

Audited Financial Statements



BOYS & GIRLS CLUBS
OF METRO LOS ANGELES

December 31, 2017

Quigley & Miron

Boys & Girls Clubs of Metro Los Angeles
Audited Financial Statements
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December 31, 2017

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Independent Auditor's Report

Board of Directors

Boys & Girls Clubs of Metro Los Angeles
Los Angeles, CA

We have audited the accompanying financial statements of Boys & Girls Clubs of Metro Los Angeles, a nonprofit organization, which comprise the statement of financial position as of December 31, 2017, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the 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 audit opinion.

Board of Directors

Boys & Girls Clubs of Metro Los Angeles

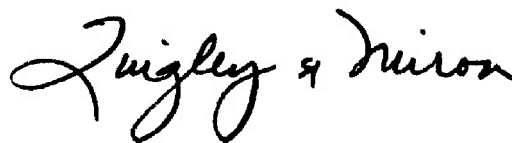
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys & Girls Clubs of Metro Los Angeles as of December 31, 2017, and the changes in its net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Los Angeles, California

July 27, 2018

A handwritten signature in black ink, reading "Twigley & Miron". The signature is written in a cursive, flowing style. The "T" is large and loops around the "w". The "&" is written as a simple ampersand. The "M" is also cursive, and the "r" and "o" are connected. The "n" is a simple vertical stroke.

Boys & Girls Clubs of Metro Los Angeles
Statement of Financial Position
December 31, 2017

Assets

Cash and cash equivalents	\$ 850,887
Contracts and grants receivable—Note 2	814,207
Other receivables	4,247
Prepaid expenses	25,675
Buildings and land leases—Note 3	8,223,264
Property and equipment, net—Note 4	12,424,206

Total Assets	\$ 22,342,486
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Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 66,788
Employee benefits payable—Note 5	183,756
Deposits	53,045
Note payable—Note 6	74,518
Deferred revenue	26,523

Total Liabilities	404,630
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Net Assets

Unrestricted	11,951,383
Temporarily restricted—Note 7	9,645,638
Permanently restricted—Note 8	340,835

Total Net Assets	21,937,856
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Total Liabilities and Net Assets	\$ 22,342,486
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See notes to financial statements.

Boys & Girls Clubs of Metro Los Angeles
Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support				
Grants and contributions	\$ 916,032	\$ 2,659,099	\$	\$ 3,575,131
Government grants	338,093			338,093
United Way	46,863			46,863
In-kind contribution of buildings and land leases—Note 3	412,702			412,702
In-kind contributions —Note 11	12,651			12,651
Total Public Support	1,726,341	2,659,099		4,385,440
Revenue				
Rental income—Note 12	286,760			286,760
Fee for service	59,907			59,907
Membership income	50,812			50,812
Other income	768			768
Total Revenue	398,247			398,247
Net Assets Released from Restrictions	2,943,074	(2,943,074)		
Total Public Support and Revenue Reclassifications	5,067,662	(283,975)		4,783,687
Expenses				
Program services	3,044,947			3,044,947
Supporting services				
Management and administration	702,537			702,537
Fund development	343,708			343,708
Total Expenses	4,091,192			4,091,192
Change in Net Assets	976,470	(283,975)		692,495
Net Assets at Beginning of Year	10,974,913	9,929,613	340,835	21,245,361
Net Assets at End of Year	\$ 11,951,383	\$ 9,645,638	\$ 340,835	\$ 21,937,856

See notes to financial statements.

Boys & Girls Clubs of Metro Los Angeles
Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services	Supporting Services		Total
		Management and Admin- istration	Fund Development	
Salaries	\$ 1,514,950	\$ 252,209	\$ 181,004	\$ 1,948,163
Employee benefits	172,447	28,709	20,604	221,760
Payroll taxes	119,281	19,858	14,252	153,391
Total Personnel Expenses	1,806,678	300,776	215,860	2,323,314
Occupancy and utilities	599,917	74,990	74,991	749,898
Professional and consulting fees	114,865	178,913	8,007	301,785
Depreciation and amortization	125,503	15,688	15,688	156,879
Program supplies	154,153			154,153
Office	88,628	11,078	11,078	110,784
Insurance		73,624		73,624
Repairs and maintenance	48,976	6,122	6,122	61,220
Travel and transportation	30,593	5,093	3,655	39,341
Property taxes	25,150	3,144	3,144	31,438
Supplies	24,187	4,027	2,890	31,104
Equipment rental	12,496	1,562	1,562	15,620
Interest		9,035		9,035
Bank charges		8,925		8,925
Scholarships and grants	7,860			7,860
Licenses and permits		5,447		5,447
Conferences and training	3,820	636	457	4,913
Advertising		3,124		3,124
Printing and publications	1,538	256	184	1,978
Miscellaneous	583	97	70	750
Total Expenses	\$ 3,044,947	\$ 702,537	\$ 343,708	\$ 4,091,192

See notes to financial statements.

