



**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, 2019**

(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, 2019, 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.

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, 2019, 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
December 2, 2019

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, 2019**

	<u>Clubs</u>	<u>Foundation</u>	<u>Combined</u>
Current assets without donor restriction:			
Cash and cash equivalents	\$ 941,383	\$ 204,519	\$ 1,145,902
Investments (Note 3)	--	2,483,337	2,483,337
Accounts receivable	6,808	--	6,808
Other assets	60,493	--	60,493
Total current assets without donor restriction	<u>1,008,684</u>	<u>2,687,856</u>	<u>3,696,540</u>
Property and equipment, net (Note 5)	<u>4,019,869</u>	<u>1,344,581</u>	<u>5,364,450</u>
Total assets without donor restriction	<u>5,028,553</u>	<u>4,032,437</u>	<u>9,060,990</u>
Current assets with donor restriction:			
Cash and cash equivalents	3,610,165	--	3,610,165
Promises to give, net (Note 4)	1,020,750	--	1,020,750
Total current assets with donor restriction	<u>4,630,915</u>	<u>--</u>	<u>4,630,915</u>
Long-term assets with donor restriction:			
Promises to give, net (Note 4)	<u>321,000</u>	<u>--</u>	<u>321,000</u>
Total assets with donor restriction (Note 12)	<u>4,951,915</u>	<u>--</u>	<u>4,951,915</u>
Total assets	<u>\$ 9,980,468</u>	<u>\$ 4,032,437</u>	<u>\$ 14,012,905</u>

(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, 2019**

	<u>Clubs</u>	<u>Foundation</u>	<u>Combined</u>
Current liabilities:			
Accounts payable	\$ 101,181	\$ --	\$ 101,181
Accrued expenses (Note 6)	288,826	20,000	308,826
Current portion of mortgage payable (Note 8)	--	26,214	26,214
Total current liabilities	<u>390,007</u>	<u>46,214</u>	<u>436,221</u>
Long-term liabilities:			
Mortgage payable (Note 8)	--	984,131	984,131
Total liabilities	<u>390,007</u>	<u>1,030,345</u>	<u>1,420,352</u>
Commitments (Notes 7, 8, 9, and 10)			
Net assets:			
Without donor restriction	4,638,546	3,002,092	7,640,638
With donor restriction (Note 12)	4,951,915	--	4,951,915
Total net assets	<u>9,590,461</u>	<u>3,002,092</u>	<u>12,592,553</u>
Total liabilities and net assets	<u>\$ 9,980,468</u>	<u>\$ 4,032,437</u>	<u>\$ 14,012,905</u>

See accompanying notes to combined financial statements

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

**Combined Statement of Activities
Year Ended June 30, 2019**

	Clubs	Foundation	Combined
Change in net assets without donor restriction:			
Revenues:			
Public support and registration fees:			
Contributions	\$ 496,840	\$ 1,853	\$ 498,693
Support provided by Foundation	170,000	(170,000)	--
Special events, net of direct cost (Note 10)	345,116	--	345,116
Trust and other foundations	1,441,717	--	1,441,717
Member registrations	730,999	--	730,999
Grant income	916,793	--	916,793
United Way	145,334	--	145,334
Donated materials	66,414	--	66,414
Donated services	53,971	--	53,971
Total public support and registration fees	4,367,184	(168,147)	4,199,037
Other revenue:			
Investment income, net	18,482	189,879	208,361
Rental and other income	26,203	67,121	93,324
Total other revenue	44,685	257,000	301,685
Net assets released from donor restriction	706,572	--	706,572
Total revenues without donor restriction	5,118,441	88,853	5,207,294
Expenses:			
Program services	4,380,997	61,479	4,442,476
Supporting activities:			
Management and general	423,361	7,685	431,046
Fundraising	454,806	7,685	462,491
Total supporting services expenses	878,167	15,370	893,537
Total expenses	5,259,164	76,849	5,336,013
Change in net assets without donor restriction	(140,723)	12,004	(128,719)

