

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
OF
BOYS & GIRLS CLUB OF SAN MARCOS
JUNE 30, 2020 AND 2019**

**BOYS & GIRLS CLUB OF SAN MARCOS
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JUNE 30, 2020 AND 2019**

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Independent Auditor's Report

To the Board of Directors of
Boys & Girls Club of San Marcos
San Marcos, California

We have audited the accompanying financial statements of Boys & Girls Club of San Marcos (a nonprofit club), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 from 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys & Girls Club of San Marcos as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Covell, Jani & Pasch LLP

Escondido, California
January 27, 2021

**BOYS & GIRLS CLUB OF SAN MARCOS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019**

ASSETS		
	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 369,682	\$ 147,512
Investments, without donor restrictions	930,995	925,947
Accounts receivable	-	39,798
Grants receivable	165,962	124,815
Prepaid expenses	40,123	9,125
Other current assets	-	6,422
TOTAL CURRENT ASSETS	1,506,762	1,253,619
 PROPERTY AND EQUIPMENT, NET	 484,719	 571,956
 INVESTMENTS, ENDOWMENT (WITH DONOR RESTRICTIONS)	 65,001	 65,001
 TOTAL ASSETS	 <u>\$ 2,056,482</u>	 <u>\$ 1,890,576</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 32,861	\$ 60,990
Accrued liabilities	-	6,113
Refundable advance	72,674	-
Accrued payroll liabilities	33,225	38,726
Deferred revenue and deposits	65,343	89,428
TOTAL CURRENT LIABILITIES	<u>204,103</u>	<u>195,257</u>
 NET ASSETS		
Without donor restrictions	1,782,031	1,629,971
With donor restrictions	70,348	65,348
TOTAL NET ASSETS	<u>1,852,379</u>	<u>1,695,319</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 2,056,482</u>	 <u>\$ 1,890,576</u>

See independent auditor's report and notes to financial statements

**BOYS & GIRLS CLUB OF SAN MARCOS
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019)**

	Year Ended June 30, 2020			Year Ended June 30, 2019
	Without Donor Restrictions	With Donor Restrictions	Total	Totals
SUPPORT AND REVENUE				
General club revenue	\$ 617,473	\$ -	\$ 617,473	\$ 644,630
Grants	1,322,626	-	1,322,626	959,735
Public support contributions	394,326	5,000	399,326	398,978
United Way contribution	2,108	-	2,108	968
Special events (net of direct expenses \$33,644)	117,433	-	117,433	301,074
Interest and dividends	29,850	-	29,850	30,244
Other income	10,824	-	10,824	-
Gain (loss) on disposal of assets	-	-	-	(504)
Investment return, net	101,938	-	101,938	(1,015)
TOTAL SUPPORT AND REVENUE	2,596,578	5,000	2,601,578	2,334,110
NET ASSETS RELEASED FROM RESTRICTIONS	-	-	-	-
	<u>2,596,578</u>	<u>5,000</u>	<u>2,601,578</u>	<u>2,334,110</u>
EXPENSES				
PROGRAM SERVICES				
Jennifer Loscher branch	537,388	-	537,388	532,290
San Marcos Unified School District	1,204,065	-	1,204,065	1,176,016
Other programs	160,180	-	160,180	156,472
TOTAL PROGRAM SERVICES	1,901,633	-	1,901,633	1,864,778
SUPPORTING SERVICES				
Management and general expenses	358,953	-	358,953	346,436
Fundraising costs	183,932	-	183,932	180,448
TOTAL SUPPORTING SERVICES	542,885	-	542,885	526,884
TOTAL EXPENSES	2,444,518	-	2,444,518	2,391,662
INCREASE (DECREASE) IN NET ASSETS	152,060	5,000	157,060	(57,552)
NET ASSETS AT BEGINNING OF YEAR	1,629,971	65,348	1,695,319	1,752,871
NET ASSETS AT END OF YEAR	\$ 1,782,031	\$ 70,348	\$ 1,852,379	\$ 1,695,319

