

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST  
AND  
BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION  
Combined Financial Statements  
June 30, 2020  
With Summarized Comparative Information for the Year Ended June 30, 2019  
With Independent Auditor's Report**

**Boys & Girls Clubs of Central Orange Coast  
and Boys & Girls Clubs of Central Orange Coast Foundation  
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June 30, 2020  
With Summarized Comparative Information for the Year Ended June 30, 2019**

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors,  
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, (collectively, the "Organization"), which comprise the combined financial position as of June 30, 2020, 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.

### 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, 2020, 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.

### Emphasis of a Matter

As disclosed in Note 14 of the combined financial statements, management is currently considering the impact of the COVID-19 virus on its operations and the potential for a reduction in membership dues, contributions and collection of receivables. While it is reasonably possible that the virus could have a negative effect on the Organization's financial condition, results of operations, and cash flows, the specific impact is not readily determinable as of the date of these combined financial statements. Our opinion is not modified with respect to this matter.

### Other Matter

The combined financial statements of the Boys & Girls Clubs of Central Orange Coast and Boys & Girls Clubs of Central Orange Coast Foundation as of and for the year ended June 30, 2019, were audited by KSJG, LLP, who merged with WithumSmith+Brown, PC on January 1, 2020, and expressed an unmodified opinion on those statements dated December 2, 2019. The summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material aspects, with the audited financial statements from which it is has been derived.

*WithumSmith+Brown, PC*

October 21, 2020

**Boys & Girls Clubs of Central Orange Coast  
and Boys & Girls Clubs of Central Orange Coast Foundation  
Combined Statements of Financial Position  
June 30, 2020**

**With Summarized Comparative Information for the Year Ended June 30, 2019**

	<u>Clubs</u>	<u>Foundation</u>	<u>2020 Combined</u>	<u>2019 Combined</u>
<b>Assets</b>				
Current assets without donor restriction				
Cash and cash equivalents	\$ 2,701,176	\$ 110,044	\$ 2,811,220	\$ 1,145,902
Investments	-	2,464,585	2,464,585	2,483,337
Accounts receivable, net	78,490	-	78,490	6,808
Other assets	<u>80,537</u>	<u>-</u>	<u>80,537</u>	<u>60,493</u>
Total current assets without donor restriction	2,860,203	2,574,629	5,434,832	3,696,540
Property and equipment, net	<u>10,333,062</u>	<u>1,309,577</u>	<u>11,642,639</u>	<u>5,364,450</u>
Total assets without donor restriction	<u>13,193,265</u>	<u>3,884,206</u>	<u>17,077,471</u>	<u>9,060,990</u>
Current assets with donor restriction				
Cash and cash equivalents	-	-	-	3,610,165
Promises to give, net	<u>162,000</u>	<u>-</u>	<u>162,000</u>	<u>1,020,750</u>
Total current assets with donor restriction	162,000	-	162,000	4,630,915
Long-term assets with donor restriction				
Promises to give, net	<u>235,000</u>	<u>-</u>	<u>235,000</u>	<u>321,000</u>
Total assets with donor restriction	<u>397,000</u>	<u>-</u>	<u>397,000</u>	<u>4,951,915</u>
Total assets	<u>\$ 13,590,265</u>	<u>\$ 3,884,206</u>	<u>\$ 17,474,471</u>	<u>\$ 14,012,905</u>

The Notes to the Combined Financial Statements are an integral part of these statements.

**Boys & Girls Clubs of Central Orange Coast  
and Boys & Girls Clubs of Central Orange Coast Foundation  
Combined Statements of Financial Position  
June 30, 2020**

