

BOYS AND GIRLS CLUB OF LAGUNA BEACH  
Financial Statements  
Year ended December 31, 2018  
(With Independent Auditor's Report Thereon)

BOYS AND GIRLS CLUB OF LAGUNA BEACH  
Financial Statements  
Year ended December 31, 2018

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Board of Directors  
Boys and Girls Club of Laguna Beach  
Laguna Beach, California

*Independent Auditor's Report*

**Report on the Financial Statements**

We have audited the accompanying statement of financial position of the Boys and Girls Club of Laguna Beach as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended and related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Boys and Girls Club of Laguna Beach as of December 31, 2018 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### *Emphasis of a Matter*

As described further in note 15 to the financial statements, during the year ended December 31, 2018, Boys and Girls Club of Laguna Beach implemented Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2016-14: *Presentation of Financial Statements of Not-for-Profit Entities* which resulted in a prior period restatement of net assets. Our opinion is not modified with respect to this matter.

### **Report on Summarized Comparative Information**

We have previously audited the Boys and Girls Club of Laguna Beach's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 23, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Davis Fan LLP*

Irvine, California  
March 18, 2019

BOYS AND GIRLS CLUB OF LAGUNA BEACH  
Statement of Financial Position  
December 31, 2018  
(with comparative totals as of December 31, 2017)

	2018	2017
<u>Assets</u>		
Cash and cash equivalents	\$ 189,961	283,128
Accounts receivable	91,693	77,019
Investments (note 3)	1,391,176	1,466,676
Pledges receivable, net (note 4)	115,937	224,647
Prepaid expenses	28,090	36,250
Land, buildings and equipment, net (note 5)	1,938,914	1,998,847
Total assets	\$ 3,755,771	4,086,567
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 66,585	50,340
Accrued expenses	70,728	80,810
Deferred revenue	39,102	41,821
Total liabilities	176,415	172,971
Net assets:		
Without donor restrictions	2,517,917	2,621,396
With donor restrictions (note 10)	1,061,439	1,292,200
Total net assets	3,579,356	3,913,596
Total liabilities and net assets	\$ 3,755,771	4,086,567

See accompanying notes to financial statements

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Statement of Activities

Year ended December 31, 2018

(with comparative totals for the year ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2018	2017
<b>Support and Revenue:</b>				
Contributions (note 8)	\$ 701,248	-	701,248	613,030
Government grants (note 8)	80,000	-	80,000	85,000
Donated services	1,375	-	1,375	110,427
Memberships	88,510	-	88,510	86,315
Program activities	713,722	-	713,722	785,644
Miscellaneous revenue	1,193	-	1,193	734
Investment income/(loss) (note 3)	(19,681)	(57,190)	(76,871)	181,670
Special events, net of direct expenses (note 14)	546,325	-	546,325	625,131
Support provided by expiring restrictions	173,571	(173,571)	-	-
<b>Total support and revenues</b>	<b>2,286,263</b>	<b>(230,761)</b>	<b>2,055,502</b>	<b>2,487,951</b>
<b>Expenses:</b>				
<b>Program Services:</b>				
Art	79,913	-	79,913	71,137
Basketball	20,297	-	20,297	25,203
Main branch	926,471	-	926,471	1,058,660
Preschool	164,457	-	164,457	175,471
Snack bar	32,789	-	32,789	32,618
Teen center	146,148	-	146,148	142,176
Bluebird branch	279,769	-	279,769	301,283
Lang branch	178,137	-	178,137	193,686
<b>Total program services expenses</b>	<b>1,827,981</b>	<b>-</b>	<b>1,827,981</b>	<b>2,000,234</b>
<b>Supporting services:</b>				
General and administrative	267,121	-	267,121	292,265
Fundraising	294,640	-	294,640	298,781
<b>Total supporting services expenses</b>	<b>561,761</b>	<b>-</b>	<b>561,761</b>	<b>591,046</b>
<b>Total expenses</b>	<b>2,389,742</b>	<b>-</b>	<b>2,389,742</b>	<b>2,591,280</b>
<b>Change in net assets</b>	<b>(103,479)</b>	<b>(230,761)</b>	<b>(334,240)</b>	<b>(103,329)</b>
<b>Net assets at beginning of year</b>	<b>2,621,396</b>	<b>1,292,200</b>	<b>3,913,596</b>	<b>4,016,925</b>
<b>Net assets at end of year</b>	<b>\$ 2,517,917</b>	<b>1,061,439</b>	<b>3,579,356</b>	<b>3,913,596</b>