See independent auditor's report and notes to financial statements

**BOYS & GIRLS CLUB OF SAN MARCOS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

	Program Services				Support Services			Total Expenses
	Jennifer Loscher Branch	San Marcos Unified School District	Other Programs	Total Program Services	Management and General	Fundraising Costs	Total Support Services	Year Ended June 30, 2020
EXPENSES								
Advertising, promotions, and awards	\$ 240	\$ 484	\$ 68	\$ 792	\$ 235	\$ 78	\$ 313	\$ 1,105
Bad debt expense	-	-	-	-	-	4,140	4,140	4,140
Bank and merchant fees	3,037	6,131	867	10,035	2,967	995	3,962	13,997
Depreciation	20,335	41,045	5,810	67,190	19,868	6,653	26,521	93,711
Dues and licenses	4,833	9,755	1,382	15,970	4,722	1,581	6,303	22,273
Employee wages and salaries	347,975	841,909	108,934	1,298,818	200,409	104,342	304,751	1,603,569
Employee benefits	20,634	41,646	5,894	68,174	20,157	6,751	26,908	95,082
Employer payroll taxes, WC insurance and fees	42,962	86,713	12,274	141,949	41,972	14,057	56,029	197,978
Insurance	4,459	9,002	1,274	14,735	4,354	1,459	5,813	20,548
Outside Services	8,899	17,962	2,541	29,402	8,693	2,911	11,604	41,006
Postage	123	247	35	405	119	40	159	564
Professional fees	8,958	18,080	2,560	29,598	8,751	2,932	11,683	41,281
Program field trips	3,718	7,535	1,053	12,306	3,652	1,217	4,869	17,175
Repairs and maintenance	14,001	28,258	3,999	46,258	13,677	4,580	18,257	64,515
Scholarships	10,000	-	-	10,000	-	-	-	10,000
Supplies and equipment	19,047	38,445	5,442	62,934	1,863	22,977	24,840	87,774
Telephone and utilities	11,006	22,216	3,144	36,366	10,752	3,601	14,353	50,719
Training and conference	4,481	9,046	1,280	14,807	4,379	1,467	5,846	20,653
Travel	12,680	25,591	3,623	41,894	12,383	4,151	16,534	58,428
TOTAL EXPENSES	\$ 537,388	\$ 1,204,065	\$ 160,180	\$ 1,901,633	\$ 358,953	\$ 183,932	\$ 542,885	\$ 2,444,518

See independent auditor's report and notes to financial statements

**BOYS & GIRLS CLUB OF SAN MARCOS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

	Program Services				Support Services			Total Expenses
	Jennifer Loscher Branch	San Marcos Unified School District	Other Programs	Total Program Services	Management and General	Fundraising Costs	Total Support Services	Year Ended June 30, 2019
EXPENSES								
Advertising, promotions, and awards	\$ 1,754	\$ 3,536	\$ 500	\$ 5,790	\$ 1,713	\$ 574	\$ 2,287	\$ 8,077
Bank and merchant fees	3,211	6,484	917	10,612	3,138	1,052	4,190	14,802
Depreciation	20,136	40,644	5,753	66,533	19,673	6,588	26,261	92,794
Dues and licenses	3,528	7,121	1,008	11,657	3,447	1,154	4,601	16,258
Employee wages and salaries	338,872	819,885	106,085	1,264,842	195,166	101,612	296,778	1,561,620
Employee benefits	18,662	37,666	5,331	61,659	18,231	6,106	24,337	85,996
Employer payroll taxes, WC insurance and fees	45,225	91,282	12,921	149,428	44,183	14,798	58,981	208,409
Insurance	4,282	8,645	1,223	14,150	4,182	1,401	5,583	19,733
Outside Services	6,781	13,687	1,937	22,405	6,625	2,218	8,843	31,248
Postage	252	509	72	833	246	83	329	1,162
Professional fees	2,539	5,124	726	8,389	2,480	831	3,311	11,700
Program field trips	5,797	11,748	1,642	19,187	5,694	1,898	7,592	26,779
Repairs and maintenance	9,840	19,861	2,811	32,512	9,613	3,219	12,832	45,344
Scholarships	17,000	-	-	17,000	-	-	-	17,000
Supplies and equipment	24,009	48,461	6,860	79,330	2,349	28,964	31,313	110,643
Telephone and utilities	11,066	22,337	3,161	36,564	10,810	3,621	14,431	50,995
Training and conference	6,346	12,810	1,813	20,969	6,200	2,077	8,277	29,246
Travel	12,990	26,216	3,712	42,918	12,686	4,252	16,938	59,856
TOTAL EXPENSES	\$ 532,290	\$ 1,176,016	\$ 156,472	\$ 1,864,778	\$ 346,436	\$ 180,448	\$ 526,884	\$ 2,391,662