(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, 2019**

	<u>Clubs</u>	<u>Foundation</u>	<u>Combined</u>
Change in net assets with donor restriction:			
Public support:			
Capital campaign	\$ 4,410,865	\$ --	\$ 4,410,865
Net assets released from donor restriction	<u>(706,572)</u>	<u>--</u>	<u>(706,572)</u>
Change in net assets with donor restriction	<u>3,704,293</u>	<u>--</u>	<u>3,704,293</u>
Change in net assets	<u>3,563,570</u>	<u>12,004</u>	<u>3,575,574</u>
Net assets, beginning of year	<u>6,026,891</u>	<u>2,990,088</u>	<u>9,016,979</u>
Net assets, end of year	<u><u>\$ 9,590,461</u></u>	<u><u>\$ 3,002,092</u></u>	<u><u>\$ 12,592,553</u></u>

See accompanying notes to combined financial statements

**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, 2019**

	CLUBS			
	Program Services	Supporting Services		2019 Totals
		Management and General	Fundraising	
Salaries	\$ 2,543,698	\$ 232,940	\$ 329,221	\$ 3,105,859
Payroll taxes	191,906	17,574	24,838	234,318
Employee benefits	201,619	18,463	26,095	246,177
Total salaries and related expenses	<u>2,937,223</u>	<u>268,977</u>	<u>380,154</u>	<u>3,586,354</u>
Bad debt expense	--	19,933	--	19,933
Conference and board meetings	39,311	20,198	12,886	72,395
Contract services	90,805	15,219	63,073	169,097
Donated materials	66,414	--	--	66,414
Donated services	53,971	--	--	53,971
Equipment	28,510	4,244	1,472	34,226
Insurance	15,248	21,805	412	37,465
Miscellaneous	6,021	--	--	6,021
Occupancy (building, ground and utilities)	478,417	10,487	10,487	499,391
Organizational dues	11,841	502	1,993	14,336
Postage	--	--	7,994	7,994
Printing and copying	1,000	--	4,495	5,495
Professional fees	25,004	42,198	1,389	68,591
Promotions	9,961	833	9,534	20,328
Program events	148,211	--	--	148,211
Scholarships and awards	58,745	--	--	58,745
Supplies	133,083	--	--	133,083
Transportation	29,107	863	863	30,833
Total expenses before depreciation	<u>4,132,872</u>	<u>405,259</u>	<u>494,752</u>	<u>5,032,883</u>
Depreciation	<u>203,653</u>	<u>18,102</u>	<u>4,526</u>	<u>226,281</u>
Total expenses	<u>\$ 4,336,525</u>	<u>\$ 423,361</u>	<u>\$ 499,278</u>	<u>\$ 5,259,164</u>
Percentage of Total	<u>82.46%</u>	<u>8.05%</u>	<u>9.49%</u>	<u>100.00%</u>

(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, 2019**

	FOUNDATION			
	Program Services	Supporting Services		2019 Totals
		Management and General	Fundraising	
Mortgage interest expense	\$ 33,477	\$ 4,185	\$ 4,185	\$ 41,847
Total expenses before depreciation	33,477	4,185	4,185	41,847
Depreciation	28,002	3,500	3,500	35,002
Total expenses	\$ 61,479	\$ 7,685	\$ 7,685	\$ 76,849
Percentage of Total	80.00%	10.00%	10.00%	100.00%

