

Audited Financial Statements



BOYS & GIRLS CLUBS
OF METRO LOS ANGELES

December 31, 2021

Quigley & Miron

Boys & Girls Clubs of Metro Los Angeles
Audited Financial Statements
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Independent Auditor's Report

Board of Directors
Boys & Girls Clubs of Metro Los Angeles
Los Angeles, California

Opinion

We have audited the accompanying financial statements of Boys & Girls Clubs of Metro Los Angeles (BGCMLA), a nonprofit organization, which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BGCMLA as of December 31, 2021, 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.

Basis of Opinion

We conducted our audit 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 BGCMLA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the 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 BGCMLA's ability to continue as a going concern for one year after the date that the financial statements are 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 BGCMLA'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 BGCMLA's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited the financial statements of the Boys & Girls Clubs of Metro Los Angeles as of December 31, 2020, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 22, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Los Angeles, California
September 19, 2022

Boys & Girls Clubs of Metro Los Angeles
Statement of Financial Position
December 31, 2021
(with comparative totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 1,506,367	\$ 1,275,684
Restricted cash		
PPP advance		427,512
Cash held in endowment		24
Investments—Note 3	30,983	19,552
Pledges and grants receivable—Note 4	247,185	492,875
Government grants receivable	100,000	
ERC grants receivable—Note 13	239,099	
Accounts receivables	11,066	136,265
Prepaid expenses and other assets	35,191	25,856
In-kind buildings and land leases—Note 5	7,967,305	8,036,161
Property and equipment, net—Note 6	13,432,814	13,553,061
Total Assets	<u>\$ 23,570,010</u>	<u>\$ 23,966,990</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 495,618	\$ 496,047
Salaries and employee benefits payable—Note 7	219,324	205,041
Note payable, net of unamortized note issuance costs of \$41,057 and \$46,020—Note 8	1,513,943	1,508,980
Deposits	53,045	53,045
Deferred revenue	29,639	981
PPP advance—Note 14		427,512
Total Liabilities	<u>2,311,569</u>	<u>2,691,606</u>
Net Assets		
Without donor restrictions	12,802,289	12,228,158
With donor restrictions—Note 9	8,456,152	9,047,226
Total Net Assets	<u>21,258,441</u>	<u>21,275,384</u>
Total Liabilities and Net Assets	<u>\$ 23,570,010</u>	<u>\$ 23,966,990</u>

See notes to financial statements.

Boys & Girls Clubs of Metro Los Angeles
Statement of Activities
Year Ended December 31, 2021
(with comparative totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Operating Activities				
Public Support and Revenue				
Grants and contributions	\$ 2,170,261	\$ 318,752	\$ 2,489,013	\$ 2,870,185
Government grants	101,900		101,900	69,427
ERC grants—Note 13	607,072		607,072	
PPP grant—Note 14	427,512		427,512	
Special events				
Gross revenue	106,958		106,958	
Less cost of direct benefits to donors	(27,933)		(27,933)	
Special Events, Net	79,025		79,025	
In-kind contribution of buildings and land leases—Note 5	403,244		403,244	403,596
In-kind contributions—Note 15	603,767		603,767	490,670
Fee for service	285,302		285,302	390,850
Program income	23,414		23,414	9,039
Interest and dividend income	2,892	2,531	5,423	129
Other income (losses)	14,739		14,739	(20,235)
Rental income—Note 16	311,971		311,971	307,387
Net assets released from restrictions	919,655	(919,655)		
Replenishment of underwater endowment—Note 10	(10,000)	10,000		
Total Public Support and Revenue	5,940,754	(588,372)	5,352,382	4,521,048
Expenses				
Youth program services	4,011,006		4,011,006	3,326,162
Supporting services				
Management and general	947,319		947,319	786,131
Fund development	408,287		408,287	442,118
Total Expenses	5,366,612		5,366,612	4,554,411
Change in Net Assets from Operations	574,142	(588,372)	(14,230)	(33,363)
Nonoperating Activities				
Investment return, Net—Note 3	(11)	(2,702)	(2,713)	4,595
Total Nonoperating Activities	(11)	(2,702)	(2,713)	4,595
Change in Net Assets	574,131	(591,074)	(16,943)	(28,768)
Net Assets at Beginning of Year	12,228,158	9,047,226	21,275,384	21,304,152
Net Assets at End of Year	\$ 12,802,289	\$ 8,456,152	\$ 21,258,441	\$ 21,275,384

See notes to financial statements.