See independent auditor's report and notes to financial statements

BOYS & GIRLS CLUB OF SAN MARCOS
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 157,060	\$ (57,552)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS PROVIDED (USED) BY OPERATING ACTIVITIES		
Depreciation	93,711	92,794
Gain (loss) on disposal of assets	-	504
Realized and unrealized (gain) loss on investments	(112,252)	(6,508)
(Increase) decrease in accounts receivable	39,798	(30,023)
(Increase) decrease in grants receivable	(41,147)	111,550
(Increase) decrease in prepaid expenses	(30,999)	(8,555)
(Increase) decrease in other current assets	6,422	(5,145)
Increase (decrease) in accounts payable	(28,129)	(100,354)
Increase (decrease) in accrued expenses	66,561	(2,128)
Increase (decrease) in accrued payroll expenses	(5,501)	(3,343)
Increase (decrease) in deferred revenue and deposits	(24,085)	16,367
Total adjustments	<u>(35,621)</u>	<u>65,159</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>121,439</u>	<u>7,607</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(6,473)	(5,393)
Proceeds from sale of investments	717,669	651,594
Purchase of investments	<u>(610,465)</u>	<u>(687,337)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>100,731</u>	<u>(41,136)</u>
NET INCREASE (DECREASE) IN CASH	222,170	(33,529)
CASH, BEGINNING OF YEAR	<u>147,512</u>	<u>181,041</u>
CASH, END OF YEAR	<u><u>\$ 369,682</u></u>	<u><u>\$ 147,512</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

CASH PAID DURING THE YEAR FOR:

Interest expense	\$ -	\$ -
Income tax	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report and notes to financial statements

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

A. ORGANIZATION

The Boys & Girls Club of San Marcos (the “Club”) was incorporated January 23, 1979 pursuant to the general nonprofit corporation law of the State of California. The specific purpose of the Club is to promote the social, educational, health, leadership, and character development of boys and girls during critical periods of their growth. The Club maintains one primary facility and various sub-sites in the San Marcos area.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of New Accounting Standard

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

In June 2018, the FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarified and improved current guidance by providing criteria for determining whether a nonprofit is receiving commensurate value in return for the resources transferred. The outcome of the analysis determines whether the contract or grant constitutes either a contribution or an exchange transaction (i.e., Topic 606). The guidance also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. As a result, not-for-profit entities are to account for most grants as donor-restricted conditional contributions rather than as exchange transactions because the customer does not receive commensurate value for the consideration received by the Club; rather, the purpose of these arrangements is for the benefit of the general public. Therefore, management concluded that the agreements are conditional due to rights of return/release and barriers to entitlement to funds. Revenue is recognized when the condition is satisfied. Because the nature of conditions is either based on incurring qualifying expenses or satisfying a milestone or other deliverable, the pattern of revenue recognition remained consistent with previous years. ASU 2018-08 has been adopted by the Club for the year ended June 30, 2020 and under the prospective approach, has determined that there was no material change in the revenue recognition for grants and contracts.

Basis of Accounting

The Club’s accounting records and the accompanying financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles (GAAP) whereby all revenue is recognized when earned rather than received and expenses are recognized when incurred rather than when paid and, accordingly, reflect all significant receivables, payables and other liabilities.

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

The financial statements are presented in accordance with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Non-For-Profit Entities*. Under ASU 2016-14, the Club is required to report information regarding its financial position and activities according to two classes of net assets:

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

Net assets with donor restriction: net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Club or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total, but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles. Accordingly, such information should be read in conjunction with the Club's financial statements for the year ended June 30, 2019, from which the summarized information is derived.

