

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION
COMBINED FINANCIAL REPORT
JUNE 30, 2023**

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION
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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the 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, 2023 and 2022, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 audits, significant audit findings, and certain internal control related matters that we identified during the audits.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual organizations and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Singer Lewak LLP

November 16, 2023

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION**
COMBINED STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022
(with combining information as of June 30, 2023)

	Combining Information		2023 Combined	2022 Combined
	2023 Club	2023 Foundation		
ASSETS				
Current assets without donor restrictions				
Cash and cash equivalents	\$ 511,750	\$ 450,960	\$ 962,710	\$ 5,590,128
Investments	2,914,451	7,012,134	9,926,585	4,726,485
Accounts receivable	373,228	-	373,228	287,297
Other assets	118,225	-	118,225	31,962
Total current assets without donor restrictions	3,917,654	7,463,094	11,380,748	10,635,872
Property and equipment, net	8,955,086	1,204,565	10,159,651	10,378,462
Operating lease right-of-use assets	164,835	-	164,835	-
Total assets without donor restrictions	13,037,575	8,667,659	21,705,234	21,014,334
Current assets with donor restrictions				
Promises to give	10,000	-	10,000	100,000
Long-term assets with donor restrictions				
Promises to give	-	-	-	10,000
Total assets with donor restrictions	10,000	-	10,000	110,000
Total Assets	\$ 13,047,575	\$ 8,667,659	\$ 21,715,234	\$ 21,124,334
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 480,552	\$ -	\$ 480,552	\$ 447,352
Accrued expenses	436,831	-	436,831	357,914
Notes payable, current portion	3,407	26,475	29,882	29,088
Operating lease liabilities, current portion	48,152	-	48,152	-
Total current liabilities	968,942	26,475	995,417	834,354
Long-term liabilities				
Notes payable, noncurrent portion	142,308	883,562	1,025,870	1,058,083
Operating lease liabilities, noncurrent portion	116,143	-	116,143	-
Total Liabilities	1,227,393	910,037	2,137,430	1,892,437
Commitments and contingencies (Notes 11 and 17)				
Net assets				
Without donor restrictions	11,820,182	7,747,622	19,567,804	19,121,897
With donor restrictions	-	10,000	10,000	110,000
Total Net Assets	11,820,182	7,757,622	19,577,804	19,231,897
Total Liabilities and Net Assets	\$ 13,047,575	\$ 8,667,659	\$ 21,715,234	\$ 21,124,334

See notes to combined financial statements.

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION**
COMBINED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2023 and 2022
(with combining information for the year ended June 30, 2023)

	Combining Information		2023 Combined	2022 Combined
	2023 Club	2023 Foundation		
Change in Net Assets without Donor Restrictions				
Revenues				
Public support and registration fees				
Contributions	\$ 3,216,141	\$ -	\$ 3,216,141	\$ 8,120,260
In-kind contributions	232,088	-	232,088	3,300
Support provided by Foundation	157,000	(157,000)	-	-
Special events, net of direct benefit cost	553,532	-	553,532	392,869
Member registrations	847,449	-	847,449	887,826
Grant income	1,086,737	-	1,086,737	661,783
Total public support and registration fees	<u>6,092,947</u>	<u>(157,000)</u>	<u>5,935,947</u>	<u>10,066,038</u>
Other revenue				
Investment income (loss), net	35,905	619,188	655,093	(601,898)
Rental income from Club	(61,462)	61,462	-	-
Rental and other income	256,463	-	256,463	175,387
Employee Retention Credits	353,245	-	353,245	762,577
Total other revenue	<u>584,151</u>	<u>680,650</u>	<u>1,264,801</u>	<u>336,066</u>
Net assets released from donor restrictions	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>232,000</u>
Total revenues without donor restrictions	<u>6,777,098</u>	<u>523,650</u>	<u>7,300,748</u>	<u>10,634,104</u>
Expenses				
Program services	<u>5,165,479</u>	<u>55,466</u>	<u>5,220,945</u>	<u>4,392,232</u>
Supporting services				
Management and general	793,659	6,933	800,592	769,927
Fundraising	826,371	6,933	833,304	673,332
Total supporting services expenses	<u>1,620,030</u>	<u>13,866</u>	<u>1,633,896</u>	<u>1,443,259</u>
Total expenses	<u>6,785,509</u>	<u>69,332</u>	<u>6,854,841</u>	<u>5,835,491</u>
Change in net assets without donor restrictions	<u>(8,411)</u>	<u>454,318</u>	<u>445,907</u>	<u>4,798,613</u>