Boys & Girls Clubs of Metro Los Angeles
Statement of Functional Expenses
Year Ended December 31, 2021
(with comparative totals for 2020)

		Supporting Services			
	Youth Program Services	Management and General	Fund Development	2021 Total	2020 Total
Salaries	\$ 1,175,912	\$ 251,982	\$ 251,981	\$ 1,679,875	\$ 1,520,570
Employee benefits— Note 7	242,114	51,881	51,881	345,876	263,894
Payroll taxes	101,416	21,732	21,732	144,880	138,378
Total Personnel Expenses	1,519,442	325,595	325,594	2,170,631	1,922,842
Youth program supplies	760,532			760,532	626,591
Occupancy and utilities	708,437	29,829	7,457	745,723	721,471
Professional and consulting fees	194,124	305,051	55,464	554,639	484,927
Depreciation and amortization	302,351	12,731	3,183	318,265	300,865
Repairs and maintenance	247,304	10,413	2,603	260,320	52,085
Office expenses	130,526	5,496	1,374	137,396	129,179
Interest		131,340		131,340	92,201
Insurance	25,916	51,465	197	77,578	79,194
Equipment rental	43,458	1,830	457	45,745	44,497
Program awards and youth incentives	29,562			29,562	13,337
Cost of direct benefits to donors				27,933	
Dues and subscriptions	682	21,237	4,397	26,316	25,002
Property taxes	19,884	837	209	20,930	24,371
Bank charges		20,843		20,843	12,281
Write off of loan issuance costs		18,525		18,525	
Conferences and workshops	11,405	2,443	2,444	16,292	7,851
Travel and transportation	7,593	1,627	1,627	10,847	6,212
Promotion	9,790			9,790	3,632
Licenses and permits		8,057		8,057	7,350
Donor stewardship			3,281	3,281	523
Total Expenses by Function	4,011,006	947,319	408,287	5,394,545	4,554,411
Less expenses included with revenues on the statement of activities					
Cost of direct benefits to donors				(27,933)	
Total Expenses	\$ 4,011,006	\$ 947,319	\$ 408,287	\$ 5,366,612	\$ 4,554,411

See notes to financial statements.

Boys & Girls Clubs of Metro Los Angeles
Statement of Cash Flows
Year Ended December 31, 2021
(with comparative totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (16,943)	\$ (28,768)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated securities	(14,134)	(14,957)
Depreciation and amortization	318,265	300,865
Amortized loan issuance costs	10,673	7,080
Write off of loan issuance costs	18,525	
Investment (gains) losses	2,553	(4,595)
Loss on disposal of property and equipment		20,235
Changes in operating assets and liabilities:		
Pledges and grants receivable	245,690	(362,977)
Government grants receivable	(100,000)	
ERC grants receivable	(239,099)	
Accounts receivable	125,199	(119,011)
Prepaid expenses and other assets	(9,335)	(968)
In-kind buildings and land leases	68,856	65,504
Accounts payable and accrued liabilities	(429)	(83,125)
Salaries and employee benefits payable	14,283	(493)
Deferred revenue	28,658	(30,649)
PPP advance	(427,512)	427,512
Net Cash Provided by Operating Activities	25,250	175,653
Cash Flows from Investing Activities		
Purchases of property and equipment	(198,018)	(221,481)
Proceeds from sales of vehicles		4,728
Replenishment of funds held in perpetuity	(10,000)	(14,957)
Proceeds from sales of investments	150	
Net Cash Used in Investing Activities	(207,868)	(231,710)
Cash Flows from Financing Activities		
Repayments on line of credit		(120,000)
Proceeds from note payable	1,555,000	1,555,000
Repayments on note payable	(1,555,000)	
Payments for note issuance costs	(24,235)	(53,100)
Replenishment of funds held in perpetuity	10,000	14,957
Net Cash Provided by (Used in) Financing Activities	(14,235)	1,396,857
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	(196,853)	1,340,800
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	1,703,220	362,420
Cash, Cash Equivalents, and Restricted Cash at End of Year	<u>\$ 1,506,367</u>	<u>\$ 1,703,220</u>
Supplementary Disclosures		
Income taxes paid	<u>\$</u>	<u>\$</u>
Interest paid	<u>\$ 131,340</u>	<u>\$ 92,201</u>

See notes to financial statements.