**With Summarized Comparative Information for the Year Ended June 30, 2019**

	<u>Clubs</u>	<u>Foundation</u>	<u>2020 Combined</u>	<u>2019 Combined</u>
<b>Liabilities and Net Assets</b>				
Current liabilities				
Accounts payable	\$ 105,628	\$ -	\$ 105,628	\$ 101,181
Accrued expenses	235,081	-	235,081	308,826
Current portion of notes payable	23,073	27,418	50,491	26,214
Line of credit	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>-</u>
Total current liabilities	863,782	27,418	891,200	436,221
Long-term liabilities				
PPP loan payable	649,700	-	649,700	-
Notes payable	<u>949,703</u>	<u>956,834</u>	<u>1,906,537</u>	<u>984,131</u>
Total liabilities	<u>2,463,185</u>	<u>984,252</u>	<u>3,447,437</u>	<u>1,420,352</u>
Commitments and contingencies (Notes 7, 8, 9, 10, and 14)				
Net assets				
Without donor restriction	10,730,080	2,899,954	13,630,034	7,640,638
With donor restriction	<u>397,000</u>	<u>-</u>	<u>397,000</u>	<u>4,951,915</u>
Total net assets	<u>11,127,080</u>	<u>2,899,954</u>	<u>14,027,034</u>	<u>12,592,553</u>
Total liabilities and net assets	<u>\$ 13,590,265</u>	<u>\$ 3,884,206</u>	<u>\$ 17,474,471</u>	<u>\$ 14,012,905</u>

The Notes to the Combined Financial Statements are an integral part of these statements.

**Boys & Girls Clubs of Central Orange Coast  
and Boys & Girls Clubs of Central Orange Coast Foundation  
Combined Statements of Activities  
June 30, 2020**

**With Summarized Comparative Information for the Year Ended June 30, 2019**

	<u>Clubs</u>	<u>Foundation</u>	<u>2020 Combined</u>	<u>2019 Combined</u>
<b>Change in net assets without donor restriction</b>				
Revenues				
Public support and registration fees				
Contributions	\$ 970,616	\$ 2,000	\$ 972,616	\$ 498,693
Support provided by Foundation	170,000	(170,000)	-	-
Special events, net of direct cost	389,357	-	389,357	345,116
Trust and other foundations	1,384,800	-	1,384,800	1,441,717
Member registrations	794,861	-	794,861	730,999
Grant income	835,159	-	835,159	916,793
United Way	112,605	-	112,605	145,334
Donated materials	66,732	-	66,732	66,414
Donated services	1,360	-	1,360	53,971
Total public support and registration fees	<u>4,725,490</u>	<u>(168,000)</u>	<u>4,557,490</u>	<u>4,199,037</u>
Other revenue				
Investment income, net	9,363	74,773	84,136	208,361
Rental and other income	97,587	67,121	164,708	93,324
Total other revenue	<u>106,950</u>	<u>141,894</u>	<u>248,844</u>	<u>301,685</u>
Net assets released from donor restriction	<u>5,995,654</u>	<u>-</u>	<u>5,995,654</u>	<u>706,572</u>
Total revenues without donor restriction	<u>10,828,094</u>	<u>(26,106)</u>	<u>10,801,988</u>	<u>5,207,294</u>
Expenses				
Program services	<u>3,714,918</u>	<u>60,826</u>	<u>3,775,744</u>	<u>4,442,476</u>
Supporting activities				
Management and general	471,298	7,603	478,901	431,046
Fundraising	550,344	7,603	557,947	462,491
Total supporting activities expenses	<u>1,021,642</u>	<u>15,206</u>	<u>1,036,848</u>	<u>893,537</u>
Total expenses	<u>4,736,560</u>	<u>76,032</u>	<u>4,812,592</u>	<u>5,336,013</u>
Change in net assets without donor restriction	<u>6,091,534</u>	<u>(102,138)</u>	<u>5,989,396</u>	<u>(128,719)</u>

The Notes to the Combined Financial Statements are an integral part of these statements.

**Boys & Girls Clubs of Central Orange Coast  
and Boys & Girls Clubs of Central Orange Coast Foundation  
Combined Statements of Activities  
June 30, 2020**

**With Summarized Comparative Information for the Year Ended June 30, 2019**

	<u>Clubs</u>	<u>Foundation</u>	<u>2020 Combined</u>	<u>2019 Combined</u>
<b>Change in net assets with donor restriction</b>				
Public support				
Capital campaign	\$ 1,365,739	\$ -	\$ 1,365,739	\$ 4,410,865
Other contributions	75,000	-	75,000	-
Net assets released from donor restriction	<u>(5,995,654)</u>	<u>-</u>	<u>(5,995,654)</u>	<u>(706,572)</u>
Change in net assets with donor restriction	<u>(4,554,915)</u>	<u>-</u>	<u>(4,554,915)</u>	<u>3,704,293</u>
Change in net assets	<u>1,536,619</u>	<u>(102,138)</u>	<u>1,434,481</u>	<u>3,575,574</u>
Net assets				
Beginning of year	<u>9,590,461</u>	<u>3,002,092</u>	<u>12,592,553</u>	<u>9,016,979</u>
End of year	<u>\$ 11,127,080</u>	<u>\$ 2,899,954</u>	<u>\$ 14,027,034</u>	<u>\$ 12,592,553</u>

The Notes to the Combined Financial Statements are an integral part of these statements.



