

**Boys & Girls Clubs of Central Orange Coast
and
Boys & Girls Clubs of Central Orange Coast Foundation**

**Combined Financial Statements
For the Year Ended June 30, 2022
With Summarized Comparative Information
For the Year Ended June 30, 2021
and
Independent Auditor's Report**

**Boys & Girls Clubs of Central Orange Coast
and Boys & Girls Clubs of Central Orange Coast Foundation**

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Independent Auditor's Report

To the Board of Directors of
Boys & Girls Clubs of Central Orange Coast
and Boys and Girls Clubs of Central Orange Coast Foundation
Irvine, California

Opinion

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 (together, the Organization), which comprise the combined statements of financial position as of June 30, 2022, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

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, 2022, 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.

Basis for Opinion

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

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Combined Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

The combined financial statements of the Organization as of June 30, 2021, were audited by another auditor whose report dated October 14, 2021, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

H&LA Certified Public Accountants, Inc.

November 3, 2022

**Boys & Girls Clubs of Central Orange Coast
and Boys & Girls Clubs of Central Orange Coast Foundation
Combined Statements of Financial Position
June 30, 2022
(with summarized comparative information for June 30, 2021)**

	<u>Club</u>	<u>Foundation</u>	<u>2022 Combined</u>	<u>2021 Combined</u>
Assets				
Current assets without donor restrictions				
Cash and cash equivalents	\$ 3,315,707	\$ 2,274,421	\$ 5,590,128	\$ 2,536,511
Investments	-	4,726,485	4,726,485	2,910,869
Accounts receivable	287,297	-	287,297	142,386
Other assets	31,962	-	31,962	24,160
Total current assets without donor restrictions	3,634,966	7,000,906	10,635,872	5,613,926
Property and equipment, net	9,138,893	1,239,569	10,378,462	10,903,804
Total assets without donor restrictions	12,773,859	8,240,475	21,014,334	16,517,730
Current assets with donor restrictions				
Promises to give	100,000	-	100,000	132,000
Long-term assets with donor restrictions				
Promises to give	10,000	-	10,000	160,000
Total assets with donor restrictions	110,000	-	110,000	292,000
Total assets	<u>\$ 12,883,859</u>	<u>\$ 8,240,475</u>	<u>\$ 21,124,334</u>	<u>\$ 16,809,730</u>
Liabilities and Net Assets				
Current liabilities				
Accounts payable	\$ 447,352	\$ -	\$ 447,352	\$ 208,047
Accrued expenses	357,914	-	357,914	325,783
Current portion of notes payable	3,612	25,476	29,088	56,208
Total current liabilities	808,878	25,476	834,354	590,038
Long-term liabilities				
Notes payable, net of current portion	146,388	911,695	1,058,083	1,604,408
Total liabilities	955,266	937,171	1,892,437	2,194,446
Commitments and contingencies (Notes 10 and 17)				
Net assets				
Net assets without donor restrictions	11,818,593	7,303,304	19,121,897	14,323,284
Net assets with donor restrictions	110,000	-	110,000	292,000
Total net assets	11,928,593	7,303,304	19,231,897	14,615,284
Total liabilities and net assets	<u>\$ 12,883,859</u>	<u>\$ 8,240,475</u>	<u>\$ 21,124,334</u>	<u>\$ 16,809,730</u>

See accompanying notes to the combined financial statements.

**Boys & Girls Clubs of Central Orange Coast
and Boys & Girls Clubs of Central Orange Coast Foundation
Combined Statements of Activities and Changes in Net Assets
For the Year Ended June 30, 2022
(with summarized comparative information for the year ended June 30, 2021)**