Boys & Girls Clubs of Metro Los Angeles
Notes to Financial Statements
December 31, 2021

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 High School 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 youth program sites (Clubs) facilitates youth 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, events and rentals.

BGCMLA provides a trauma-informed, Social Emotional Learning approach to its afterschool programming in low-income communities. BGCMLA serves 95%+ African American and Latinx students, 100% of whom qualify for free or reduced lunch. Since 2020, BGMLA addressed the significant food insecurity as a result of COVID-19 by providing 2500+ meals per week to families in the community. BGMLA provides a safe place for youth to learn, explore, achieve, and dream. BGMLA accomplishes this through targeted programs in arts, music, STEM, mentoring, athletics and healthy lifestyles.

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's net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of BGCMLA and changes therein are presented and reported as follows:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of BGCMLA. These net assets may be used at the discretion of BGCMLA's management and the board of directors.

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of BGCMLA and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit BGCMLA to use all or part of the income earned on related investments for general or specific purposes.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions. It is the policy of BGCMLA to record contributions that are restricted by the donor as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

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, 2021 and 2020. 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, Cash Equivalents, and Restricted Cash—BGCMLA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Restricted cash consists of PPP funds and cash held in endowment.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the statement of financial position to the sum total of cash, cash equivalents, and restricted cash reported in the statement of cash flows at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash Accounts Reported in Statement of Financial Position		
Cash and cash equivalents	\$ 1,506,367	\$ 1,275,684
Restricted cash		
PPP advance		427,512
Cash held in endowment		24
	<u> </u>	<u> </u>
Total Cash, Cash Equivalents, and Restricted Cash		
Reported in Statement of Cash Flows	<u><u>\$ 1,506,367</u></u>	<u><u>\$ 1,703,220</u></u>

Investments—Investments in securities are initially recorded at cost, if purchased, or fair market value, if received as a contribution. Subsequent to acquisition, investments in securities are reported at fair value. Investment income, realized and unrealized gains and losses are reported as unrestricted income unless use of the earnings is restricted by the donor. Interest and dividends earned on investments is recognized when received and reported as interest and dividend income under public support and revenue on the statement of activities.

Pledges and grants receivable—Pledges and grants receivable consist primarily of pledges and grants from various donors and foundations well known to BGCMLA and are due within one year. Management believes these receivable balances as of December 31, 2021 and 2020 are fully collectible, and BGCMLA has therefore not recorded an allowance for doubtful accounts.

Government grants receivable—Revenue from government grants are reported as increases without donor restrictions as allowable expenditures under such agreements are incurred. The amounts expended in excess of reimbursements are reported as grants receivable.

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of BGCMLA’s youth program services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature; BGCMLA did not engage in any reportable nonoperating activities during the year ended December 31, 2021.

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.

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

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, 2021 and 2020 and has determined that an allowance for potential uncollectible amounts is not necessary.

Revenue Recognition—BGCMLA's revenue recognition policies are as follows:

Government grants—Revenues from government grants are reported as increases in net assets without donor restrictions as allowable expenditures under such agreements as incurred. The amounts expended in excess of reimbursements are reported as grants receivable. Amounts received in excess of amounts expended are recorded as deferred revenue.

Special events—BGCMLA conducts special fundraising events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of benefits received by the participants at the event. BGCMLA values such benefits at the actual cost.

Fee for service—Fees for services are recognized at the time services are provided.

Program income—Program income is recognized at the time services are provided.

Rental income—Rental income is recognized at the time services are provided.

In-Kind Contributions—BGCMLA records in-kind rent, goods, and services at fair value at the date of contribution. In-kind 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.

Functional Expenses—The costs of providing the various youth program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the youth program services and supporting services benefitted. Salaries, employee benefits, payroll taxes, professional and consulting fees, conferences and training, travel and transportation are allocated based on time and effort of employees. Occupancy and utilities, depreciation and amortization, office expenses, insurance, repairs and maintenance, equipment rental, and property taxes are allocated based on space estimates. All other expenses are charged directly to the program or function 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—Availability and Liquidity

BGCMLA's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$1,000,000).