Reclassification

Certain amounts for the year ended June 30, 2019 have been reclassified to conform with the June 30, 2020 financial statement presentation.

Investments

Endowment Funds: The Club's endowment was created with a restricted corpus of \$65,001 established in 1998. The corpus is part of the Club's investment account which is governed by the Endowment Investment Policy adopted by the Board in April 2009. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

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 permanently restricted net assets (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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is 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 endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Club and the donor-restricted endowment fund, (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 investment policies.

Investment Return Objectives, Risk Parameters and Strategies: The investment goal is to achieve a total return that provides incremental value when benchmarked or compared to the relevant indexes. The Endowment Committee adheres to a total return policy in measuring investment performance. Total return is the sum of interest, dividends, and realized and unrealized gains and losses. The objective is for the portfolio to yield a total return (after fees and before distributions to current operations) of 3% over inflation, over a market cycle of usually 3-5 years, as measured by the Consumer Price Index (all urban CPI) annually. The Endowment Committee has the responsibility of determining the asset allocation guidelines that are the highest probability of achieving superior investment performance. The committee believes that the ultimate achievement of its investment mission statement is impacted most by the asset allocation decision. It is also the primary determinant of volatility of returns.

The endowment asset allocation guidelines are designed to portray the investment structure of the fund over a long time horizon. The advisors shall recommend an appropriate asset allocation mix for the portfolio within the following guidelines:

1. The equity portion of the portfolio will be managed within a range of 40% to 70%.
2. The fixed income portion will be managed within a range of 30% to 60%.

If the manager deems it necessary to vary from these ranges, such variance shall be discussed with the Club's Endowment Committee and approved by the Board of Directors if a change is to be made.

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

The following categories of securities transactions are not permissible within the Club's portfolio:

1. Short sales
2. Put and call options (except that calls may be written against securities owned)
3. Margin purchases or lending or borrowing money, except for publicly traded corporate debt
4. Letter stock, private placement, or direct placements
5. Equity securities of any company which has a record of less than three years continuous operation, including the operation of any predecessor
6. Purchase for purposes of exercising control of management
7. Derivatives of any other type
8. Stock loans
9. Commodities
10. Oil or gas real property, without prior consultation with the Endowment Committee

The Endowment Committee is responsible for monitoring the investment management of the endowment funds' assets. The committee will hold formal meetings with the investment advisors periodically, at least semiannually. These meetings will include:

- A. A summary of investment performance for the period measured against established performance benchmarks
- B. A report of the portfolio's holdings showing individual security positions, at cost and market value
- C. A review of all transactions, including a report of all capital gains and losses
- D. Discussion on portfolio structure in light of current and anticipated market conditions and investment objectives of the Funds

The investment advisors will furnish the Endowment Committee a quarterly report on a timely basis summarizing investment performance and showing individual security positions at cost and market. The report should also include a review of all transactions, including all capital gains and losses.

The investment advisors are expected to notify the Endowment Committee whenever significant developments occur that may affect the portfolio. These developments include, but are not limited to, major changes in investment outlook, investment strategy, or any other matters affecting investing policy.

The portfolio's custodian will issue a monthly report of the portfolio's holdings showing individual security positions, at cost and market value, on a timely basis. Such report will also show all transactions, including a report of all capital gains and losses.

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

From time to time, the fair value of assets associated with individual or donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Club to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, a deficiency of this nature is reported as unrestricted net assets. There was no such deficiency as of June 30, 2020 and 2019.

Spending Policy: This concept calls for a specific dollar amount based on a percentage of endowed assets to be used for the annual operating budget of the Club regardless of interim market fluctuations, income and dividend levels or capital gains/losses. The board will designate which funds will be considered endowed for purposes of this policy. Any funds not a part of the Club's endowment may be subject to other donor or board spending restrictions.

The percentage of total endowed fund assets used annually by the Club is the spending policy. The Board of Directors will set this percentage. The spending policy percentage will be multiplied by the "adjusted asset base" to determine the dollar value available for Club operations. The "adjusted asset base" figure will be a moving aggregate of the previous 12-quarter end market values of eligible assets.