See accompanying notes to financial statements

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Statement of Functional Expenses

Year ended December 31, 2018

(with comparative totals for the year ended December 31, 2017)

	Program Services					Teen Center
	Art	Basketball	Main Branch	Preschool	Snack Bar	
Salaries and wages	\$ 58,311	-	477,943	107,271	12,287	98,952
Employee benefits	1,740	-	37,297	15,178	-	11,938
Payroll taxes	5,173	-	41,895	9,206	1,205	8,443
Subtotal	65,224	-	557,135	131,655	13,492	119,333
Repairs and maintenance	-	-	53,422	-	-	843
Program supplies	3,571	11,371	140,928	10,092	-	4,973
Public relations	-	-	22,520	-	-	600
Office supplies	-	-	11,379	-	-	-
Merchandise expense	-	-	-	-	16,357	-
Training	-	-	18,289	51	-	209
Dues and subscriptions	576	-	4,922	1,163	119	1,054
Professional services	-	8,133	2,907	-	-	-
Donated services	-	-	-	-	-	-
Telephone	773	-	6,601	1,560	160	1,414
Insurance	2,572	-	21,183	5,037	523	4,547
Advertising	-	-	-	-	-	7
Donated facilities	-	-	895	-	-	-
Utilities and janitorial	2,664	-	22,757	5,378	551	4,874
Depreciation	4,533	-	38,723	9,150	938	8,294
Automobile	-	-	15,100	129	-	-
Miscellaneous expense	-	793	9,710	242	649	-
Total expenses	79,913	20,297	926,471	164,457	32,789	146,148
Direct benefit to donors at special events	-	-	-	-	-	-
	<u>\$ 79,913</u>	<u>20,297</u>	<u>926,471</u>	<u>164,457</u>	<u>32,789</u>	<u>146,148</u>

See accompanying notes to financial statements

Bluebird Branch	Lang Branch	Subtotal	Supporting Services			Totals	
			General and Administrative	Fundraising	Subtotal	2018	2017
182,134	64,203	1,001,101	127,845	207,412	335,257	1,336,358	1,473,607
10,690	1,574	78,417	27,138	22,056	49,194	127,611	135,531
<u>16,086</u>	<u>5,858</u>	<u>87,866</u>	<u>9,773</u>	<u>16,037</u>	<u>25,810</u>	<u>113,676</u>	<u>123,961</u>
208,910	71,635	1,167,384	164,756	245,505	410,261	1,577,645	1,733,099
1,657	1,125	57,047	-	3,273	3,273	60,320	58,843
12,059	911	183,905	330	529	859	184,764	194,761
-	-	23,120	1,080	546	1,626	24,746	18,616
556	-	11,935	-	309	309	12,244	11,924
-	-	16,357	-	-	-	16,357	17,858
80	-	18,629	-	-	-	18,629	22,170
1,846	633	10,313	1,456	2,169	3,625	13,938	12,334
-	-	11,040	42,552	-	42,552	53,592	50,660
-	-	-	1,375	-	1,375	1,375	22,132
3,621	3,343	17,472	1,952	2,909	4,861	22,333	23,001
8,011	2,769	44,642	6,063	9,360	15,423	60,065	69,181
-	-	7	-	1,510	1,510	1,517	580
14,270	75,830	90,995	-	-	-	90,995	87,553
6,361	15,401	57,986	6,730	10,028	16,758	74,744	72,468
14,520	4,979	81,137	11,452	17,063	28,515	109,652	106,441
526	-	15,755	-	-	-	15,755	12,979
<u>7,352</u>	<u>1,511</u>	<u>20,257</u>	<u>29,375</u>	<u>1,439</u>	<u>30,814</u>	<u>51,071</u>	<u>76,680</u>
279,769	178,137	1,827,981	267,121	294,640	561,761	2,389,742	2,591,280
-	-	-	-	328,744	328,744	328,744	334,633
<u>279,769</u>	<u>178,137</u>	<u>1,827,981</u>	<u>267,121</u>	<u>623,384</u>	<u>890,505</u>	<u>2,718,486</u>	<u>2,925,913</u>