The following represents the availability and liquidity of BGCMLA's financial assets without donor restrictions at December 31, 2021 and 2020 to cover operating expenses for the next fiscal year:

Financial assets:

Cash and cash equivalents	\$ 1,506,367
Pledges and grants receivable	247,185
Government grants receivable	100,000
ERC grants receivable	239,099
Accounts receivables	11,066

Total Financial Assets **2,103,717**

Less amounts not available to be used within one year:

Cash subject to expenditure for specified purpose	(302,342)
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**Financial Assets Available to Meet General
Expenditures Over the Next 12 Months** **\$ 1,801,375**

BGCMLA also has a revolving line of credit in the amount of \$350,000 which is available to assist in meeting cash flow needs. As of September 19, 2022, which is the date the financial statements were available to be issued, \$350,000 was available.

Note 3—Investments and Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy is categorized into three levels based on the inputs as follows:

Level 1—Quoted market prices in active markets for identical assets or liabilities. Level 1 assets include equity securities and mutual funds valued at the closing price reported on the active market on which the individual securities are traded.

Level 2—Observable market-based inputs, either directly or indirectly, but are other than quoted prices in actively traded markets.

Level 3—Unobservable inputs that are supported by little or no market activity which are significant to the fair value of the asset or liability. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

BGCMLA may utilize a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by BGCMLA to value private investments is the Net Asset Value (NAV) per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. BGCMLA had no assets or liabilities classified at NAV as a practical expedient during the years ended December 31, 2021 and 2020.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2021 and 2020 consist of investments in equities, which are considered Level 1 inputs.

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

Note 3—Investments and Fair Value Measurements—Continued

Investment return for the years ended December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Unrealized gains (losses)	\$ (2,553)	\$ 4,745
Investment management fees	(160)	(150)
Investment Return, Net	(2,713)	4,595
Interest and dividend income	5,423	129
Total Investment Return	\$ <u>2,710</u>	\$ <u>4,724</u>

Note 4—Pledges and Grants Receivable

Grants receivable of \$247,185 and \$492,875 at December 31, 2021 and 2020, respectively consist of amounts pledged by donors and organizations well known to BGCMLA and are all due within one year.

Note 5—In-Kind 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 valued at \$10 per square foot as *buildings and land lease* on the statement of financial position and as a corresponding donor-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, 2021 and 2020 was \$4,470,503 and \$4,520,611, respectively.

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 valued at \$15 per square foot as *buildings and land lease* on the statement of financial position and as a corresponding donor-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, 2021 and 2020 was \$3,565,658 and \$3,581,054, respectively.

Future anticipated amortization of the in-kind building and leases is as follows:

<u>Year Ending December 31,</u>	
2022	\$ 72,378
2023	76,081
2024	79,974
2025	84,066
2026	88,376
Thereafter	<u>7,566,430</u>
Total	\$ <u>7,967,305</u>

During the years ended December 31, 2021 and 2020, BGCMLA recognized in-kind contributions of buildings and land leases related to the leases in the amount of \$403,244 and \$403,596, respectively.

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

Note 6—Property and Equipment, Net

Net property and equipment consists of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Building and improvements	\$ 8,520,641	\$ 8,351,659
Furniture and equipment	230,309	201,273
Vehicles	83,489	83,489
	<u>8,834,439</u>	<u>8,636,421</u>
Less accumulated depreciation and amortization	(1,317,085)	(998,820)
Depreciable Property and Equipment, Net	7,517,354	7,637,601
Land	<u>5,915,460</u>	<u>5,915,460</u>
Property and Equipment, Net	<u>\$ 13,432,814</u>	<u>\$ 13,553,061</u>

Total depreciation expense and amortization recorded for the years ended December 31, 2021 and 2020 was \$318,265 and \$300,865.

Note 7—Retirement Plan

BGMLA participates in a defined contribution retirement plan sponsored by the Boys & 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 representing the amount owed by Watts/Willowbrook to the Plan. The value of the liability at December 31, 2021 and 2020 was \$22,506 and \$22,506, respectively and is included in accounts payable and accrued liabilities in 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. The plan requires plan participants to be 21 years old; employees are eligible for employer matching after 1 year and 1000 hours worked. BGMLA's contributions to the 401(k)-plan for the year ended December 31, 2021 and 2020 amounted to \$34,603 and \$32,833, respectively.