For the purposes of this policy, the Club will use 5% of the eligible assets on an annual basis to support club operations. This spending policy will go into effect once the fund's total "eligible asset base" reaches \$5 million. However, this may be reviewed and/or changed by the Board of Directors.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of non-interest bearing and interest-bearing checking accounts and investments with a maturity date of three months or less.

Accounts Receivable

Accounts receivable consist of promises to give for event sponsorships and grant contracts and are stated at unpaid balances.

Promises to Give

Unconditional promises to give are recognized as contributions in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefit received. Promises to give are recorded at net realizable value if they are expected to be collected within one year and at net present value if they are expected to be collected in more than one year.

Conditional promises to give are recognized when the conditions on which they depend are substantially met.

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at the fair value at the date of donation. Generally, the Club capitalizes assets with a value of \$500 or more. Expenditures for maintenance, repairs, and improvements, which do not materially extend the useful lives of the assets, are charged to operations in the periods incurred. Depreciation is provided on the straight-line and double declining methods over the estimated useful lives of the assets as follows:

<u>Asset</u>	<u>Life</u>
Building	30 years
Computers and peripherals	5-7 years
Furniture and fixtures	7 years
Leasehold improvements	10-30 years
Office equipment	5-7 years
Software	3 years
Vehicles	5-10 years

Contributions of long-lived assets, or cash or other assets that must be used to acquire these assets, are reported as increases in temporarily restricted net assets. Restrictions are considered met, and an appropriate amount is reclassified to unrestricted net assets over the useful life of the long-lived assets as determined by the Club's depreciation policy.

Deferred Revenue

Program fee revenue collected prior to the fiscal year to which they apply are deferred and recognized over the periods to which the dues and fees relate. Special event donations that are collected prior to the fiscal year in which the events occur are also deferred and recognized in the periods where the related expenses and events occur.

Donated Services

Some of the Club's functions and programs are conducted by unpaid volunteers. The value of this contributed time is not reflected in the accompanying financial statements since the services do not require specialized skills. Nevertheless, a substantial number of volunteers donated many hours of their time to the Club.

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Contributions

Grants and contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Grants and contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted grants and contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Income Taxes

The Club is a private not-for-profit corporation organized under the laws of the State of California. As a Section 501(c)(3) club, it is exempt from income taxes under the U.S. Internal Revenue Code and Section 23701(d) of the California State Revenue and Taxation Code, except for unrelated business activities or unrelated business income. During the years ended June 30, 2020 and 2019, there were no unrelated business activities or unrelated business income.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses which report certain categories of expenses that are attributable to more than one program or support function. The expenses include employee wages and salaries, which are allocated to program and support services based on payroll costs for those services. Scholarships are allocated based on the program they benefit. All other expenses are allocated based approximately on the related wage and salary expenses.

Advertising

The Club expenses advertising costs as they are incurred. The total advertising expense for the years ended June 30, 2020 and 2019 was \$1,105 and \$8,077, respectively.

C. CASH FLOW INFORMATION

The Club did not have any non-cash financing transactions relating to the purchase of fixed assets at June 30, 2020 and 2019.

BOYS AND GIRLS CLUB OF SAN MARCOS
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D. AVAILABILITY AND LIQUIDITY

The following reflects the Club's financial assets as of June 30, 2020, reduced by amounts not available for general use because of donor-imposed restrictions within one year of the statement of financial position date.

Financial assets at year-end:	
Cash and cash equivalents	\$ 369,682
Investments	<u>995,996</u>
Total financial assets	1,365,678
Less amounts not available to be used within one year:	
Investment endowment	(65,001)
Restricted by donor with purpose restrictions	<u>(5,347)</u>
Financial assets available to meet cash needs for general expenditures over the next twelve months	<u>\$ 1,295,330</u>

The Club regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Club considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support those activities to be general expenditures.