See accompanying notes to combined financial statements

**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, 2019**

	Clubs	Foundation	Combined
Cash flows from operating activities:			
Change in net assets	\$ 3,563,570	\$ 12,004	\$ 3,575,574
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation	226,281	35,002	261,283
Realized and unrealized (gain) in investments, net	--	(126,942)	(126,942)
Increase (decrease) in cash from changes in operating assets and liabilities:			
Accounts and grants receivable	523,392	--	523,392
Promises to give, net	(1,270,396)	--	(1,270,396)
Other current assets	2,683	--	2,683
Accounts payable	(21,974)	--	(21,974)
Accrued expenses	(26,553)	20,000	(6,553)
Net cash provided by (used in) operating activities	2,997,003	(59,936)	2,937,067
Cash flows from investing activities:			
Purchases of property and equipment	(691,593)	--	(691,593)
Purchases of investments	--	(773,122)	(773,122)
Proceeds from sale of investments	--	882,694	882,694
Net cash (used in) provided by investing activities	(691,593)	109,572	(582,021)
Cash flows from financing activities:			
Repayments of mortgage payable	--	(25,273)	(25,273)
Net cash (used in) financing activities	--	(25,273)	(25,273)
Net increase in cash and cash equivalents	2,305,410	24,363	2,329,773
Cash and cash equivalents, beginning of year	2,246,138	180,156	2,426,294
Cash and cash equivalents, end of year	\$ 4,551,548	\$ 204,519	\$ 4,756,067
Reconciliation of cash and cash equivalents to the statement of financial position:			
Cash and cash equivalents without donor restriction	\$ 941,383	\$ 204,519	\$ 1,145,902
Cash and cash equivalents with donor restriction	3,610,165	--	3,610,165
Cash and cash equivalents, end of year	\$ 4,551,548	\$ 204,519	\$ 4,756,067
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ --	\$ 41,847	\$ 41,847

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, 2019**

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.

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 offers 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.

In 2017, the Clubs has launched a Pursuing Greatness capital campaign which has a financial goal to raise \$6 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, 2019, the Clubs has received or promised to be given approximately \$7 million, of which the unappropriated portion is classified as net assets with donor restrictions in the accompanying combined statement of financial position and combined statement of activities. Construction began in Summer 2019.

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 in accordance with accounting principles generally accepted in the United States of America.

(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, 2019**

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:

- *Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization'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; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2019, the Organization did not hold assets with donor restrictions that are perpetual in nature.

The Organization records gifts of cash and other assets as net assets with donor restriction 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, net assets with donor restrictions are reclassified to net assets without restrictions and are reported in the statement of activities as net assets released from donor restrictions. Contributions with donor-imposed restrictions that are received and spent in the same year have been recorded as net assets with donor restrictions with the corresponding amount reclassified to net assets without donor restrictions 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, 2019, are included in the accompanying 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)

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

**Notes to Combined Financial Statements
(Continued)
June 30, 2019**

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.

Grants Receivable - During 2019, 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 buildings and 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 programs and supporting services benefited in the combined statement of functional expenses.

(Note 1 continued on the following page)

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
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**Notes to Combined Financial Statements
(Continued)
June 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses (Continued) - The expenses that are allocated include salaries, payroll taxes, employee benefits, conference and board meetings, contract services, equipment, insurance, occupancy, organizational dues, printing and copying, professional fees, promotions, transportation, and depreciation. Salaries, payroll taxes and employee benefits have been allocated based on the time and effort of the individual employees involved. All other expenses have been allocated to programs and supporting services based on the direct usage by each function.

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.

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 Materials – Donated materials are reflected in the accompanying combined financial statements at their estimated fair market values at the date of receipt. Materials valued at \$66,414 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, 2019.

(Note 1 continued on the following page)

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
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**Notes to Combined Financial Statements
(Continued)
June 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 is reflected in the accompanying combined financial statements as its estimated fair value of \$53,971.

Advertising Expense - Advertising and promotional costs are charged to operations when incurred. At June 30, 2019, advertising and promotional costs totaled \$11,650.

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 availability and liquidity 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 Organization has adjusted the presentation of these combined financial statements accordingly.

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 June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Made*. This update requires a recipient of funds from a resource provider to determine if those funds should be classified as a reciprocal exchange transaction or as a contribution based on the value that the resource provider is receiving from the transaction. Additionally, the update requires recipient organizations to determine whether a contribution is conditional based on if the agreement includes barriers that must be overcome, and either a right of return of assets transferred, or a right of release of a resource provider’s obligation to transfer assets. If the agreement includes both characteristics, the recipient is not entitled to the transferred assets, and therefore does not recognize the associated revenues, until the barrier is overcome. ASU No. 2018-08 will be effective for the Organization’s fiscal year ending June 30, 2020.

(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, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued) – 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, 2022. 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 December 2, 2019, the date these combined financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these combined financial statements.