**Boys & Girls Clubs of Central Orange Coast  
and Boys & Girls Clubs of Central Orange Coast Foundation  
Combined Statements of Functional Expenses  
June 30, 2020**

**With Summarized Comparative Information for the Year Ended June 30, 2019**

	CLUBS					
	Program Services	Supporting Services		Cost of Direct Benefits to Donors	Total	
		Management and General	Fundraising		2020	2019
Salaries	\$ 2,167,814	\$ 268,340	\$ 376,632	\$ -	\$ 2,812,786	\$ 3,105,859
Payroll taxes	171,243	21,197	29,752	-	222,192	234,318
Employee benefits	155,900	19,298	27,086	-	202,284	246,177
Total salaries and related expenses	<u>2,494,957</u>	<u>308,835</u>	<u>433,470</u>	<u>-</u>	<u>3,237,262</u>	<u>3,586,354</u>
Bad debt expense	-	-	-	-	-	19,933
Conference and board meetings	16,287	6,004	2,494	-	24,785	72,395
Contract services	48,023	5,445	65,245	-	118,713	169,097
Donated materials	66,732	-	-	-	66,732	66,414
Donated services	1,360	-	-	-	1,360	53,971
Equipment	131,852	4,593	1,491	-	137,936	34,226
Insurance	24,553	14,498	1,165	-	40,216	37,465
Interest expense	-	31,275	-	-	31,275	-
Miscellaneous	14,295	-	-	-	14,295	6,021
Occupancy (building, ground and utilities)	370,767	12,807	12,807	-	396,381	499,391
Organizational dues	15,616	-	2,431	-	18,047	14,336
Postage	-	-	5,817	-	5,817	7,994
Printing and copying	514	-	3,984	-	4,498	5,495
Professional fees	29,587	69,960	1,524	-	101,071	68,591
Promotions	-	305	15,155	-	15,460	20,328
Program events	104,367	-	-	-	104,367	148,211
Scholarships and awards	64,349	-	-	-	64,349	58,745
Special events	-	-	-	186,941	186,941	177,214
Supplies	113,804	-	-	-	113,804	133,083
Transportation	25,625	489	489	-	26,603	30,833
Total expenses before depreciation	<u>3,522,688</u>	<u>454,211</u>	<u>546,072</u>	<u>186,941</u>	<u>4,709,912</u>	<u>5,210,097</u>
Depreciation	192,230	17,087	4,272	-	213,589	226,281
Total expenses by function	<u>\$ 3,714,918</u>	<u>\$ 471,298</u>	<u>\$ 550,344</u>	<u>\$ 186,941</u>	<u>\$ 4,923,501</u>	<u>\$ 5,436,378</u>
Less expenses included with revenue on the statements of activities						
Cost of direct benefits to donors	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (186,941)</u>	<u>\$ (186,941)</u>	<u>\$ (177,214)</u>
Total expense included in the expense section on the statements of activities	<u>\$ 3,714,918</u>	<u>\$ 471,298</u>	<u>\$ 550,344</u>	<u>\$ -</u>	<u>\$ 4,736,560</u>	<u>\$ 5,259,164</u>
Percentage of total	<u>78.43%</u>	<u>9.95%</u>	<u>11.62%</u>	<u>0.00%</u>	<u>100.00%</u>	<u>100.00%</u>

The Notes to the Combined Financial Statements are an integral part of these statements.