	<u>Club</u>	<u>Foundation</u>	<u>2022 Combined</u>	<u>2021 Combined</u>
Change in Net Assets without Donor Restrictions				
Revenues				
Public support and registration fees				
Contributions	\$ 3,503,722	\$ 4,600,000	\$ 8,103,722	\$ 2,600,822
Support provided by Foundation	130,000	(130,000)	-	-
Special events, net of direct cost	392,869	-	392,869	365,023
Member registrations	887,826	-	887,826	574,594
Grant income	661,783	-	661,783	644,711
United Way	16,538	-	16,538	45,721
Donated materials	1,600	-	1,600	63,156
Donated services	1,700	-	1,700	50,060
Total public support and registration fees	<u>5,596,038</u>	<u>4,470,000</u>	<u>10,066,038</u>	<u>4,344,087</u>
Other revenue				
Investment income (loss), net	448	(602,346)	(601,898)	566,694
Rental income from Club	(61,462)	61,462	-	-
Rental and other income	174,915	472	175,387	321,241
PPP loan forgiveness	-	-	-	649,800
Employment Retention Credit	762,577	-	762,577	-
Total other revenue	<u>876,478</u>	<u>(540,412)</u>	<u>336,066</u>	<u>1,537,735</u>
Net assets released from donor restrictions	<u>232,000</u>	<u>-</u>	<u>232,000</u>	<u>205,000</u>
Total revenues without donor restrictions	<u>6,704,516</u>	<u>3,929,588</u>	<u>10,634,104</u>	<u>6,086,822</u>
Expenses				
Program services	<u>4,333,363</u>	<u>58,869</u>	<u>4,392,232</u>	<u>4,298,213</u>
Supporting services				
Management and general	762,569	7,358	769,927	558,205
Fundraising	665,974	7,358	673,332	537,154
Total supporting activities expenses	<u>1,428,543</u>	<u>14,716</u>	<u>1,443,259</u>	<u>1,095,359</u>
Total expenses	<u>5,761,906</u>	<u>73,585</u>	<u>5,835,491</u>	<u>5,393,572</u>
Change in net assets without donor restrictions	<u>942,610</u>	<u>3,856,003</u>	<u>4,798,613</u>	<u>693,250</u>

See accompanying notes to the combined financial statements.

**Boys & Girls Clubs of Central Orange Coast
and Boys & Girls Clubs of Central Orange Coast Foundation
Combined Statements of Activities and Changes in Net Assets (Continued)
For the Year Ended June 30, 2022
(with summarized comparative information for the year ended June 30, 2021)**

	<u>Club</u>	<u>Foundation</u>	<u>2022 Combined</u>	<u>2021 Combined</u>
Change in Net Assets with Donor Restrictions				
Public support				
Capital campaign	\$ 100,000	\$ -	\$ 100,000	\$ 50,000
Other contributions	-	-	-	50,000
Loss on uncollectible promise to give	(50,000)	-	(50,000)	-
Net assets released from donor restrictions	<u>(232,000)</u>	<u>-</u>	<u>(232,000)</u>	<u>(205,000)</u>
Change in net assets with donor restrictions	<u>(182,000)</u>	<u>-</u>	<u>(182,000)</u>	<u>(105,000)</u>
Change in net assets	760,610	3,856,003	4,616,613	588,250
Net assets, beginning of year	<u>11,167,983</u>	<u>3,447,301</u>	<u>14,615,284</u>	<u>14,027,034</u>
Net assets, end of year	<u>\$ 11,928,593</u>	<u>\$ 7,303,304</u>	<u>\$ 19,231,897</u>	<u>\$ 14,615,284</u>

See accompanying notes to the combined financial statements.

**Boys & Girls Clubs of Central Orange Coast
and Boys & Girls Clubs of Central Orange Coast Foundation
Combined Statements of Functional Expenses
For the Year Ended June 30, 2022**