See accompanying notes to financial statements



BOYS AND GIRLS CLUB OF LAGUNA BEACH

Statement of Cash Flows

Year ended December 31, 2018

(with comparative totals for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (334,240)	(103,329)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	109,652	106,441
Unrealized (gain) loss on investments	116,760	(157,695)
(Increase) decrease in accounts receivable	(14,674)	32,902
(Increase) decrease in pledges receivable	108,710	166,493
(Increase) decrease in prepaid expenses	8,160	20,833
Increase (decrease) in accounts payable	16,244	(24,065)
Increase (decrease) in accrued expenses	(10,082)	3,603
Increase (decrease) in deferred revenue	<u>(2,719)</u>	<u>(17,299)</u>
Net cash provided (used) by operating activities	<u>(2,189)</u>	<u>27,884</u>
Cash flows from investing activities:		
Purchase of fixed assets	(49,718)	(41,618)
Purchase of investments	(50,187)	(1,458,098)
Proceeds from sale of investments	<u>8,927</u>	<u>1,516,517</u>
Net cash flows provided (used) by investing activities	<u>(90,978)</u>	<u>16,801</u>
Net increase (decrease) in cash and cash equivalents	(93,167)	44,685
Cash and cash equivalents at beginning of year	<u>283,128</u>	<u>238,443</u>
Cash and cash equivalents at end of year	<u>\$ 189,961</u>	<u>283,128</u>
Noncash investing and financing activities were as follows:		
Donated fixed assets	<u>\$ -</u>	<u>88,294</u>

See accompanying notes to financial statements

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2018

(1) Nature of Organization

The Boys and Girls Club of Laguna Beach (“Club”) was incorporated in the State of California in the year 1954 as a nonprofit corporation organized under section 501(c)(3) of the Internal Revenue Code. The specific and primary purpose was to operate an educational and recreational club for boys and girls in the Laguna Beach area in order to promote their physical, mental and moral wellbeing. The majority of the Club’s revenues are received in the forms of contributions and fundraising events as well as membership and program activity fees.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the Club have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(b) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Club’s management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Club’s management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

(c) Cash and Cash Equivalents

The Club considers cash, demand deposits and money market funds to be cash and cash equivalents. The following items on the Statement of Financial Position were considered cash and cash equivalents for purposes of the Statement of Cash Flows as of December 31, 2018:

Petty cash	\$ 6,171
Money market funds	5,021
Demand deposits	<u>178,769</u>
Total	<u>\$ 189,961</u>

These accounts may, at times, exceed federally insured limits. The Club has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

# BOYS AND GIRLS CLUB OF LAGUNA BEACH

## Notes to the Financial Statements

Year ended December 31, 2018

### (2) Summary of Significant Accounting Policies, (Continued)

#### (d) Investments

The Club's financial statements are presented in accordance with Accounting Standards Codification ASC 958-320, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under ASC 958-320, the Club is required to report certain information related to the fair value and type of investments held. Donated investments are recorded at the fair market value at the date of donation and thereafter carried in accordance with ASC 958-320. Net appreciation (depreciation) in the fair value of investments, which consists of the realized and unrealized gains or losses on those investments, is shown in the Statement of Activities. Investment income (loss) is allocated to investment accounts based on each account's respective average percentage of the total investment portfolio.

#### (e) Fair Value Measurements

The Club reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

When available, the Club measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for many of the assets and liabilities that the Club is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

The primary uses of fair value measures in the Club's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of investments (note 3).