**Boys & Girls Clubs of Central Orange Coast  
and Boys & Girls Clubs of Central Orange Coast Foundation  
Combined Statements of Functional Expenses  
June 30, 2020**

**With Summarized Comparative Information for the Year Ended June 30, 2019**

	<b>FOUNDATION</b>				
	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>	
		<b>Management and General</b>	<b>Fundraising</b>	<b>2020</b>	<b>2019</b>
Mortgage interest expense	\$ 32,822	\$ 4,103	\$ 4,103	\$ 41,028	\$ 41,847
Total expenses before depreciation	32,822	4,103	4,103	41,028	41,847
Depreciation	28,004	3,500	3,500	35,004	35,002
Total expenses	<u>\$ 60,826</u>	<u>\$ 7,603</u>	<u>\$ 7,603</u>	<u>\$ 76,032</u>	<u>\$ 76,849</u>
Percentage of total	<u>80.00%</u>	<u>10.00%</u>	<u>10.00%</u>	<u>100.00%</u>	<u>100.00%</u>

The Notes to the Combined Financial Statements are an integral part of these statements.

**Boys & Girls Clubs of Central Orange Coast  
and Boys & Girls Clubs of Central Orange Coast Foundation  
Combined Statements of Cash Flows  
June 30, 2020**

**With Summarized Comparative Information for the Year Ended June 30, 2019**

	<u>Clubs</u>	<u>Foundation</u>	<u>2020 Combined</u>	<u>2019 Combined</u>
<b>Operating activities</b>				
Change in net assets	\$ 1,536,619	\$ (102,138)	\$ 1,434,481	\$ 3,575,574
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities				
Depreciation	213,589	35,004	248,593	261,283
Realized and unrealized gain in investments, net	-	(38,343)	(38,343)	(126,942)
Changes in operating assets and liabilities				
(Increase) decrease in assets				
Accounts and grants receivable	(71,682)	-	(71,682)	523,392
Promises to give, net	944,750	-	944,750	(1,270,396)
Other assets	(20,044)	-	(20,044)	2,683
Increase (decrease) in liabilities				
Accounts payable	4,447	-	4,447	(21,974)
Accrued expenses	(53,745)	(20,000)	(73,745)	(6,553)
Net cash provided by (used in) operating activities	<u>2,553,934</u>	<u>(125,477)</u>	<u>2,428,457</u>	<u>2,937,067</u>
<b>Investing activities</b>				
Purchases of property and equipment	(6,526,782)	-	(6,526,782)	(691,593)
Purchases of investments	-	(638,446)	(638,446)	(773,122)
Proceeds from sale of investments	-	695,541	695,541	882,694
Net cash (used in) provided by investing activities	<u>(6,526,782)</u>	<u>57,095</u>	<u>(6,469,687)</u>	<u>(582,021)</u>
<b>Financing activities</b>				
Net activity on line of credit	500,000	-	500,000	-
Issuance of notes payable	825,000	-	825,000	-
Issuance of PPP loan payable	799,700	-	799,700	-
Repayments of note payable	(2,224)	-	(2,224)	-
Repayments of mortgage payable	-	(26,093)	(26,093)	(25,273)
Net cash provided by (used in) financing activities	<u>2,122,476</u>	<u>(26,093)</u>	<u>2,096,383</u>	<u>(25,273)</u>
Net (decrease) increase in cash and cash equivalents	(1,850,372)	(94,475)	(1,944,847)	2,329,773
Cash and cash equivalents, beginning of year	<u>4,551,548</u>	<u>204,519</u>	<u>4,756,067</u>	<u>2,426,294</u>
Cash and cash equivalents, end of year	<u>\$ 2,701,176</u>	<u>\$ 110,044</u>	<u>\$ 2,811,220</u>	<u>\$ 4,756,067</u>
<b>Reconciliation of cash and cash equivalents to the statement of financial position</b>				
Cash and cash equivalents without donor restriction	2,701,176	110,044	2,811,220	1,145,902
Cash and cash equivalents with donor restriction	-	-	-	3,610,165
Cash and cash equivalents, end of year	<u>\$ 2,701,176</u>	<u>\$ 110,044</u>	<u>\$ 2,811,220</u>	<u>\$ 4,756,067</u>
<b>Supplemental disclosure of cash flow information</b>				
Cash paid during the year for				
Interest	<u>\$ 31,275</u>	<u>\$ 41,028</u>	<u>\$ 72,303</u>	<u>\$ 41,847</u>

The Notes to the Combined Financial Statements are an integral part of these statements.