See notes to combined financial statements.

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION**
COMBINED STATEMENTS OF ACTIVITIES (Continued)
Years Ended June 30, 2023 and 2022
(with combining information for the year ended June 30, 2023)

	Combining Information		2023 Combined	2022 Combined
	2023 Club	Foundation		
Change in Net Assets with Donor Restrictions				
Public support				
Capital campaign	-	-	-	100,000
Loss on uncollectible promises to give	-	-	-	(50,000)
Net assets released from donor restrictions	(100,000)	-	(100,000)	(232,000)
Change in net assets with donor restrictions	(100,000)	-	(100,000)	(182,000)
Change in net assets	(108,411)	454,318	345,907	4,616,613
Net Assets:				
Beginning	11,928,593	7,303,304	19,231,897	14,615,284
Ending	<u>\$ 11,820,182</u>	<u>\$ 7,757,622</u>	<u>\$ 19,577,804</u>	<u>\$ 19,231,897</u>

See notes to combined financial statements.

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION**
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2023 and 2022
(with combining information for the year ended June 30, 2023)

	Combining Information 2023							
	CLUB				FOUNDATION			
	Program Services	Supporting Services		Total	Program Services	Supporting Services		Total
	Management and General	Fundraising			Management and General	Fundraising		
Salaries	\$ 2,975,594	\$ 381,486	\$ 457,784	\$ 3,814,864	\$ -	\$ -	\$ -	\$ -
Payroll taxes	241,075	30,907	37,089	309,071	-	-	-	-
Employee benefits	195,380	25,049	30,059	250,488	-	-	-	-
Conference and board meetings	110,491	9,626	210	120,327	-	-	-	-
Contract services	59,166	7,172	112,954	179,292	-	-	-	-
Donated materials	57,720	-	-	57,720	-	-	-	-
Donated services	-	167,373	-	167,373	-	-	-	-
Equipment	59,710	1,571	1,571	62,852	-	-	-	-
Insurance	21,602	2,770	3,323	27,695	-	-	-	-
Interest expense	-	3,407	-	3,407	27,462	3,433	3,433	34,328
Miscellaneous	7,664	-	-	7,664	-	-	-	-
Occupancy (building, ground and utilities)	517,790	24,649	12,325	554,764	-	-	-	-
Organizational dues	17,941	-	-	17,941	-	-	-	-
Postage	-	-	3,058	3,058	-	-	-	-
Printing and copying	2,010	-	11,387	13,397	-	-	-	-
Professional fees	8,855	88,549	984	98,388	-	-	-	-
Promotions	-	4,520	146,130	150,650	-	-	-	-
Program events	158,208	-	-	158,208	-	-	-	-
Scholarships and awards	164,202	-	-	164,202	-	-	-	-
Special events	-	-	199,312	199,312	-	-	-	-
Supplies	114,140	8,591	-	122,731	-	-	-	-
Transportation	26,560	-	-	26,560	-	-	-	-
Total expenses before depreciation	4,738,108	755,670	1,016,186	6,509,964	27,462	3,433	3,433	34,328
Depreciation	427,371	37,989	9,497	474,857	28,004	3,500	3,500	35,004
Total expenses by function	5,165,479	793,659	1,025,683	6,984,821	55,466	6,933	6,933	69,332
Less: Expenses included with revenue on the statements of activities								
Cost of direct benefits to donors	-	-	(199,312)	(199,312)	-	-	-	-
Total expenses included in the expense section on the statements of activities	<u>\$ 5,165,479</u>	<u>\$ 793,659</u>	<u>\$ 826,371</u>	<u>\$ 6,785,509</u>	<u>\$ 55,466</u>	<u>\$ 6,933</u>	<u>\$ 6,933</u>	<u>\$ 69,332</u>