	CLUB				Total
	Program Services	Supporting Services		Cost of Direct Benefits to Donors	
		Management and General	Fundraising		
Salaries	\$ 2,434,354	\$ 312,097	\$ 374,516	\$ -	\$ 3,120,967
Payroll taxes	200,580	25,715	30,859	-	257,154
Employee benefits	157,034	20,133	24,159	-	201,326
Total salaries and related expenses	2,791,968	357,945	429,534	-	3,579,447
Conference and board meetings	51,003	4,435	-	-	55,438
Contract services	72,400	9,282	139,970	-	221,652
Donated materials	1,600	-	-	-	1,600
Donated services	1,700	-	-	-	1,700
Equipment	44,202	1,186	1,192	-	46,580
Insurance	23,678	3,036	3,643	-	30,357
Interest expense	-	32,307	-	-	32,307
Miscellaneous	35,229	-	-	-	35,229
Occupancy (building, ground and utilities)	395,272	16,010	11,429	-	422,711
Organizational dues	25,464	-	-	-	25,464
Postage	-	-	1,262	-	1,262
Printing and copying	2,376	-	13,464	-	15,840
Professional fees	29,304	286,914	1,085	-	317,303
Promotions	-	1,674	54,123	-	55,797
Program events	129,722	-	-	-	129,722
Scholarships and awards	140,020	-	-	-	140,020
Special events	-	-	-	222,199	222,199
Supplies	114,856	8,693	-	-	123,549
Transportation	12,339	-	-	-	12,339
Total expenses before depreciation	3,871,133	721,482	655,702	222,199	5,470,516
Depreciation	462,230	41,087	10,272	-	513,589
Total expenses by function	4,333,363	762,569	665,974	222,199	5,984,105
Less: Expenses included with revenue on the statements of activities					
Cost of direct benefits to donors	-	-	-	(222,199)	(222,199)
Total expenses included in the expense section on the statements of activities	\$ 4,333,363	\$ 762,569	\$ 665,974	\$ -	\$ 5,761,906

See accompanying notes to the combined financial statements.

**Boys & Girls Clubs of Central Orange Coast
and Boys & Girls Clubs of Central Orange Coast Foundation
Combined Statements of Functional Expenses (Continued)
For the Year Ended June 30, 2022**

	FOUNDATION			Total
	Program Services	Supporting Services		
		Management and General	Fundraising	
Mortgage interest expense	\$ 30,865	\$ 3,858	\$ 3,858	\$ 38,581
Depreciation	28,004	3,500	3,500	35,004
Total expenses by function	<u>\$ 58,869</u>	<u>\$ 7,358</u>	<u>\$ 7,358</u>	<u>\$ 73,585</u>

See accompanying notes to the combined financial statements.

**Boys & Girls Clubs of Central Orange Coast
and Boys & Girls Clubs of Central Orange Coast Foundation
Combined Statements of Functional Expenses
For the Year Ended June 30, 2021**

	CLUB				Total
	Program Services	Supporting Services		Cost of Direct Benefits to Donors	
		Management and General	Fundraising		
Salaries	\$ 2,212,341	\$ 287,006	\$ 347,938	\$ -	\$ 2,847,285
Payroll taxes	246,787	32,016	38,813	-	317,616
Employee benefits	181,038	23,486	28,472	-	232,996
Total salaries and related expenses	2,640,166	342,508	415,223	-	3,397,897
Conference and board meetings	39,353	9,291	-	-	48,644
Contract services	72,297	5,908	62,451	-	140,656
Donated materials	63,156	-	-	-	63,156
Donated services	50,060	-	-	-	50,060
Equipment	24,195	8,333	937	-	33,465
Insurance	29,865	14,979	1,675	-	46,519
Interest expense	-	47,514	-	-	47,514
Miscellaneous	3,299	-	-	-	3,299
Occupancy (building, ground and utilities)	362,293	8,146	8,146	-	378,585
Organizational dues	18,894	944	2,022	-	21,860
Postage	-	-	3,758	-	3,758
Printing and copying	549	-	3,014	-	3,563
Professional fees	20,587	55,360	1,157	-	77,104
Promotions	-	521	16,299	-	16,820
Program events	85,911	-	-	-	85,911
Scholarships and awards	98,525	-	-	-	98,525
Special events	-	-	-	75,821	75,821
Supplies	84,088	-	-	-	84,088
Transportation	8,068	463	463	-	8,994
Total expenses before depreciation	3,601,306	493,967	515,145	75,821	4,686,239
Depreciation	633,448	56,306	14,077	-	703,831
Total expenses by function	4,234,754	550,273	529,222	75,821	5,390,070
Less: Expenses included with revenue on the statements of activities					
Cost of direct benefits to donors	-	-	-	(75,821)	(75,821)
Total expenses included in the expense section on the statements of activities	\$ 4,234,754	\$ 550,273	\$ 529,222	\$ -	\$ 5,314,249

See accompanying notes to the combined financial statements.

