combined Financial Statements
(Continued)
June 30, 2018**

NOTE 6 - LINE OF CREDIT

The Clubs has a line of credit of $500,000, which is set to expire November 30, 2018. As of June 30, 2018 no balance had been drawn on the available line. Monthly interest payments are made at the greater of 0.50% plus the prime rate (4.50% at June 30, 2018) or 5.50%. The line of credit is secured by the Club's contribution and grants receivable, promises to give, and property plant and equipment.

NOTE 7 - MORTGAGE PAYABLE

The mortgage payable at June 30, 2018 is summarized as follows:

The Foundation has a 4.03% note payable to lender for the mortgage in monthly installments of $5,593, including interest, through maturity in November 2027. The mortgage is collateralized by the building.	$ 1,035,618
Less current portion	(25,274)
	$ 1,010,344

Years ending December 31:	
2019	$ 25,274
2020	26,932
2021	28,037
2022	29,188
2023	30,387
Thereafter	895,800
	$ 1,035,618

BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION

Notes to Combined Financial Statements
(Continued)
June 30, 2018

NOTE 8 - RETIREMENT PLAN

The Clubs sponsors a 401(k) Retirement Savings Plan (the Plan), whereby all employees that have attained age 21 and completed 1,000 hours during a consecutive 12-month period, shall be eligible to enter the Plan. Contributions to the Plan by the Clubs were $65,255 for the year ended June 30, 2018, and are included in employee benefits expense on the combined statement of functional expenses.

NOTE 9 - LEASE COMMITMENTS

Operating Lease - The Clubs leases their corporate office facilities from the Foundation, set to expire on November 2027. The monthly lease payments are $5,701. The Clubs leases equipment, set to expire October 2022. The monthly lease payments are $1,124 for the term of the lease. Future minimum lease payments under noncancelable operating leases as of June 30, 2018 are as follows:

	Building	Equipment	Total
Years ending June 30:			
2018	$ 68,412	$ 13,488	$ 81,900
2019	68,412	13,488	81,900
2020	68,412	13,488	81,900
2021	68,412	13,488	81,900
2022	68,412	3,372	71,784
Thereafter	302,153	--	302,153
	$ 644,213	$ 57,324	$ 701,537

Rent expense totaled $102,543 for the year ended June 30, 2018.

BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
AND BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION

Notes to Combined Financial Statements
(Continued)
June 30, 2018

NOTE 10 - SPECIAL EVENTS

Gross revenue and expenses for special events associated with the Club's fundraising activities for the year ended June 30, 2018, were as follows:

	Leadership Breakfast	Bruery Reserve Society Event	Gala	Hi-Time Chili Cook-off	Golf Tournament	Women's Philanthropy Brunch	Total
Gross Revenues	$ 40,819	$ 26,733	$ 435,477	$ 30,054	$ 33,239	$ 35,195	$ 601,517
Direct costs	(26,882)	(1,748)	(135,819)	(584)	(18,132)	(15,569)	(198,734)
Total special events income, net	$ 13,937	$ 24,985	$ 299,658	$ 29,470	$ 15,107	$ 19,626	$ 402,783

NOTE 11 - NET ASSETS

During the year ended June 30, 2018, $41,064, were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors. Amounts receivable from promises to give or for capital campaign projects to be performed in future fiscal years are reported as temporarily restricted until they are received.

Net assets are restricted for the following purposes at June 30, 2018:

Temporarily restricted:	
Capital campaign contributions	$ 1,171,372
Promises to give	71,354
Total temporarily restricted assets	$ 1,242,726