See notes to 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)
Years Ended June 30, 2023 and 2022
(with combining information for the year ended June 30, 2023)

	2023 Combined				2022 Combined			
	Program Services	Supporting Services		Total	Program Services	Supporting Services		Total
		Management and General	Fundraising			Management and General	Fundraising	
Salaries	\$ 2,975,594	\$ 381,486	\$ 457,784	\$ 3,814,864	\$ 2,434,354	\$ 312,097	\$ 374,516	\$ 3,120,967
Payroll taxes	241,075	30,907	37,089	309,071	200,580	25,715	30,859	257,154
Employee benefits	195,380	25,049	30,059	250,488	157,034	20,133	24,159	201,326
Conference and board meetings	110,491	9,626	210	120,327	51,003	4,435	-	55,438
Contract services	59,166	7,172	112,954	179,292	72,400	9,282	139,970	221,652
Donated materials	57,720	-	-	57,720	1,600	-	-	1,600
Donated services	-	167,373	-	167,373	1,700	-	-	1,700
Equipment	59,710	1,571	1,571	62,852	44,202	1,186	1,192	46,580
Insurance	21,602	2,770	3,323	27,695	23,678	3,036	3,643	30,357
Interest expense	27,462	6,840	3,433	37,735	30,865	36,165	3,858	70,888
Miscellaneous	7,664	-	-	7,664	35,229	-	-	35,229
Occupancy (building, ground and utilities)	517,790	24,649	12,325	554,764	395,272	16,010	11,429	422,711
Organizational dues	17,941	-	-	17,941	25,464	-	-	25,464
Postage	-	-	3,058	3,058	-	-	1,262	1,262
Printing and copying	2,010	-	11,387	13,397	2,376	-	13,464	15,840
Professional fees	8,855	88,549	984	98,388	29,304	286,914	1,085	317,303
Promotions	-	4,520	146,130	150,650	-	1,674	54,123	55,797
Program events	158,208	-	-	158,208	129,722	-	-	129,722
Scholarships and awards	164,202	-	-	164,202	140,020	-	-	140,020
Special events	-	-	199,312	199,312	-	-	222,199	222,199
Supplies	114,140	8,591	-	122,731	114,856	8,693	-	123,549
Transportation	26,560	-	-	26,560	12,339	-	-	12,339
Total expenses before depreciation	4,765,570	759,103	1,019,619	6,544,292	3,901,998	725,340	881,759	5,509,097
Depreciation	455,375	41,489	12,997	509,861	490,234	44,587	13,772	548,593
Total expenses by function	5,220,945	800,592	1,032,616	7,054,153	4,392,232	769,927	895,531	6,057,690
Less: Expenses included with revenue on the statements of activities								
Cost of direct benefits to donors	-	-	(199,312)	(199,312)	-	-	(222,199)	(222,199)
Total expenses included in the expense section on the statements of activities	\$ 5,220,945	\$ 800,592	\$ 833,304	\$ 6,854,841	\$ 4,392,232	\$ 769,927	\$ 673,332	\$ 5,835,491

See notes to combined financial statements.