Boys & Girls Clubs of Metro Los Angeles
Statement of Cash Flows
Year Ended December 31, 2017

Cash Flows from Operating Activities

Change in net assets	\$ 692,495
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	156,879
Changes in operating assets and liabilities:	
Contracts and grants receivable	(92,863)
Other receivables	(4,247)
Prepaid expenses	4,665
Buildings and land lease	56,398
Accounts payable and accrued expenses	(219,461)
Employee benefits payable	123,625
Deposits	3,045
Deferred revenue	26,523

Net Cash Provided by Operating Activities	747,059
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Cash Flows from Investing Activities

Purchases of property and equipment	(864,915)
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Net Cash Used in Investing Activities	(864,915)
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Cash Flows from Financing Activities

Repayments on note payable	(33,994)
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Net Cash Used in Financing Activities	(33,994)
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Net Decrease in Cash and Cash Equivalents	(151,850)
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**Cash and Cash Equivalents
at Beginning of Year**

1,002,737

Cash and Cash Equivalents at End of Year	\$ 850,887
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Supplementary Disclosures

Income taxes paid	\$
Interest paid	\$ 9,035

See notes to financial statements.

Boys & Girls Clubs of Metro Los Angeles
Notes to Financial Statements
December 31, 2017

Note 1—Organization and Summary of Significant Accounting Policies

Organization—Boys & Girls Clubs of Metro Los Angeles (BGCMLA) is a California not-for-profit corporation chartered by the Boys & Girls Clubs of America, Inc. BGCMLA was created in 2015 to consolidate existing Boys & Girls Clubs and to expand services through the creation of new Clubs and through partnerships with city and county government. The collective of clubs includes: Bell Gardens Boys & Girls Club, Challengers Boys & Girls Club (Challengers), Jordan Downs Boys & Girls Club, Boys & Girls Club of Nickerson Gardens, and Watts/Willowbrook Boys & Girls Club (Watts/Willowbrook). BGCMLA's mission is focused on promoting the health, life skills, and educational, vocational, and character development of Los Angeles youth ages 6-18. Each of the program sites (Clubs) facilitates programs designed to meet the physical, emotional, cultural, and social needs of the participants. Because these core areas are integrated, it is not practical to separate expenses into program categories. BGCMLA's principal funding sources are contributions, grants, government contracts and rentals.

Financial Statement Presentation—The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. BGCMLA recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions and net assets are classified based on the existence or absence of donor-imposed restrictions. The net assets of BGCMLA and changes therein are classified and reported as follows:

Unrestricted net assets—Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of BGCMLA.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met either by BGCMLA actions and/or passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.

Permanently restricted net assets—Net assets that are restricted by the donors for investment in perpetuity. Generally, the investment income generated from these funds is available for general support of BGCMLA's programs and operations or other specific purposes. At December 31, 2017, BGCMLA had \$340,835 in permanently restricted net assets.

Income Taxes—BGCMLA is a nonprofit entity, exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). Accordingly, no provision has been made for income taxes in the financial statements. In addition, BGCMLA has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

Boys & Girls Clubs of Metro Los Angeles
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered 'more likely than not' to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at December 31, 2017. Generally, BGCMLA's information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Cash Equivalents—BGCMLA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments—Investments are recorded at fair market value.

Property and Equipment—Property and equipment are stated at cost when purchased or estimated fair market value at the date of gift or bequest. Depreciation is provided for property and equipment in excess of \$5,000 on the straight-line method over the useful lives of the related assets.