**Boys & Girls Clubs of Central Orange Coast
and Boys & Girls Clubs of Central Orange Coast Foundation
Combined Statements of Functional Expenses (Continued)
For the Year Ended June 30, 2021**

	FOUNDATION			Total
	Program Services	Supporting Services		
		Management and General	Fundraising	
Mortgage interest expense	\$ 35,455	\$ 4,432	\$ 4,432	\$ 44,319
Depreciation	28,004	3,500	3,500	35,004
Total expenses by function	<u>\$ 63,459</u>	<u>\$ 7,932</u>	<u>\$ 7,932</u>	<u>\$ 79,323</u>

See accompanying notes to the combined financial statements.

**Boys & Girls Clubs of Central Orange Coast
and Boys & Girls Clubs of Central Orange Coast Foundation
Combined Statements of Cash Flows
For the Year Ended June 30, 2022
(with summarized comparative information for the year ended June 30, 2021)**

	<u>Club</u>	<u>Foundation</u>	<u>2022 Combined</u>	<u>2021 Combined</u>
Cash flows from operating activities				
Change in net assets without donor restrictions	\$ 942,610	\$ 3,856,003	\$ 4,798,613	\$ 693,250
Change in net assets with donor restrictions	(182,000)	-	(182,000)	(105,000)
Total change in net assets	760,610	3,856,003	4,616,613	588,250
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	513,589	35,004	548,593	738,835
Realized and unrealized (gain) loss in investments, net	-	664,996	664,996	(554,205)
PPP loan forgiveness	-	-	-	(649,800)
Increase (decrease) in cash and cash equivalents from changes in:				
Accounts receivable	(144,911)	-	(144,911)	(63,896)
Promises to give, net	182,000	-	182,000	105,000
Other assets	(7,802)	-	(7,802)	56,377
Accounts payable	239,305	-	239,305	102,419
Accrued expenses	32,131	-	32,131	90,802
Net cash provided by operating activities	<u>1,574,922</u>	<u>4,556,003</u>	<u>6,130,925</u>	<u>413,782</u>
Cash flows from investing activities				
Purchases of property and equipment	(23,251)	-	(23,251)	-
Purchases of investments	-	(3,302,829)	(3,302,829)	(624,145)
Proceeds from sale of investments	-	822,217	822,217	732,066
Net cash (used) provided by investing activities	<u>(23,251)</u>	<u>(2,480,612)</u>	<u>(2,503,863)</u>	<u>107,921</u>
Cash flows from financing activities				
Repayments of line of credit	-	-	-	(500,000)
Repayments of note payable	(550,092)	(23,353)	(573,445)	(272,684)
Repayments of mortgage payable	-	-	-	(23,728)
Net cash used by financing activities	<u>(550,092)</u>	<u>(23,353)</u>	<u>(573,445)</u>	<u>(796,412)</u>
Net increase (decrease) in cash and cash equivalents	1,001,579	2,052,038	3,053,617	(274,709)
Cash and cash equivalents, beginning of year	<u>2,314,128</u>	<u>222,383</u>	<u>2,536,511</u>	<u>2,811,220</u>
Cash and cash equivalents, end of year	<u>\$ 3,315,707</u>	<u>\$ 2,274,421</u>	<u>\$ 5,590,128</u>	<u>\$ 2,536,511</u>
Supplemental disclosure of cash flow information				
Interest paid	<u>\$ 32,307</u>	<u>\$ 38,581</u>	<u>\$ 70,888</u>	<u>\$ 91,833</u>

See accompanying notes to the 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, 2022 and 2021**

1. Nature of Organization

Boys & Girls Clubs of Central Orange Coast (the Club) 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 Club 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 Club's 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 Club 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 Club launched a Pursuing Greatness capital campaign which had a financial goal to raise \$6 million. The Club used these proceeds for capital improvements for its four locations (Santa Ana, Irvine, Costa Mesa, and Newport Beach) and to support the Club's long-term financial stability. As of June 30, 2022, the Club has received approximately \$8.6 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 Club 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 Club. The Foundation provides donors with the opportunity to support the Club 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 Club and the children served for generations to come. The members of the Club's Board of Directors comprise a majority voting interest in the Foundation's Board of Directors.