**Boys & Girls Clubs of Central Orange Coast  
and Boys & Girls Clubs of Central Orange Coast Foundation  
Notes to Combined Financial Statements  
June 30, 2020 and 2019**

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**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 21<sup>st</sup> century skills for the youth served through science, technology, engineering, arts, and math (STEAM) education.

In 2017, the Clubs launched a Pursuing Greatness capital campaign which had a financial goal to raise \$6 million. The Clubs used 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, 2020, the Clubs has received or promised to be given approximately \$8.5 million, all of which was spent on objectives consistent with the Pursuing Greatness capital campaign.

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 (collectively, 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.

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.

**Boys & Girls Clubs of Central Orange Coast  
and Boys & Girls Clubs of Central Orange Coast Foundation  
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**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, 2020 and 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 (US GAAP). All significant inter-entity transactions and balances have been eliminated.

The financial position and activities of the Foundation for the years ended June 30, 2020 and 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.

**Comparative Totals**

The combined financial statements include certain prior year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction the Organization's combined financial statements for the year ended June 30, 2019, from which the summarized information was derived.

**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.

**Accounts Receivable**

The Organization contracts 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.

**Boys & Girls Clubs of Central Orange Coast  
and Boys & Girls Clubs of Central Orange Coast Foundation  
Notes to Combined Financial Statements  
June 30, 2020 and 2019**

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**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.

**Revenue Recognition**

The Organization has the following recognition policies for these specified revenue streams:

- Special event revenues are recognized upon completion of the events and are recorded net of direct costs.
- Member registration revenues are recognized on a monthly basis, after the Organization has provided the proper supplies and staffing for the required programs and services.
- Grant income is recognized on a monthly basis, after the Organization has provided the proper supplies and staffing for the required programs and services.

**Contributions and Recently Adopted Accounting Policies**

In June 2018, the Financial Accounting Standards Board (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.

The Organization adopted the requirements of the new guidance as of July 1, 2019, utilizing the modified prospective method of transition. No adjustment to net assets as of July 1, 2019 was necessary. The Organization applied the new guidance using the practical expedient provided in Topic 958 that allows the guidance to be applied only to agreements that were not complete as of July 1, 2019. Adoption of the new guidance did not have a material impact on the Organization's combined financial statements.

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Contributions, including unconditional promises to give, are recognized when received or pledged by the donor. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a 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 donor restrictions and reported in the statements of activities as net assets released from restrictions. The Organization's policy is to record restricted gifts that are received and spent in the same year as unrestricted support.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Unconditional promises to give are reported at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected.

**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 \$66,732 and \$66,414 were donated to the Clubs and are included in donated materials in the Organization's combined statements of activities for the years ended June 30, 2020 and 2019, respectively.

**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 years ended June 30, 2020 and 2019 are reflected in the accompanying combined financial statements at an estimated fair value of \$1,360 and \$53,971, respectively.

**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.

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.

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**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 Organization is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. As a matter of course, various taxing authorities, including the IRS, have the authority to regularly audit the Organization.

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

There were no tax years open to examination by major tax jurisdictions as of June 30, 2020. The Organization does not believe its combined financial statements include (or reflect) any uncertain tax positions. Further, there are no income tax related penalties and interest included in these combined financial statements.

**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.

**Advertising Expense**

Advertising and promotional costs are charged to operations when incurred. At June 30, 2020 and 2019, advertising and promotional costs totaled \$17,157 and \$11,650, respectively. These costs are included under contract services in the combined statements of functional expenses.

**Recent Accounting Pronouncements Not Yet Adopted**

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, 2021.



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In September 2020 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)* which is effective for the Organization’s fiscal year ending after June 30, 2022, with early adoption permitted, and is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. Management does not expect this ASU to have a significant impact on the School’s financial statements.

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, 2023. 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 October 21, 2020, 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.

**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.

To uphold these principles, 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.