# BOYS AND GIRLS CLUB OF LAGUNA BEACH

## Notes to the Financial Statements

Year ended December 31, 2018

### (2) Summary of Significant Accounting Policies, (Continued)

#### (f) Property and Equipment

Property and equipment are recorded at cost, or in the case of donated items, at estimated fair market value at the date of the gift. Maintenance and repairs are expensed when incurred and betterments are capitalized. Property and equipment are depreciated using the straight-line method over their estimated useful lives of three to forty-five years. It is the policy of the Club to capitalize all assets \$1,000 and greater.

#### (g) Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

##### *Net Assets Without Donor Restrictions*

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

##### *Net Assets With Donor Restrictions*

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor's instructions.

The organization's unspent contributions are included in this class if the donor limited their use. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2018

(2) Summary of Significant Accounting Policies, (Continued)

(h) Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

(i) Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

(j) Contributed Services and Facilities

Donated materials and other noncash contributions, if received, would be reflected in the accompanying statements at their estimated market values at date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis of deriving their value. Donated services in the amount of \$1,375 were recorded during the year ended December 31, 2018.

On July 1, 2013, the Club entered into a ten-year lease agreement with the City of Laguna Beach for the land under the Bluebird location at Bluebird Park for rent of \$1 a year. A contribution receivable is recorded for the difference between the fair value of the land at the date of the agreement and the amount paid. The fair value of the land was calculated at \$13 per sq. ft. based on appraisal information of the value of donated land for childcare purposes. The original contribution receivable of \$133,000, net of a present value discount, will be recognized as donated use of facilities over the term of the lease. For the year ended December 31, 2018, the Club recognized \$14,270 of expense related to the lease.

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2018

(2) Summary of Significant Accounting Policies, (Continued)

On August 25, 2014, the Club entered into a five-year lease agreement with the City of Laguna Beach for the property designated as the Lang location for rent of \$1 a year. A contribution receivable is recorded for the difference between the fair value of the land at the date of the agreement and the amount paid. The fair value of the land was calculated at \$6,704 a month based upon similar property rents nearby leased by the City. The original contribution receivable of \$368,000, net of a present value discount, will be recognized as donated use of facilities over the term of the lease. For the year ended December 31, 2018, the Club recognized \$75,830 of expense related to the lease.

(k) Membership Dues

Membership dues are reported as income when earned. Amounts received or billed in advance, but not earned, are reported as deferred revenue. As of December 31, 2018, unearned membership dues were \$33,898.

(l) Income Taxes

The Boys and Girls Club of Laguna Beach is exempt from federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the State Revenue and Taxation Code, respectively. The Club's Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by the IRS, generally for three years after they are filed. The Club's Forms 199, California Exempt Organization Annual Information Return, are subject to examination by the FTB, generally for four years after they are filed.

(m) Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants.

(n) Expense Recognition and Allocation

The cost of providing the Club's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by the CFO.

# BOYS AND GIRLS CLUB OF LAGUNA BEACH

## Notes to the Financial Statements

Year ended December 31, 2018

### (2) Summary of Significant Accounting Policies, (Continued)

- Dues and subscriptions, depreciation and interest are allocated based on employee wages for each program and supporting activity.
- Telephone and internet services, insurance, utilities and janitorial, and miscellaneous expenses that cannot be directly identified are allocated based on employee wages for each program and supporting activity.

Each year during the budget process or when program areas are added, the bases on which costs are allocated are evaluated.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The organization generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising.

#### (o) Advertising Costs

Advertising costs are expensed as incurred by the Club. Total advertising costs for the year ended December 31, 2018 were \$1,517.

#### (p) Endowments

The Club's endowment consists of funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. However, only donor-restricted funds are shown as "with donor restrictions". As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Club has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Club classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2018

(2) Summary of Significant Accounting Policies, (Continued)

The remaining portion of the donor-restricted funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Club in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Club considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Club and (7) the Club's investment policies.

Investment Return Objectives, Risk Parameters and Strategies

The Club has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds, while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Donor endowed and quasi-endowment assets are invested by in a manner that is intended to provide sufficient liquidity to make an annual distribution of approximately 3%, while growing the funds if possible. Actual returns in any given year may vary from this amount.