NOTE 2 – AVAILABILITY AND LIQUIDITY

The Organization receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization also receives revenues without donor restriction from services provided to the general public.

The Organization manages its cash available to meet core operating needs following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term financial sustainability will be achieved.

(Note 2 continued on the following page)

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST
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**Notes to Combined Financial Statements
(Continued)
June 30, 2019**

NOTE 2 - AVAILABILITY AND LIQUIDITY (Continued)

To uphold these principals, the Organization's Board of Directors meets on a monthly basis to provide strategic oversight of the Organization's core operating budget, to perform in-depth financial analysis, and cash flow planning. In doing so, the Organization strives to maintain financial assets available to meet operating expenditures at a level that represents at least three months of annual expenses for core operating purposes. Additionally, the Foundation maintains unrestricted cash and investments which provides funds to the Clubs to meet its annual liquidity needs. Such funding generally amounts to 5% of the investment assets held by the Foundation, but is ultimately granted based on operational needs.

The following table represents the Organization's financial assets available for general expenditure within one year, as of December 31, 2018:

Financial assets at year end:	
Cash and equivalents	\$ 4,756,067
Accounts receivable	6,808
Investments	2,483,337
Promises to give	1,341,750
Total financial assets	<u>8,587,962</u>
Less financial assets not available for general expenditures within one year due to donor imposed restrictions:	
Restricted for purpose	(3,610,165)
Restricted for time	(76,250)
Restricted for time and purpose	<u>(1,265,500)</u>
Financial assets not available to be used within one year	<u>(4,951,915)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 3,636,047</u>

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

**Notes to Combined Financial Statements
(Continued)
June 30, 2019**

NOTE 3 - 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, the Organization has adopted generally accepted accounting principles (GAAP) standards that define 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.

GAAP 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 3 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, 2019**

NOTE 3 - 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, 2019:

	<i>Assets at Fair Value as of June 30, 2019</i>			<i>Total</i>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Common stock	\$ 1,014,147	\$ --	\$ --	\$ 1,014,147
Preferred stock	50,052	--	--	50,052
Other pooled funds and bonds	1,028,421	--	--	1,028,421
Mutual funds	272,988	--	--	272,988
Orange County Community Foundation Fund	--	117,729	--	117,729
Total	<u>\$ 2,365,608</u>	<u>\$ 117,729</u>	<u>\$ --</u>	<u>\$ 2,483,337</u>

NOTE 4 - 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. Due to the expected timing of collections and size of the amounts expected to be collected after one year, there was no unamortized discount as of June 30, 2019. Generally, discounts on non-current promises to give 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, 2019 are the following:

Amounts due in	
Less than one year	\$ 1,020,750
One to five years	<u>321,000</u>
Total promises to give	<u>\$ 1,341,750</u>

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

**Notes to Combined Financial Statements
(Continued)
June 30, 2019**

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 consist of the following:

	<u>Clubs</u>	<u>Foundation</u>	<u>Combined</u>
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	371,815	--	371,815
Automobiles	98,412	--	98,412
Teen Centers	662,194	--	662,194
Furniture and fixtures	464,621	--	464,621
Construction in progress	680,650	--	680,650
Total	<u>7,842,067</u>	<u>1,400,000</u>	<u>9,242,067</u>
Less: accumulated depreciation	<u>(3,822,198)</u>	<u>(55,419)</u>	<u>(3,877,617)</u>
	<u>\$ 4,019,869</u>	<u>\$ 1,344,581</u>	<u>\$ 5,364,450</u>

Depreciation expense totaled \$261,283 for fiscal year ended June 30, 2019.

NOTE 6 - ACCRUED EXPENSES

Accrued expenses at June 30, 2019 are summarized as follows:

	<u>Clubs</u>	<u>Foundation</u>	<u>Combined</u>
Salaries and benefits	\$ 206,866	\$ --	\$ 206,866
Vacation	57,684	--	57,684
Other	24,276	20,000	44,276
	<u>\$ 288,826</u>	<u>\$ 20,000</u>	<u>\$ 308,826</u>

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

**Notes to Combined Financial Statements
(Continued)
June 30, 2019**

NOTE 7 - LINE OF CREDIT

The Clubs has a line of credit of \$500,000, which is set to expire September 30, 2020. As of June 30, 2019, no balance had been drawn on the available line. Monthly interest payments are made at the greater of 0.50% plus the prime rate (5.00% at June 30, 2019) or 6.50%. The line of credit is secured by the Club's accounts and grants receivable, promises to give, and property plant and equipment.