Note 8—Notes Payable

During the year ended December 31, 2020, BGMLA received a \$1,555,000 loan for operations. The note was secured by a lien on the deed of trust recorded against one of BGMLA's properties. The note held an interest rate of 7.99% and the initial loan issuance costs associated with the note payable amounted to \$53,100. During the year ended December 31, 2021, BGCMLA incurred \$18,525 in write off of loan fees on the statement of functional expenses related to the refinance and issuance of a new note.

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

Note 8—Notes Payable—Continued

During the year ended December 31, 2021, BGMLA refinanced the previously held note. The note is secured by a lien position deed of trust recorded against one of BGMLA's properties. The note matures in September 2031, and carries an interest rate of 5.75%, with principal and interest payments of \$9,783. The initial loan issuance costs associated with the note payable amounted to \$25,800.

Note payable at December 31, 2021, consists of the following:

	<u>2021</u>	<u>2020</u>
Note payable to financial institution bearing interest at 5.75%, requiring monthly payments of principal and interest of \$9,783, maturing 2031, secured by land and building.	\$ 1,555,000	\$
Less unamortized note issuance costs	(41,057)	
Note payable to financial institution bearing interest at 7.99%, requiring monthly payments of interest of \$10,354, maturing May 2025, secured land and building.		1,555,000
Less unamortized note issuance costs		(46,020)
Note Payable, Net	\$ <u>1,513,943</u>	\$ <u>1,508,980</u>

Interest expense and amortization related to these notes totaled \$131,340 and \$92,201 for the years ended December 31, 2021 and 2020, respectively.

Future principal payments under the note as of December 31, 2021 are as follows:

Year Ending December 31,

2022	\$ 29,143
2023	30,864
2024	32,686
2025	34,616
2026	36,659
Thereafter	<u>1,391,032</u>
Total	\$ <u>1,555,000</u>

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

Note 9—Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Tennis Academy	\$ 77,652	\$ 55,651
Capital improvements and renovations	70,475	120,547
Specified future periods	50,000	100,000
Money Matters	25,000	
CARE 2022	20,000	
Club acquisition costs	15,880	23,990
Scholarships	10,000	
Transportation	33,335	4,335
Food distribution		100,000
Teen Center		95,633
Sports and healthy lifestyles programs		58,333
Laptop equipment		8,000
Subject to time restrictions:		
Building and land lease	7,967,305	8,036,161
Future period pledges	157,100	425,000
Subject to appropriation and expenditure:		
Endowment fund	4,448	4,619
Held in perpetuity:		
Endowment fund	340,835	340,835
Underwater endowment	(315,878)	(325,878)
Total Net Assets With Donor Restrictions	<u>\$ 8,456,152</u>	<u>\$ 9,047,226</u>

Net assets released from donor restrictions for the years ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Satisfaction of purpose restrictions:		
Food distribution	\$ 100,000	\$
Teen Center	95,633	25,460
Sports and healthy lifestyles programs	58,333	10,000
Tennis Academy	55,651	311,551
Capital improvements and renovations	50,072	170,233
Specified future periods	50,000	
Club acquisition costs	8,110	
Laptop equipment	8,000	
Passenger vans		45,665
Training program		10,500
Other		4,167
Satisfaction of passage of time		
Future period pledges	425,000	80,170
Building and land lease	68,856	65,504
Total Net Assets Released from Donor Restrictions	<u>\$ 919,655</u>	<u>\$ 723,250</u>

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

Note 10—Endowment 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 an endowment fund held in perpetuity 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. BGCMLA is aware of its obligations under UPMIFA, and during the years ended December 31, 2021 and 2020 BGCMLA began replenishment of the funds in the amounts of \$10,000 and \$14,957, respectively. The balance of the underwater endowment at December 31, 2021 and 2020 amounted to \$315,878 and \$325,878. BGMLA is aware of its obligations under UPMIFA and will continue to replenish the endowment going forward.

Changes in endowment net assets for the years ended December 31, 2021 consist of the following:

		Held in Perpetuity		
	Subject to Appropriation	Endowment Fund	Underwater Endowment	Total
Endowment Net Assets (Deficit) at December 31, 2019	\$	\$ 340,835	\$ (340,835)	\$
Replenishment of underwater endowment			14,957	14,957
Interest and dividend income	24			24
Investment gain	4,595			4,595
Total Investment Return on Endowment Funds	4,619			4,619
Endowment Net Assets (Deficit) at December 31, 2020	4,619	340,835	(325,878)	19,576
Replenishment of underwater endowment			10,000	10,000
Interest and dividend income	2,531			2,531
Investment gain	(2,702)			(2,702)
Total Investment Return on Endowment Funds	(171)			(171)
Endowment Net Assets (Deficit) at December 31, 2021	\$ 4,448	\$ 340,835	\$ (315,878)	\$ 29,405

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

Note 11—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 this lease agreements are as follows:

Year Ending December 31,

2022	\$	60,096
2023		<u>20,933</u>
Total	\$	<u>81,029</u>

Rental expenses related to this operating leases amounted to \$87,702 and \$93,687 for the years ended December 31, 2021 and 2020, respectively.