Spending Policy

Funds available for distribution during each year are limited to 3% of its endowment fund's average fair value of the prior 3 years through the third quarter of the fiscal year in which the distribution is planned. In establishing this policy, the Club considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. Accordingly, over the long term, the Club expects the current spending policy to allow its endowment to grow at a minimum of 5% annually. This is consistent with the Club's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.



BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2018

(2) Summary of Significant Accounting Policies, (Continued)

(q) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Club's prior year financial statements, from which this selected financial data was derived.

(3) Investments

Fair values of investments measured on a recurring basis at December 31, 2018:

	<u>Fair Value</u>	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Stocks	\$ 295,534	295,534	-	-
Bonds funds	649,620	649,620	-	-
Equity funds	<u>446,022</u>	<u>446,022</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,391,176</u>	<u>1,391,176</u>	<u>-</u>	<u>-</u>

Investment income (loss) for the year ended December 31, 2018 consisted of the following:

Investment income (loss):	
Interest and dividend income	\$ 29,387
Unrealized gain (loss)	(116,760)
Realized gain (loss)	21,747
Investment fees	<u>(11,245)</u>
	<u>\$ (76,871)</u>

(4) Pledges Receivable

Pledges receivable to give are expected to be collected as follows:

Less than one year	\$ 67,092
One to five years	48,845
More than five years	<u>-</u>
Total	<u>\$ 115,937</u>

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2018

(4) Pledges Receivable, (Continued)

Changes in donations and pledges receivable for the year ended December 31, 2018 were as follows:

Pledges receivable at beginning of year	\$ 224,647
New pledges	-
Payments received	<u>(108,710)</u>
Pledges receivable at year end	<u>\$ 115,937</u>

(5) Property and Equipment

Property and equipment at December 31, 2018 are summarized as follows:

Land	\$ 112,710
Playfield and equipment	2,474
Furniture and equipment	205,648
Automotive equipment	101,956
Building and improvements	<u>3,557,613</u>
Total property and equipment	3,980,401
Less: Accumulated depreciation	<u>(2,041,487)</u>
Net property and equipment	<u>\$ 1,938,914</u>

Depreciation and amortization expense was \$109,652 for the year.

(6) Employee Benefit Plan

Employees of the Club are eligible to participate in a defined contribution plan administered under the umbrella of the Boys and Girls Club of America. Total contributions to the plan by the Club for the year ended December 31, 2018 was \$53,414. The Club does not hold or manage plan assets and is not responsible for the administration or payment of benefits of the plan and, accordingly, the present value of the related vested benefits is not reflected in these financial statements.

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2018

(7) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 are as follows:

Financial assets:	
Cash and cash equivalents	\$ 189,961
Accounts receivable, net	91,693
Pledges receivable, net	115,937
Endowment and investments, long-term	<u>1,391,176</u>
Total financial assets	<u>1,788,767</u>
Less financial assets held to meet donor-imposed restrictions:	
Donor-restricted endowment	(940,502)
Scholarships	(5,000)
Less financial assets not available within one year:	
Pledges receivable	(115,937)
Less Board designations:	
Board-designated endowment	(208,117)
Amounts set aside for building reserve	<u>(15,011)</u>
Amount available for general expenditures within one year	<u>\$ 504,200</u>

The above table reflects donor-restricted and board-designated endowment funds as unavailable because it is the Club's intention to invest those resources for the long-term support of the organization. Note 11 provides more information about those funds and about the spending policies for all endowment funds. The Board of Directors also designates a portion of any operating surplus to its building reserve which, as of December 31, 2018, was \$15,011. Reserves may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. The percentage of total assets allocated to cash equivalents should be sufficient to assure enough liquidity to meet any disbursements.

As part of the liquidity management plan, the Club invests cash in excess of daily requirements in short-term investments when funds are available. The Club also maintains a revolving line of credit of \$125,000 to cover short-term cash needs. See note 12.