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION**
COMBINED STATEMENTS OF CASH FLOWS
June 30, 2023 and 2022
(with combining information for the year ended June 30, 2023)

	Combining Information		2023 Combined	2022 Combined
	2023 Club	2023 Foundation		
Cash Flows from Operating Activities				
Change in net assets	\$ (108,411)	\$ 454,318	\$ 345,907	\$ 4,616,613
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	474,857	35,004	509,861	548,593
Amortization of right-of-use assets	18,740	-	18,740	-
Realized and unrealized (gain) loss on investments	(41,541)	(473,917)	(515,458)	664,996
Contributed property and equipment capitalized	(64,715)	-	(64,715)	-
Changes in operating assets and liabilities:				
Accounts receivable	(85,931)	-	(85,931)	(144,911)
Promises to give, net	100,000	-	100,000	182,000
Other assets	(86,263)	-	(86,263)	(7,802)
Accounts payable	33,200	-	33,200	239,305
Accrued expenses	78,917	-	78,917	32,131
Operating lease liabilities	(19,280)	-	(19,280)	-
Net cash provided by operating activities	<u>299,573</u>	<u>15,405</u>	<u>314,978</u>	<u>6,130,925</u>
Cash Flows from Investing Activities				
Proceeds from sales of investments	750,000	1,438,706	2,188,706	822,217
Purchases of investments	(3,622,910)	(3,250,438)	(6,873,348)	(3,302,829)
Purchases of property and equipment	(226,335)	-	(226,335)	(23,251)
Net cash used in investing activities	<u>(3,099,245)</u>	<u>(1,811,732)</u>	<u>(4,910,977)</u>	<u>(2,503,863)</u>
Cash Flows from Financing Activities				
Principal paid on note payable	(4,285)	(27,134)	(31,419)	(573,445)
Net cash used in financing activities	<u>(4,285)</u>	<u>(27,134)</u>	<u>(31,419)</u>	<u>(573,445)</u>
Net change in cash and cash equivalents	<u>(2,803,957)</u>	<u>(1,823,461)</u>	<u>(4,627,418)</u>	<u>3,053,617</u>
Cash and cash equivalents:				
Beginning	<u>3,315,707</u>	<u>2,274,421</u>	<u>5,590,128</u>	<u>2,536,511</u>
Ending	<u>\$ 511,750</u>	<u>\$ 450,960</u>	<u>\$ 962,710</u>	<u>\$ 5,590,128</u>
Supplemental Disclosure of Cash Flow Information				
Cash payments for interest	<u>\$ 3,407</u>	<u>\$ 34,328</u>	<u>\$ 37,735</u>	<u>\$ 70,888</u>

Supplemental disclosure of noncash investing and financing activities:

Right-of-use assets obtained in exchange for new operating lease obligations totaled approximately \$184,000 during the year ended June 30, 2023.

See notes to combined financial statements.

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 1 – 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.

Boys & Girls Clubs of Central Orange Coast Foundation (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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The combined financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Principles of Combination

The combined financial statements include the accounts of the Club and the Foundation (together, the Organization). All material related-party balances and transactions have been eliminated in combination.

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of combined financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with purchased maturities of three months or less, which are neither held for, nor restricted by, donors for long-term purposes, to be cash and cash equivalents.

Investments

The Organization measures investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are measured at their fair values in the combined statements of financial position. Sales and purchases of securities are recorded on a trade-date basis. Dividend income is recognized on the ex-dividend date and interest income is recognized on the accrual basis. Net investment return (loss) in the combined statements of activities consists of interest and dividend income, and realized and unrealized capital gains and losses, less investment expenses.

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 as of June 30, 2023 and 2022, as management considers all amounts fully collectible.

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. Leasehold improvements are depreciated over the shorter of the useful life of the improvement or the lease term, including renewal periods that are reasonably assured.

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-lived Assets

The Organization reviews long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment would be recorded in circumstances where undiscounted cash flows expected to be generated by an asset are less than the carrying value of that asset. As of June 30, 2023 and 2022, there were no events or changes in circumstances indicating the carrying amount of long-lived assets may not be recoverable.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, the Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions, as follows:

- *Net Assets without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the Organization.
- *Net Assets with Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Donor-restricted contributions received and expended in the same reporting period are recorded as net assets without donor restrictions. As of June 30, 2023 and 2022, the Organization did not hold assets with donor restrictions that are perpetual in nature.