2. Summary of Significant Accounting Policies

Basis of Combination

The accompanying combined financial statements include the accounts of the Club and the Foundation (together, the Organization). All significant inter-entity transactions and balances have been eliminated in combination.

Contributions and Net Asset Classifications

The Organization reports information regarding contributions received in its combined statements of financial position and combined statements of activities and changes in net assets according to two classes of net assets based upon the existence or absence of donor-imposed restrictions:

Net Assets without Donor Restrictions – Contributions that are available for unrestricted use.

Net Assets with Donor Restrictions – Contributions that are restricted by donors for a specific time period or purpose. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined statement of activities and changes in net assets as net assets released from restrictions. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Income earned on these assets may or may not be restricted, depending upon the donor-imposed restrictions. As of June 30, 2022 and 2021, the Organization did not hold assets with donor restrictions that are perpetual in nature.

**Boys & Girls Clubs of Central Orange Coast
and Boys & Girls Clubs of Central Orange Coast Foundation
Notes to Combined Financial Statements
June 30, 2022 and 2021**

2. Summary of Significant Accounting Policies (Continued)

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received with donor-imposed restrictions that are met within the same year in which the contributions are received are recorded as net assets with donor restrictions with the corresponding amount reclassified to net assets without donor restrictions in the combined statement of activities and changes in net assets.

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 accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Organization's combined financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Management 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 reported amounts of assets and liabilities and disclosure of contingent 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.

Cash and Cash Equivalents

Cash consists of cash on hand, in banks, and in money market accounts. The Organization considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents.

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 in Orange County. Some of the contracts have been written as expense reimbursement grants. These grants are payable upon the submission of specified documentation. No allowance for uncollectable accounts receivable was provided for at June 30, 2022, as management considers all amounts fully collectible.

Investments

Investments in marketable securities are measured at fair value, determined on the basis of quoted market prices. Realized and unrealized gains and losses are included in the combined statements of activities and changes in net assets. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Donated investments in marketable securities are recorded at fair value on the date of donation and are included in contributions in the combined statements of activities and changes in net assets.

Promises to Give

Unconditional promises to give are reported at fair value at the date the promise is received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the projected fair value (future value) of the underlying assets at the date that those assets are expected to be

**Boys & Girls Clubs of Central Orange Coast
and Boys & Girls Clubs of Central Orange Coast Foundation
Notes to Combined Financial Statements
June 30, 2022 and 2021**

2. Summary of Significant Accounting Policies (Continued)

received. The discounts on those amounts are computed using the rates at which the Organization can borrow money applicable to the years in which the promises are received. In cases in which the future fair value of the underlying asset is difficult to determine, the fair value of an unconditional promise to give is based on the fair value of the underlying asset at the date of initial recognition, with no discount computed.

Promises to give generally consist of pledges made towards the Pursuing Greatness capital campaign. No allowance for uncollectable promises to give was provided for at June 30, 2022, as management considers all amounts fully collectible.

Conditional contributions are recognized when the conditions on which they depend are substantially met. A condition must have both a barrier that must be overcome before the organization is entitled to the assets transferred or promised and a right of return. Assets received in a conditional contribution are accounted for as refundable advances until the conditions have been substantially met.

Property and Equipment

Donated property and equipment are recorded at their estimated fair values at the date of donation. Purchased property and equipment are stated at cost. Buildings and improvements, equipment, automobiles, and furniture are depreciated using the straight-line method over the estimated useful lives of the related assets of 3 to 40 years.

Impairment of Long-Lived Assets

The Organization's long-lived assets include property and equipment. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the fair value of the related asset. The Organization did not identify any impairment of its long-lived assets as of June 30, 2022 or 2021.

Revenue Recognition

The Organization recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*. ASC 606 requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the Organization expects to be entitled in exchange for those goods or services.