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2018

(8) Contribution Revenue

Contribution revenue for the year ended December 31, 2018, consisted of the following:

Corporate contributions	\$ 46,363
Foundation contributions	556,607
Government grants	80,000
Individual contributions	<u>98,278</u>
	<u>\$ 781,248</u>

(9) Lease Commitments

The Club leases certain office equipment under an operating lease agreement expiring on October 23, 2023. Minimum required future rental payments under the lease as of December 31, 2018, are:

Fiscal year:

2019	\$ 15,840
2020	15,840
2021	15,840
2022	15,840
2023	<u>13,200</u>
Total minimum future payments	<u>\$ 76,560</u>

Rental expenses for operating agreements were \$17,797 for the year ended December 31, 2018.

(10) Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of December 31, 2018:

Time restrictions:

Pledges receivable, which are unavailable for spending until due, some of which are also purpose restricted	\$ 115,937
Scholarships	<u>5,000</u>
Total time restricted net assets	<u>120,937</u>

Endowment funds:

Donor-restricted endowment	<u>940,502</u>
Total endowment funds	<u>940,502</u>

Total net assets with donor restrictions \$ 1,061,439

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2018

(11) Endowments

The Club's endowments were established either by donors (referred to as *donor-restricted endowment funds*) and or by resources set aside by the Board of Directors to function as endowments (referred to as *board-designated endowment funds*). Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The net asset composition of the endowment as of December 31, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Net Assets
Donor-restricted endowment funds	\$ -	940,502	940,502
Board-designated endowment funds	208,117	-	208,117
Total	<u>\$ 208,117</u>	<u>940,502</u>	<u>1,148,619</u>

Changes in endowment net assets for the year ended December 31, 2018 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ 219,956	1,062,553	1,282,509
Contributions	-	-	-
Investment loss	(11,839)	(57,190)	(69,029)
Appropriation of endowment assets for expenditure	-	(64,861)	(64,861)
Endowment net assets, end of year	<u>\$ 208,117</u>	<u>940,502</u>	<u>1,148,619</u>

(12) Line of Credit

As of December 31, 2018, the Club had available a \$125,000 unsecured line of credit from Union Bank at an interest rate of 8.90%. The line of credit is secured by the Club's personal property and expires on 12/13/2019. There was no amount outstanding on the line of credit as of December 31, 2018.

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2018

(13) Related Party Transactions

The Club has a bank account with Union Bank at December 31, 2018. A Board member is an employee at Union Bank. This Board member abstains from decisions made concerning matters that would be a conflict of interest.

The Club holds the annual Gala event at the Montage Laguna Beach each year. A member of the Board is an employee at the Montage Laguna Beach.

At December 31, 2018, the Club had outstanding employee loans of \$3,400 which are included in accounts receivable in the accompanying Statement of Financial Position. The employee loans will be reimbursed to the Club through payroll deductions in the next fiscal year.

(14) Special Events

	<u>Gala</u>	<u>Girls Night Out</u>	<u>The Ranch</u>	<u>Other Events</u>	<u>Total</u>
Special event revenue	\$ 476,699	108,567	204,949	84,854	875,069
Less direct expenses	<u>(134,854)</u>	<u>(43,360)</u>	<u>(114,251)</u>	<u>(36,279)</u>	<u>(328,744)</u>
Net support from special events	<u>\$ 341,845</u>	<u>65,207</u>	<u>90,698</u>	<u>48,575</u>	<u>546,325</u>

(15) Change in Accounting Principles

The Club implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a disclosure about liquidity and availability of resources.

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2018

(15) Change in Accounting Principles, (Continued)

The changes have the following effect on net assets at December 31, 2017:

	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets	\$ 2,621,396	-
Temporarily restricted net assets	286,471	-
Permanently restricted net assets	1,005,729	-
Net assets without donor restrictions	-	2,621,396
Net assets with donor restrictions	-	1,292,200
	<hr/>	<hr/>
Total net assets at beginning of year, as restated	<u>\$ 3,913,596</u>	<u>3,913,596</u>

(16) Subsequent Events

Subsequent events have been evaluated by management through March 18, 2019, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.