Revenue Recognition

The Organization measures unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially measured at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the combined statements of activities. The Organization measures the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. No allowance for uncollectable promises to give was provided for as of June 30, 2023 and 2022, as management considers all amounts fully collectible.

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NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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. As of June 30, 2023 and 2022, the Organization did not receive any conditional contributions.

The Organization recognizes revenue for the following revenue streams in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, which 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.

- 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

Contributed materials are recorded at fair value at the date of donation. Donated professional services are recorded at the fair value of the services received. Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the combined financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by U.S. GAAP.

Functional Allocation of Expenses

The costs of providing the Organization's various programs and other activities have been summarized on a functional basis in the combined statements of activities. The combined statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. 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.

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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from federal and state income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and Section 23701 of the California Revenue and Taxation Code.

Management has analyzed the tax positions taken by the Organization, and has concluded that, as of June 30, 2023 and 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the combined financial statements.

Advertising

Advertising and promotional costs are charged to operations when incurred. Advertising and promotional costs were approximately \$76,000 and \$88,000 for the years ended June 30, 2023 and 2022, respectively. These costs are included under contract services in the combined statements of functional expenses.

Recently Adopted Accounting Standard

In February 2016, the FASB issued ASC 2016-02, *Leases* (Topic 842), to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statement of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. The Organization adopted Topic 842 on July 1, 2022, using the optional transition method to the modified retrospective approach.

The Organization elected the “package of practical expedients” under the transition guidance within Topic 842, in which the Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the “hindsight” practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on July 1, 2022.

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Standard (Continued)

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Organization obtains substantially all of the economic benefits from the use of those underlying assets and directs how and for what purpose the assets are used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or July 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Organization has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component. The non-lease components typically represent additional services transferred to the Organization, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Adoption of Topic 842 did not result in the recording of any ROU assets or lease liabilities at July 1, 2022, nor did it materially impact combined change in net assets or cash flows or result in a cumulative-effect adjustment to the opening combined net asset balance. See Note 11 for leases entered after the adoption of Topic 842.

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NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 3 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES

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

	2023	2022
Financial assets		
Cash and cash equivalents	\$ 962,710	\$ 5,590,128
Investments	9,926,585	4,726,485
Accounts receivable, net	373,228	287,297
Promises to give	10,000	110,000
Total financial assets	11,272,523	10,713,910
Less financial assets not available for general expenditures within one year due to donor imposed restrictions:		
Restricted for time and purpose	-	(10,000)
Financial assets available to meet general expenditures within one year	\$ 11,272,523	\$ 10,703,910

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 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.

NOTE 4 – CONCENTRATIONS, RISKS AND UNCERTAINTIES

Donors

There were no donor concentrations during the year ended June 30, 2023. The Organization received approximately 40% of total combined revenues from one source during the year ended June 30, 2022.

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
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NOTE 4 – CONCENTRATIONS, RISKS AND UNCERTAINTIES (Continued)

Cash

The Organization maintains its cash in several financial institutions which, from time to time, exceed insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Investments

Investments are made by diversified investment managers whose performance is monitored by the Organization and the Board of Directors. Although the fair values of investments are subject to fluctuation, the investment policies and guidelines are prudent for the long-term welfare of the Organization.

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Organization's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The hierarchy gives the highest priority to fair values determined using unadjusted quoted prices in active markets for identical asset or liabilities (Level 1) and the lowest priority to fair values determined using unobservable inputs (Level 3). An asset's or liability's classification is determined based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, which is the Organization's policy. The application of valuation techniques applied to similar assets and liabilities has been consistent for all investments for the years ended June 30, 2023 and 2022.

The following is a description of the valuation methodologies used for instruments measured at fair value:

- Stocks and mutual funds are based on prices quoted in active markets. They are classified within Level 1 of the fair value hierarchy.