NOTE 8 - MORTGAGE PAYABLE

The mortgage payable at June 30, 2019 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.

	\$ 1,010,345
Less current portion	<u>(26,214)</u>
	<u>\$ 984,131</u>
Years ending December 31:	
2020	\$ 26,214
2021	27,418
2022	28,559
2023	29,748
2024	30,887
Thereafter	<u>867,519</u>
	<u>\$ 1,010,345</u>

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

**Notes to Combined Financial Statements
(Continued)
June 30, 2019**

NOTE 9 - 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 \$80,442 for the year ended June 30, 2019 and are included in employee benefits expense on the combined statement of functional expenses.

NOTE 10 - LEASE COMMITMENTS AND RELATED PARTY TRANSACTIONS

Operating Lease - The Clubs leases their corporate office facilities from the Foundation, through an agreement that is set to expire in November 2027. The monthly lease payments are \$5,701 as of June 30, 2019. Total lease payments made during the year ended June 30, 2019 amounted to \$67,121. The Clubs also lease equipment from an unrelated party, through an agreement which is set to expire on in 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, 2019 are as follows:

	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
Years ending June 30:			
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
2023	68,412	--	68,412
Thereafter	<u>233,741</u>	<u>--</u>	<u>233,741</u>
	<u>\$ 575,801</u>	<u>\$ 43,836</u>	<u>\$ 619,637</u>

Rent expense totaled \$121,211 for the year ended June 30, 2019.

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

**Notes to Combined Financial Statements
(Continued)
June 30, 2019**

NOTE 11 - SPECIAL EVENTS

Gross revenue and expenses for special events associated with the Club's fundraising activities for the year ended June 30, 2019, were as follows:

	<u>Leadership Breakfast</u>	<u>Bruery Reserve Society Event</u>	<u>Gala</u>	<u>Hi-Time Chili Cook-off</u>	<u>Golf Tournament</u>	<u>Women's Philanthropy Brunch</u>	<u>Total</u>
Gross Revenues	\$ 35,735	\$ 44,759	\$ 324,832	\$ 35,204	\$ 55,482	\$ 23,452	\$ 519,464
Direct costs	<u>(24,570)</u>	<u>(7,018)</u>	<u>(106,979)</u>	<u>(547)</u>	<u>(21,272)</u>	<u>(13,962)</u>	<u>(174,348)</u>
Total special events income, net	<u>\$ 11,165</u>	<u>\$ 37,741</u>	<u>\$ 217,853</u>	<u>\$ 34,657</u>	<u>\$ 34,210</u>	<u>\$ 9,490</u>	<u>\$ 345,116</u>

NOTE 12 - NET ASSETS

During the year ended June 30, 2019, net assets with donor restrictions totaling \$706,572 were released from restriction 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 net assets with donor restrictions until they are received.

Net assets with donor restrictions are restricted for the following purposes at June 30, 2019:

Net assets with donor restrictions for:	
Purpose - Capital campaign	\$ 4,875,665
Time - Other promises to give	<u>76,250</u>
Total net assets with donor restrictions	<u>\$ 4,951,915</u>

NOTE 13 – RELATED PARTY TRANSACTIONS

Additionally, the Organization maintains cash and investments that are held by the Foundation and can be distributed to the Clubs for general operating needs. In general, such assets are distributed at a rate of up to 5% of the Foundation's investment balance, but can be distributed for operating needs without restriction. During the year ended June 30, 2019, amounts totaling \$130,000 were distributed from the Foundation to the Clubs for general operating purposes. Additionally, during the year ended June 30, 2019, amounts totaling \$40,000 were charged by Clubs to the Foundation for management fees.