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The following table represents the Organization's financial assets available for general expenditure within one year, as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial assets at year end		
Cash and cash equivalents	\$ 2,811,220	\$ 4,756,067
Accounts receivable	78,490	6,808
Investments	2,464,585	2,483,337
Promises to give	<u>397,000</u>	<u>1,341,750</u>
Total financial assets	<u>5,751,295</u>	<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	(397,000)	(76,250)
Restricted for time and purpose	<u>-</u>	<u>(1,265,500)</u>
Financial assets not available to be used within one year	<u>(397,000)</u>	<u>(4,951,915)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 5,354,295</u>	<u>\$ 3,636,047</u>

**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 in the United States of America (US 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 of other pooled funds held by a community foundation.

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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.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2020 and 2019:

	<b>2020</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock	\$ 981,238	\$ -	\$ -	\$ 981,238
Preferred stock	48,661	-	-	48,661
Other pooled funds and bonds	1,050,199	115,999	-	1,166,198
Mutual funds	<u>268,488</u>	<u>-</u>	<u>-</u>	<u>268,488</u>
	<u>\$ 2,348,586</u>	<u>\$ 115,999</u>	<u>\$ -</u>	<u>\$ 2,464,585</u>
	<b>2019</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock	\$ 1,014,147	\$ -	\$ -	\$ 1,014,147
Preferred stock	50,052	-	-	50,052
Other pooled funds and bonds	1,028,421	117,729	-	1,146,150
Mutual funds	<u>272,988</u>	<u>-</u>	<u>-</u>	<u>272,988</u>
	<u>\$ 2,365,608</u>	<u>\$ 117,729</u>	<u>\$ -</u>	<u>\$ 2,483,337</u>

**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, 2020 and 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.

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Included in promises to give at June 30, 2020 and 2019 are the following:

	<u>2020</u>	<u>2019</u>
Amounts due in		
Less than one year	\$ 162,000	\$ 1,020,750
One to five years	<u>235,000</u>	<u>321,000</u>
Total promises to give	<u>\$ 397,000</u>	<u>\$ 1,341,750</u>

**5. PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2020 and 2019 consist of the following:

	<u>Clubs</u>	<u>Foundation</u>	<u>2020 Combined</u>	<u>2019 Combined</u>
Land	\$ 534,411	\$ -	\$ 534,411	\$ 534,411
Buildings and improvements	9,213,395	1,400,000	10,613,395	4,603,896
Capital improvements	1,826,068	-	1,826,068	1,826,068
Equipment	1,117,843	-	1,117,843	371,815
Automobiles	98,412	-	98,412	98,412
Teen Centers	662,194	-	662,194	662,194
Furniture and fixtures	916,526	-	916,526	464,621
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>680,650</u>
	14,368,849	1,400,000	15,768,849	9,242,067
Less: Accumulated depreciation	<u>(4,035,787)</u>	<u>(90,423)</u>	<u>(4,126,210)</u>	<u>(3,877,617)</u>
	<u>\$ 10,333,062</u>	<u>\$ 1,309,577</u>	<u>\$ 11,642,639</u>	<u>\$ 5,364,450</u>

Depreciation expense totaled \$248,593 and \$261,283 for fiscal years ended June 30, 2020 and 2019, respectively.

**6. ACCRUED EXPENSES**

Accrued expenses at June 30, 2020 and 2019 are summarized as follows:

	<u>Clubs</u>	<u>Foundation</u>	<u>2020 Combined</u>	<u>2019 Combined</u>
Salaries and benefits	\$ 172,464	\$ -	\$ 172,464	\$ 206,866
Vacation	57,684	-	57,684	57,684
Other	<u>4,933</u>	<u>-</u>	<u>4,933</u>	<u>44,276</u>
	<u>\$ 235,081</u>	<u>\$ -</u>	<u>\$ 235,081</u>	<u>\$ 308,826</u>

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**7. LINE OF CREDIT**

The Clubs has an operating line of credit of \$500,000, which is set to expire in March 2021. As of June 30, 2020, outstanding amounts drawn on the line of credit were \$500,000. 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 (3.25% and 5.00% at June 30, 2020 and 2019, respectively) or 4.00%. The line of credit is secured by the Club's accounts and grants receivable, promises to give, and property plant and equipment.