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
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NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

- Fixed income funds are based on prices quoted in active markets, recently executed transactions, market price quotations (when observable), broker or dealer quotations, or a discounted cash flow model. They are classified within Level 1 and 2 of the fair value hierarchy.

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:

	2023			
	Level 1	Level 2	Level 3	Total
Stocks	\$ 3,637,836	\$ -	\$ -	\$ 3,637,836
Fixed income funds	5,153,221	152,278	-	5,305,499
Mutual funds	983,250	-	-	983,250
Total investments	\$ 9,774,307	\$ 152,278	\$ -	\$ 9,926,585

	2022			
	Level 1	Level 2	Level 3	Total
Stocks	\$ 2,179,685	\$ -	\$ -	\$ 2,179,685
Fixed income funds	1,742,144	144,433	-	1,886,577
Mutual funds	660,223	-	-	660,223
Total investments	\$ 4,582,052	\$ 144,433	\$ -	\$ 4,726,485

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.

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NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	Combining Information		2023	2022
	2023			
	Club	Foundation	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	1,899,283	-	1,899,283	1,826,068
Equipment	1,195,596	-	1,195,596	1,133,756
Automobiles	98,412	-	98,412	98,412
Teen centers	662,194	-	662,194	662,194
Furniture and fixtures	985,123	-	985,123	916,353
Leasehold improvements	87,225	-	87,225	-
Total property and equipment	14,683,150	1,400,000	16,083,150	15,792,100
Less accumulated depreciation	(5,728,064)	(195,435)	(5,923,499)	(5,413,638)
Property and equipment, net	<u>\$ 8,955,086</u>	<u>\$ 1,204,565</u>	<u>\$ 10,159,651</u>	<u>\$ 10,378,462</u>

NOTE 7 – ACCRUED EXPENSES

Accrued expenses consisted of the following at June 30:

	Combining Information		2023	2022
	2023			
	Club	Foundation	Combined	Combined
Salaries and benefits	\$ 331,825	\$ -	\$ 331,825	\$ 253,946
Vacation	87,780	-	87,780	87,780
Other	17,226	-	17,226	16,188
Total accrued expenses	<u>\$ 436,831</u>	<u>\$ -</u>	<u>\$ 436,831</u>	<u>\$ 357,914</u>

**BOYS & GIRLS CLUBS OF CENTRAL ORANGE COAST AND
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NOTE 8 – 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 24, 2023 to January 31, 2024. 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% (7.75% at June 30, 2023) or 5.00%. There were no amounts outstanding under the agreement at June 30, 2023 or 2022. 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, 2023.

NOTE 9 – NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2023	2022
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.	\$ 910,037	\$ 937,171
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.	145,715	150,000
Total notes payable	1,055,752	1,087,171
Less current portion	(29,882)	(29,088)
Total notes payable, noncurrent portion	\$1,025,870	\$1,058,083

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NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 9 – NOTES PAYABLE (Continued)

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

2024	\$ 29,882
2025	31,325
2026	32,509
2027	33,738
2028	35,014
Thereafter	<u>893,284</u>
	<u>\$ 1,055,752</u>

NOTE 10 – EMPLOYEE RETENTION CREDIT

The employee retention credit (ERC) is a refundable tax credit against certain employment taxes for eligible employers. In February 2022, the Club claimed ERCs of approximately \$2,000,000. ERCs are recorded in the combined financial statements when realized. The Club received and recorded ERCs of approximately \$353,000 and \$763,000, which are reported in other revenue in the combined statements of activities during the years ended June 30, 2023 and June 30, 2022, respectively. The Club received and recorded ERCs of approximately \$703,000 in July 2023.

NOTE 11 – OPERATING LEASES

The Club leases real estate and equipment under operating lease agreements that have initial terms ranging from three to five years, with renewal options. The options to extend the leases were not included in the lease terms as it was not reasonably certain that the Organization will exercise the options at the lease commencement date. The leases do not contain any material restrictive covenants or residual value guarantees.