Note 12—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.

From time to time, BGCMLA is subject to litigation that arises in the normal course of conducting its operations. In management's opinion, the resolution of litigation matters, if any would not have a material effect on the financial position of BGCMLA at December 31, 2021 and 2020.

Note 13—ERC Grants

During the year ended December 31, 2021, BGCMLA was eligible and applied for employee retention credits (ERC) in the amount of \$607,072. This is included in the ERC grants in the statement of activities and in the ERC grants receivable in the statement of financial position.

Note 14—PPP Grant

On May 6, 2020, BGCMLA received, \$427,512 in Paycheck Protection Program (PPP) funding from the U.S. Small Business Administration (SBA). During the year ended December 31, 2021, BGCMLA received official notice of forgiveness from the SBA for the full advance amount and recognized \$427,512 in PPP grant revenue.

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

Note 15—In-Kind Contributions

For the years ended December 31, 2021 and 2020, in-kind contributions are reported on the statement of activities under public support and revenue, and on the statement of functional expenses under the following expense captions:

	<u>2021</u>	<u>2020</u>
Program supplies	\$ 603,767	\$ 452,700
Office expenses		35,000
Occupancy and utilities		2,970
Totals	<u>\$ 603,767</u>	<u>\$ 490,670</u>

Note 16—Rental Income

In August 2011, Challengers signed a 15-year agreement with a lessee for classroom space through August 2026. Additionally, in January 2018, BGCMLA signed a five-year agreement with a lessee for office space through December 2022. Rental income associated with these leases amounted to \$311,971 and \$307,387 for the years ended December 31, 2021 and 2020, respectively. Total future rental income to be received is as follows:

Year Ending December 31,

2022	\$ 296,427
2023	299,704
2024	291,719
2025	295,046
2026	300,513
Thereafter	<u>180,858</u>
Total	<u>\$ 1,664,267</u>

Note 17—Legal Settlement

During the year ended December 31, 2019, BGCMLA reached an employment related settlement resulting largely from the acquisition of a club during the year ended December 31, 2017. The settlement amounted to \$225,000 and is included in the *Accounts payable and accrued liabilities* caption on the statement of financial position. The terms of the settlement require two equal payments of \$112,500, with the first payment made upon the Court's final approval of the settlement in May 2022. The second payment is due October 2022.

Note 18—Recent Accounting Pronouncements

Leases—In February 2016, the Financial Accounting Standards Board (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 nonprofit organizations with fiscal years beginning after December 15, 2021, with early adoption permitted. BGCMLA is currently evaluating the impact that the adoption of ASU No. 2016-02 will have on its financial statements.

Note 18—Recent Accounting Pronouncements

Gifts-in-Kind—In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires increased transparency around the use and valuation of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit entities. Under the updated guidance, gifts-in-kind are required to be presented as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, and to be disaggregated in the notes to the financial statements by the category that depicts the type of contributed nonfinancial assets. There are additional required disclosures regarding qualitative information denoting whether the gifts-in-kind were monetized or utilized during the reporting period; the entity's policy, if any, about monetizing rather than utilizing contributed nonfinancial assets; and the valuation techniques and inputs used to arrive at a fair value measure. ASU No. 2020-07 is to be applied retrospectively and is effective for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. Early adoption is permitted. BGCMLA is currently evaluating the impact that the adoption of ASU 2020-07 will have on its financial statements.

Note 19—Subsequent Events

Subsequent to year-end, BGCMLA's board of directors voted to acquire an additional Boys and Girls Club. BGCMLA is in the final states acquiring the club, currently scheduled to close September 30, 2022.

Management evaluated all activities of BGMLA through September 19, 2022, which is the date the financial statements were available to be issued, and concluded, other than the payments made for the legal settlement (Note 17) and the acquisition described above, that no material subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.