**8. LONG TERM DEBT**

The Organization's notes payable at June 30, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
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.	\$ 984,252	\$ 1,010,345
The Clubs has a 2.94% note payable to bank for a construction loan, which is payable in monthly installments of \$3,909, including interest, through maturity in May 2030. The note is collateralized by property plant and equipment.	822,776	-
In June 2020, the Organization received an Economic Injury Disaster Loan (EIDL) in the amount of \$150,000 from the SBA. The loan carries interest at a fixed rate of 2.75% with monthly payments of principal and interest in the amount of \$641, beginning 12 months from the date of the loan, and continuing through maturity not to exceed 30 years. The loan is collateralized by substantially all assets.	<u>150,000</u>	<u>-</u>
Less: Current portion	<u>(50,491)</u>	<u>(26,214)</u>
	<u>\$ 1,906,537</u>	<u>\$ 984,131</u>

Future minimum payments of principal under the above long-term debt arrangements is as follows:

Years ending June 30:	
2021	\$ 50,491
2022	55,833
2023	57,829
2024	59,797
2025	61,497
Thereafter	<u>1,671,581</u>
	<u>\$ 1,957,028</u>

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In April 2020, the Organization received a loan in the amount of \$649,700 under the Payroll Protection Program (PPP) of the CARES Act. This loan is guaranteed by the Small Business Administration (SBA) and is for a 2 year term at a 1.0% interest rate. Under the PPP, the Organization can have the entire loan forgiven if the proceeds are used to fund payroll and other allowable expenses. The Foundation intends to follow the PPP restrictions so that the entire loan will be forgiven. The PPP Loan is included in long term debt in the accompanying combined statement of financial position.

**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 \$68,112 and \$80,442 for the years ended June 30, 2020 and 2019, respectively, and are included in employee benefits expense on the combined statements of functional expenses.

**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, 2020. Total lease payments made during the year ended June 30, 2020 amounted to \$68,412. 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, 2020 are as follows:

	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
Years ending June 30:			
2021	\$ 68,412	\$ 13,488	\$ 81,900
2022	68,412	13,488	81,900
2023	68,412	3,372	71,784
2024	68,412	-	68,412
2025	68,412	-	68,412
Thereafter	<u>165,329</u>	<u>-</u>	<u>165,329</u>
	<u>\$ 507,389</u>	<u>\$ 30,348</u>	<u>\$ 537,737</u>

Rent expense totaled \$124,362 and \$121,211 for the years ended June 30, 2020 and 2019, respectively.

**11. NET ASSETS**

During the years ended June 30, 2020 and 2019, net assets with donor restrictions totaling \$5,995,654 and \$706,572, respectively, 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 and expended within donor specifications.

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Net assets with donor restrictions are restricted for the following purposes at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions		
Purpose - Capital campaign	\$ -	\$ 4,875,665
Time - Other promises to give	<u>397,000</u>	<u>76,250</u>
Total net assets with donor restrictions	<u>\$ 397,000</u>	<u>\$ 4,951,915</u>

**12. SPECIAL EVENTS**

Gross revenue and expenses for special events associated with the Club's fundraising activities for the years ended June 30, 2020 and 2019, were as follows:

	<u>2020</u>						
	<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	\$ 16,653	\$ -	\$ 464,325	\$ 33,683	\$ 15,590	\$ 45,071	\$ 575,322
Direct costs	<u>(7,302)</u>	<u>-</u>	<u>(152,739)</u>	<u>(808)</u>	<u>(7,433)</u>	<u>(17,683)</u>	<u>(185,965)</u>
Total special events income, net	<u>\$ 9,351</u>	<u>\$ -</u>	<u>\$ 311,586</u>	<u>\$ 32,875</u>	<u>\$ 8,157</u>	<u>\$ 27,388</u>	<u>\$ 389,357</u>
	<u>2019</u>						
	<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>

**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 years ended June 30, 2020 and 2019, amounts totaling \$130,000 were distributed from the Foundation to the Clubs for general operating purposes. Additionally, during the years ended June 30, 2020 and 2019, amounts totaling \$40,000 were charged by Clubs to the Foundation for management fees.

**14. POTENTIAL IMPACT OF COVID-19**

Management is currently considering the impact of the COVID-19 virus on the Organization and its operations, and has concluded that while it is reasonably possible that the pandemic response could have a negative effect on the Organization's financial condition and results of operations, the specific impact is not readily determinable as of the date of these combined financial statements.