Concentration of Credit Risk—Financial instruments which potentially subject BGCMLA to concentrations of credit risk consist of cash and cash equivalents and receivables. BGCMLA places its cash and cash equivalent balances with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. In the normal course of operations, such cash balances may exceed the FDIC insurance limits. Receivables are due from well-known charitable organizations with substantial assets, government entities and other entities well-known to BGCMLA. BGCMLA's management has assessed the credit risk associated with the cash and cash equivalents balances and receivables outstanding at December 31, 2017 and has determined that an allowance for potential uncollectible amounts is not necessary.

Donated Services—BGCMLA records contributed rent, goods, and services at fair value at the date of contribution. Contributions of services are recognized if they (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Allocation of Functional Expenses—The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and functional expenses. Accordingly, certain costs have been allocated between the programs and supporting services benefitted.

Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Boys & Girls Clubs of Metro Los Angeles
Notes to Financial Statements—Continued

Note 2—Contracts and Grants Receivable

Contracts and grants receivable of \$814,207 at December 31, 2017 consist of amounts pledged by charitable organizations and are all due within one year.

Note 3—Buildings and Land Leases

In April 2000, Watts/Willowbrook entered into a 54-year lease agreement (Lease) with the Compton Unified School District, requiring annual payments of \$100, for the use of 27,500 square feet of land and buildings. Accordingly, Watts/Willowbrook recorded the present value of the land and buildings rent of \$5,134,421 as buildings and land lease on the statement of financial position and as a corresponding temporarily restricted contribution on the statement of activities for the year ended June 30, 2000, based upon annual rental expense of \$275,000 and a discount rate of 5%. The Lease was acquired by BGCMLA through its acquisition of Watts/Willowbrook during the year ended December 31, 2016. The value of the Lease at December 31, 2017 was \$4,613,627.

In April 2016, BGCMLA entered into a 55-year lease agreement (Lease) with the City of Bell Gardens, requiring annual payments of \$1, for the use of 12,940 square feet of land and buildings. Accordingly, BGCMLA recorded the present value of the land and buildings rent of \$3,631,370 as buildings and land lease on the statement of financial position and as a corresponding temporarily restricted contribution on the statement of activities for the year ended December 31, 2016, based upon annual rental expense of \$194,100 and a discount rate of 5%. The value of the Lease at December 31, 2017 was \$3,609,637.

Future contributions receivable related to the leases are as follows:

<u>Year Ending December 31,</u>		
2018	\$	59,283
2019		62,317
2020		65,504
2021		68,856
2022		72,378
Thereafter		<u>7,894,926</u>
Total	\$	<u>8,223,264</u>

During the year ended December 31, 2017, BGCMLA recognized in-kind contributions related to the leases in the amount of \$412,702.

Boys & Girls Clubs of Metro Los Angeles
Notes to Financial Statements—Continued

Note 4—Property and Equipment, Net

Net property and equipment consists of the following at December 31, 2017:

Building and improvements	\$	6,539,016
Furniture and equipment		127,860
Vehicles		101,160
		<hr/>
		6,768,036
Less accumulated depreciation and amortization		(259,290)
		<hr/>
	Depreciable Property	6,508,746
	and Equipment, Net	
Land		5,915,460
		<hr/>
	Property and Equipment, Net	<u>\$ 12,424,206</u>

Total depreciation expense and amortization recorded for the year ended December 31, 2017 was \$156,879.

Note 5—Retirement Plan

BGMLA participates in a defined contribution retirement plan sponsored by the Boys and Girls Clubs of America (Plan). The plan covers qualified full-time employees. Contributions are made to the Plan based upon a board-approved contribution rate applied to each employee's qualified salaries and wages.

As a result of the acquisition of Watts/Willowbrook during the year ended December 31, 2016, BGCMLA assumed a liability, which represented the amount owed by Watts/Willowbrook to the Plan. The value of the liability at December 31, 2017 was \$51,038 and is reported in the employee benefits payable caption of the statement of financial position.

Effective January 1, 2017, BGCMLA adopted and executed a 401(k)-defined contribution plan, which provides for employer contributions of 3% of eligible wages. Employees become eligible to participate in the defined contribution plan after the first day of the calendar month following the employee's commencement date. BGMLA's contributions to the 401(k)-plan for the year-ended December 31, 2017 amounted to \$2,886.