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.

Donated Materials and Services

Donated materials are recorded at fair value at the date of donation. The value of contributed services is recognized if the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of other volunteers have made

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2. Summary of Significant Accounting Policies (Continued)

significant contributions of their time to help develop the Organization's programs and activities. No amounts have been reported in the combined financial statements for these donated services because the services do not meet the above reporting requirements.

Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the combined statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited in the combined statements of functional expenses. Salaries, payroll taxes and employee benefits have been allocated based on the time and effort of the 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 Club 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).

The Organization's federal and state informational returns remain open and subject to examination by the applicable federal or state taxing authorities for the number of years determined by the respective statutes of limitations.

Advertising

Advertising and promotional costs are charged to operations when incurred. Advertising and promotional costs were approximately \$88,000 and \$39,000 for the years ended June 30, 2022 and 2021, respectively. These costs are included under contract services in the combined statements of functional expenses.

Reclassifications

Certain accounts in the prior year summarized information have been reclassified to conform to the current year presentation. These reclassifications have no effect on the previously reported net assets or increase (decrease) in net assets.

Recently Adopted Accounting Pronouncement

In September 2020, the FASB issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU is intended to increase transparency on how contributed nonfinancial assets received by not-for-profit organizations are to be used and how they are valued. The Organization adopted this ASU on July 1, 2021. Adoption of this standard had no significant impact on the combined financial statements.

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2. Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU will require entities to recognize lease assets and lease liabilities on the face of the financial statements and to disclose key information about leasing arrangements to enable readers of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This ASU was originally effective for nonpublic entities with annual reporting periods beginning after December 15, 2020. In June 2020, the FASB issued ASU 2020-05, which extended by one year the effective date of ASU 2016-02. Management is evaluating the impact of adopting this standard on the combined financial statements and related disclosures.

Subsequent Events

Management has evaluated subsequent events through November 3, 2022, the date the combined financial statements were available to be issued.

3. Investments and Fair Value Measurements

The Organization determines the fair values of its investments based on the fair value hierarchy established in FASB ASC 820, *Fair Value Measurements*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The statement requires fair value measurements to be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices in active markets for identical assets and liabilities, including equity and debt securities and derivative contracts that are traded in an active exchange market.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The fair value measurements and levels within the fair value hierarchy of those measurements for the investments reported at fair value on a recurring basis are as follows at June 30:

	2022			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock	\$ 2,123,047	\$ -	\$ -	\$ 2,123,047
Preferred stock	56,638	-	-	56,638
Other pooled funds and bonds	1,742,144	144,433	-	1,886,577
Mutual funds	660,223	-	-	660,223
Total investments	<u>\$ 4,582,052</u>	<u>\$ 144,433</u>	<u>\$ -</u>	<u>\$ 4,726,485</u>

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3. Investments and Fair Value Measurements (Continued)

	2021			Total
	Level 1	Level 2	Level 3	
Common stock	\$ 1,165,377	\$ -	\$ -	\$ 1,165,377
Preferred stock	23,042	-	-	23,042
Other pooled funds and bonds	1,240,690	149,052	-	1,389,742
Mutual funds	332,708	-	-	332,708
Total investments	<u>\$ 2,761,817</u>	<u>\$ 149,052</u>	<u>\$ -</u>	<u>\$ 2,910,869</u>

The valuation levels are not necessarily an indication of the risk or liquidity associated with investing in those securities. The Organization invests in instruments that, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined financial statements.

4. Property and Equipment

Property and equipment consisted of the following at June 30:

	Club	Foundation	2022	2021
			Combined	Combined
Land	\$ 534,411	\$ -	\$ 534,411	\$ 534,411
Buildings and improvements	9,220,906	1,400,000	10,620,906	10,620,906
Capital improvements	1,826,068	-	1,826,068	1,826,068
Equipment	1,133,756	-	1,133,756	1,117,845
Automobiles	98,412	-	98,412	98,412
Teen centers	662,194	-	662,194	662,194
Furniture and fixtures	916,353	-	916,353	909,013
Total property and equipment	14,392,100	1,400,000	15,792,100	15,768,849
Less accumulated depreciation	<u>(5,253,207)</u>	<u>(160,431)</u>	<u>(5,413,638)</u>	<u>(4,865,045)</u>
Property and equipment, net	<u>\$ 9,138,893</u>	<u>\$ 1,239,569</u>	<u>\$ 10,378,462</u>	<u>\$ 10,903,804</u>

Depreciation expense totaled \$548,593 and \$738,835 for the years ended June 30, 2022 and 2021, respectively.