Operating lease cost of \$21,964 is recognized on a straight-line basis over the lease term for the year ended June 30, 2023.

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NOTE 11 – OPERATING LEASES (Continued)

The weighted average remaining lease term is 3.34 years and the weighted average risk-free borrowing rate for the leases is 4.53%.

Future undiscounted cash flows for each of the next five years and a reconciliation to the lease liabilities recognized on the combined statements of financial position are as follows as of June 30:

	2024	\$ 54,437
	2025	55,746
	2026	52,816
	2027	10,805
	2028	<u>2,701</u>
Total lease payments		176,504
Less imputed interest		<u>12,209</u>
Total present value of operating lease liabilities		<u>\$ 164,295</u>

NOTE 12 – 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 \$157,000 and \$130,000 to the Club for general operating purposes during the years ended June 30, 2023 and 2022, respectively.

The Club leases its corporate office facilities from the Foundation for approximately \$5,000 per month. Lease payments totaled approximately \$61,000 during each of the years ended June 30, 2023 and 2022.

NOTE 13 – RESTRICTED NET ASSETS

Net assets with donor time restrictions totaling \$10,000 and \$110,000 as of June 30, 2023 and 2022, respectively, relate to the promises to give receivable.

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NOTE 14 – SPECIAL EVENTS

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

	2023					
	Leadership Breakfast	Gala	Other	Golf Tournament	Women's Philanthropy Brunch	Total
Gross revenues	\$ 22,572	\$533,414	\$ 49,678	\$ 90,213	\$ 56,967	\$752,844
Direct benefit costs	<u>(13,515)</u>	<u>(71,211)</u>	<u>(37,470)</u>	<u>(31,143)</u>	<u>(45,973)</u>	<u>(199,312)</u>
Total special events income, net	<u>\$ 9,057</u>	<u>\$462,203</u>	<u>\$ 12,208</u>	<u>\$ 59,070</u>	<u>\$ 10,994</u>	<u>\$553,532</u>
	2022					
	Leadership Breakfast	Gala	Other	Golf Tournament	Women's Philanthropy Brunch	Total
Gross revenues	\$ 18,882	\$411,045	\$ 44,720	\$ 59,205	\$ 81,216	\$615,068
Direct benefit 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>

NOTE 15 – 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 \$128,228 and \$104,713 for the years ended June 30, 2023 and 2022, respectively, and are included in employee benefits expense on the combined statements of functional expenses.

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NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 16 – CONTRIBUTED NONFINANCIAL ASSETS

The estimated fair value of donated materials and services reflected in the financial statements as in-kind contributions are as follows for the years ended June 30:

	2023	2022
Construction services	\$ 64,715	\$ -
Materials	-	1,600
Legal services	167,373	1,700
	\$ 232,088	\$ 3,300

The contributed nonfinancial assets did not have donor-imposed restrictions. Contributed services comprise professional construction services for building a playground for use in program activities and legal services related to the acquisition described in Note 18 and other various administrative legal matters. The estimated fair value of donated services is based on the contractor’s and law firms’ detail of hours and rates for the construction and legal services provided and were valued based on current rates for similar construction and legal services.

NOTE 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.

NOTE 18 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 16, 2023, the date the combined financial statements were available to be issued.

Acquisition of Youth Employment Service of the Harbor Area, Inc. (YES)

On September 7, 2023, the Organization entered into an Agreement of Merger with YES to create new opportunities for efficiencies and cost-savings and ensure equitable access to essential skills and training for local youth, while providing Orange County companies with enriched candidates. In accordance with the Agreement of Merger, YES dissolved, and its six board members joined the Organization’s board. The net assets acquired and resulting contribution received is estimated at approximately \$1,100,000, consisting primarily of cash and investments.

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NOTE 18 – SUBSEQUENT EVENTS (Continued)

Bequest

In July 2023, the Organization received and recorded a bequest of \$904,000, pursuant to an irrevocable trust.