Boys & Girls Clubs of Metro Los Angeles
Notes to Financial Statements—Continued

Note 6—Note Payable

BGCMLA has a note payable to a bank bearing interest at 5.75%, requiring monthly payments of principal and interest in the amount of \$3,285. The balance at December 31, 2017 amounted to \$74,518. Future minimum principal payments related to this note payable are as follows:

Year Ending December 31,

2018	\$	36,297
2019		38,221
Total		\$ 74,518

Note 7—Temporarily Restricted Net Assets

BGCMLA's temporarily restricted net assets as of December 31, 2017 consist of the following:

Buildings and land lease	\$	8,223,264
Restricted to time		737,012
Tennis Academy		614,087
Data Collection Systems		46,275
Sports Programs		25,000
Total		\$ 9,645,638

Note 8—Permanently Restricted Net Assets

In January 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires 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. The Board is aware that there is an implicit understanding that the market value of the donor-restricted endowment may, from time to time, fall below the fair value of the original gift as of the gift date due to market conditions or continued prudent expenditures by the Board of certain amounts of the endowment. If such a temporary deficit condition occurs, the Board would take all prudent steps, given ongoing market conditions, to restore the fair value of the fund to an amount at or above the amount of the original gift.

As a result of the acquisition of Challengers during the year ended December 31, 2016, BGCMLA acquired a permanently restricted endowment fund in the amount of \$340,835. Prior to the acquisition date, Challengers liquidated the investment funds associated with the endowment and borrowed these funds to fund operations.

Boys & Girls Clubs of Metro Los Angeles
Notes to Financial Statements—Continued

Note 8—Permanently Restricted Net Assets—Continued

BGCMLA is aware of its obligations under UPMIFA and has been in contact with the original donor of the permanently restricted endowment fund. It is BGCMLA's Board of Directors intent to develop a plan for restoration of the endowment funds in a way as to honor the terms of the original agreement with the donor. As there were no investable assets to support the endowment funds and no new contributions were received during the year ended December 31, 2017, there were no investment returns or appropriations made from the fund. The net asset composition of the endowment at December 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets at December 31, 2017	<u><u>\$ (340,835)</u></u>	<u><u>\$</u></u>	<u><u>\$ 340,835</u></u>	<u><u>\$</u></u>

Note 9—Leases

BGCMLA has a 65-month non-cancelable operating lease for office space that began on August 31, 2016. BGCMLA also leases office equipment under another non-cancelable operating lease. Future minimum annual rental payments payable under these lease agreements are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 76,940
2019	78,008
2020	74,936
2021	<u>77,185</u>
Total	<u><u>\$ 307,069</u></u>

Rental expenses related to these operating leases amounted to \$82,239 for the year ended December 31, 2017.

Note 10—Commitments and Contingencies

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. Although it is considered a possibility, BGCMLA deems the contingency remote, since by accepting the gifts and their terms, it has accommodated the objectives of the grantor under the provisions of the gift.

Boys & Girls Clubs of Metro Los Angeles
Notes to Financial Statements—Continued

Note 11—In-Kind Contributions

In-kind contributions of \$12,651 for the year ended December 31, 2017 have been recorded in the in-kind contributions caption of the statement of activities at their fair value and included in the statement of functional expenses as follows:

Supplies	\$	11,849
Program supplies		802
		<hr/>
Total	\$	<u>12,651</u>

Note 12—Rental Income

In August 2011, Challengers signed a 15-year agreement with a lessor for classroom space through August 2026. Additionally, in January 2018, BGCMLA signed a five-year agreement with a lessor for office space through December 2022. Rental income associated with these leases amounted to \$286,760 for the year ended December 31, 2017. Total future rental income to be received is as follows:

<u>Year Ending December 31,</u>		
2018	\$	283,358
2019		288,182
2020		291,410
2021		296,427
2022		299,704
Thereafter		<hr/> 1,068,136
	Total	\$ <u>2,527,217</u>

Note 13—Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for BGCMLA for 2020; early adoption is permitted. BGCMLA is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

Boys & Girls Clubs of Metro Los Angeles
Notes to Financial Statements—Continued

Note 13—Recent Accounting Pronouncements—Continued

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires all not-for-profit entities to present expenses by both their natural and functional classification in a single location in the financial statements. ASU No. 2016-14 is effective for BGCMLA in 2018, although early adoption is permitted. BGCMLA is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

Note 14—Subsequent Events

Management has evaluated subsequent events through July 27, 2018, which is the date the financial statements were available to be issued, and concluded that no material subsequent events have occurred that would require adjustment to the financial statements or disclosures in the notes to the financial statements.