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5. Accrued Expenses

Accrued expenses consisted of the following at June 30:

	<u>Club</u>	<u>Foundation</u>	<u>2022 Combined</u>	<u>2021 Combined</u>
Salaries and benefits	\$ 253,946	\$ -	\$ 253,946	\$ 233,744
Vacation	87,780	-	87,780	87,780
Other	16,188	-	16,188	4,259
Total accrued expenses	<u>\$ 357,914</u>	<u>\$ -</u>	<u>\$ 357,914</u>	<u>\$ 325,783</u>

6. Line of Credit

The Club has a line of credit agreement with American Business Bank (the Bank), originally dated January 26, 2021, and most recently amended and extended on January 14, 2022 to January 31, 2023. Maximum borrowings on the line are \$600,000. Advances are secured by the Club's accounts receivable, promises to give, and property and equipment. Monthly interest payments are made at the greater of the prime rate less 0.50% (4.25% at June 30, 2022) or 4.00%. There were no amounts outstanding under the agreement at June 30, 2022 or 2021. The credit agreement contains certain financial and nonfinancial covenants and conditions. Management believes the Club was in compliance with the covenants and conditions as of June 30, 2022.

7. Notes Payable

Notes payable consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
The Foundation has a note payable with the Bank, dated November 2020, payable in monthly installments of \$5,122, including interest at 3.85% through maturity in December 2030. The mortgage is collateralized by the building.	\$ 937,171	\$ 960,524
The Club had a note payable to the Bank for a construction loan, which was payable in monthly installments of \$3,909, including interest at 2.94%. The loan was fully repaid as of June 30, 2022.	-	550,092

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7. Notes Payable (Continued)

	<u>2022</u>	<u>2021</u>
In June 2020, the Club received an Economic Injury Disaster Loan (EIDL) in the amount of \$150,000 from the Small Business Administration. The loan bears 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 payments will first be applied to accrued interest and then reduce principal. The loan is collateralized by substantially all of the Club's assets.	\$ 150,000	\$ 150,000
Total notes payable	1,087,171	1,660,616
Less current portion	<u>(29,088)</u>	<u>(56,208)</u>
Total notes payable, net of current portion	<u>\$ 1,058,083</u>	<u>\$ 1,604,408</u>

Principal maturities on the notes payable are as follows for the years ending June 30:

2023	\$ 29,088
2024	30,184
2025	31,325
2026	32,509
2027	33,738
Thereafter	<u>930,327</u>
	<u>\$ 1,087,171</u>

8. PPP Loan

In April 2020, the Club received a loan from the Bank in the amount of \$649,800, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act. Funds from the loan could only be used for payroll costs, mortgage interest payments, lease payments, and utility payments. Under the terms of the PPP, certain amounts of the loan would be forgiven if they were used for qualifying expenses as described in the CARES Act. The proceeds from the loan were recorded as a liability until the loan was forgiven and the Club was released. The full amount of the loan was forgiven in December 2020, at which time the Club removed the liability and recorded the PPP loan forgiveness.

9. Employee Retention Credit

The CARES Act provides an employee retention credit (ERC), which is a refundable tax credit against certain employment taxes for eligible employers. In February 2022, the Club claimed ERCs of approximately \$2 million. ERCs will be recorded in the financial statements when received. During June 2022, the Club received ERCs of approximately \$763,000, which are recognized in the combined statement of activities and changes in net assets for the year ended June 30, 2022.

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10. Operating Leases

The Club leases equipment from an unrelated party, through an agreement which is set to expire in October 2027. The monthly lease payments are \$900 for the term of the lease. Future minimum lease payments under the lease are as follows for the years ending June 30:

2023	\$ 10,575
2024	10,805
2025	10,805
2026	10,805
2027	10,805
Thereafter	<u>3,602</u>
	<u>\$ 57,397</u>

11. Related Party Transactions

The Foundation holds cash and investments that can be distributed to the Club 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. The Foundation distributed \$130,000 and \$270,000 to the Club for general operating purposes during the years ended June 30, 2022 and 2021.

The Club leases its corporate office facilities from the Foundation for approximately \$5,000 per month. Lease payments totaled approximately \$61,000 and \$29,000 during the years ended June 30, 2022 and 2021, respectively.

The Club distributed \$255,000 to the Foundation for purposes of establishing a scholarship fund during the year ended June 30, 2021.

12. Restricted Net Assets

Net assets with donor restrictions totaling \$110,000 and \$292,000 as of June 30, 2022 and 2021, respectively, relate to the promises to give for the Pursuing Greatness capital campaign.

13. Special Events

The Club's special events consisted of the following during the years ended June 30:

	<u>2022</u>					
	<u>Leadership Breakfast</u>	<u>Gala</u>	<u>Other</u>	<u>Golf Tournament</u>	<u>Women's Philanthropy Brunch</u>	<u>Total</u>
Gross revenues	\$ 18,882	\$ 411,045	\$ 44,720	\$ 59,205	\$ 81,216	\$ 615,068
Direct costs	<u>(26,859)</u>	<u>(115,120)</u>	<u>(25,558)</u>	<u>(29,546)</u>	<u>(25,116)</u>	<u>(222,199)</u>
Total special events income, net	<u>\$ (7,977)</u>	<u>\$ 295,925</u>	<u>\$ 19,162</u>	<u>\$ 29,659</u>	<u>\$ 56,100</u>	<u>\$ 392,869</u>

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13. Special Events (Continued)

	2021				Total
	Leadership Breakfast	Gala	Golf Tournament	Women's Philanthropy Brunch	
Gross revenues	\$ 33,920	\$ 293,864	\$ 56,756	\$ 56,304	\$ 440,844
Direct costs	(8,807)	(44,046)	(22,252)	(716)	(75,821)
Total special events income, net	<u>\$ 25,113</u>	<u>\$ 249,818</u>	<u>\$ 34,504</u>	<u>\$ 55,588</u>	<u>\$ 365,023</u>

14. Retirement Plan

The Club 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 Club were \$104,713 and \$82,020 for the years ended June 30, 2022 and 2021, respectively, and are included in employee benefits expense on the combined statements of functional expenses.

15. Concentrations

The Organization received approximately 40% of total combined revenues from one source during the year ended June 30, 2022.

The Organization maintains cash accounts at high credit quality financial institutions. Balances held in these bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, deposits may be in excess of the FDIC insurance limit; however, management does not believe the Organization is exposed to any significant related credit risk.

16. Availability of Financial Assets and Liquidity

The table below presents financial assets available for general expenditures within one year as of June 30:

	2022	2021
Financial assets		
Cash and cash equivalents	\$ 5,590,128	\$ 2,536,511
Investments	4,726,485	2,910,869
Accounts receivable, net	287,297	142,386
Promises to give	<u>110,000</u>	<u>292,000</u>
Total financial assets	10,713,910	5,881,766
Less financial assets not available for general expenditures within one year due to donor imposed restrictions:		
Restricted for time and purpose	<u>(10,000)</u>	<u>(160,000)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 10,703,910</u>	<u>\$ 5,721,766</u>

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16. Availability of Financial Assets and Liquidity (Continued)

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. General expenditures include administrative and general expenses to be paid in the subsequent year. The Organization manages its cash available to meet general expenditures following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term commitments and obligations will continue to be met, thereby ensuring the sustainability of the Organization.

17. Legal Matters

The Organization is subject to claims and legal actions arising in the ordinary course of operations. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Organization.

18. COVID-19

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The full impact of COVID-19 on the Organization's operations and finances is uncertain and will depend on the duration and depth of the pandemic.