E. FAIR VALUE MEASUREMENTS

The Club follows guidance issued by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, which provides the framework for measuring the fair value, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair values into Levels 1, 2, and 3. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the club has the ability to access.
- Level 2 Inputs to the valuation methodology include:
 - quoted prices for similar assets or liabilities in active markets
 - quoted prices for identical or similar assets or liabilities in inactive markets
 - inputs other than quoted prices that are observable for the asset or liability
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means
 - If the asset or liability has specified (contractual) terms, the level 2 input must be observable for substantially the full term of the assets or liability
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement

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E. FAIR VALUE MEASUREMENTS (CONTINUED)

For purposes of financial reporting, the Club has determined that the fair values of its financial instruments, which include cash equivalents, accounts receivable and accounts payable, approximate the carrying values at June 30, 2020 and 2019, based on their short maturities and/or the terms available to the Club in financial markets.

The following table sets forth by level, within the fair value hierarchy, the Club's investments, other than money market funds, included in cash at fair value as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Bond funds	\$ 155,086	\$ -	\$ -	\$ 155,086
Large blend funds	27,286	-	-	27,286
Equities & exchange-traded				
Communication services	32,890	-	-	32,890
Consumer cyclical	38,623	-	-	38,623
Consumer goods	41,400	-	-	41,400
Consumer defensive	32,672	-	-	32,672
Energy	2	-	-	2
Financial services	128,666	-	-	128,666
Health	62,963	-	-	62,963
Industrial goods	43,485	-	-	43,485
Large blend	67,196	-	-	67,196
Large growth	27,731	-	-	27,731
Preferred stock (ETF)	1,559	-	-	1,559
Real Estate	48,178	-	-	48,178
Technology	282,616	-	-	282,616
Utilities	5,643	-	-	5,643
Total asset fair value	<u>\$ 995,996</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 995,996</u>

The following table sets forth by level, within the fair value hierarchy, the Club's investments, other than money market funds, included in cash at fair value as of June 30, 2019.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Bond funds	\$ 215,483	\$ -	\$ -	\$ 215,483
Large blend funds	26,571	-	-	26,571
Large growth funds	30,737	-	-	30,737
Moderate allocation funds	40,877	-	-	40,877
Ultrashort bond funds	80,080	-	-	80,080
World stock funds	54,951	-	-	54,951
Equities & exchange-traded				
Consumer cyclical	102,804	-	-	102,804
Consumer goods	58,048	-	-	58,048

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E. FAIR VALUE MEASUREMENTS (CONTINUED)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Consumer defensive	\$ 50,688	\$ -	\$ -	\$ 50,688
Financial services	47,992	-	-	47,992
Health	33,972	-	-	33,972
Industrial goods	50,060	-	-	50,060
Large blend	63,563	-	-	63,563
Large growth	20,915	-	-	20,915
Miscellaneous sector	13,049	-	-	13,049
Oil & gas drilling exploration	9	-	-	9
Preferred stock (ETF)	1,658	-	-	1,658
Services	6,365	-	-	6,365
Technology	76,221	-	-	76,221
Utilities	16,905	-	-	16,905
Total asset fair value	<u>\$ 990,948</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 990,948</u>

F. INVESTMENTS

The amortized cost of securities and their approximate fair values are as follows at June 30:

	<u>2020</u>	<u>2019</u>
Available for sale		
Gross amortized cost	\$ 831,818	\$ 941,616
Unrealized gain (loss) on investments	<u>164,178</u>	<u>49,332</u>
Fair market value	<u>\$ 995,996</u>	<u>\$ 990,948</u>

Investments are classified as follows at June 30:

	<u>2020</u>	<u>2019</u>
Investments, without donor restrictions	\$ 930,995	\$ 925,947
Investments, endowment (restricted)	<u>65,001</u>	<u>65,001</u>
	<u>\$ 995,996</u>	<u>\$ 990,948</u>

Investment return, net consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Realized and unrealized gains (losses), net	\$ 112,252	\$ 6,509
Investment management fees	<u>(10,314)</u>	<u>(7,524)</u>
	<u>\$ 101,938</u>	<u>\$ (1,015)</u>

BOYS AND GIRLS CLUB OF SAN MARCOS
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G. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
<u>Grants receivable</u>		
Boys & Girls Clubs of America	\$ 27,601	\$ 28,853
Copper Creek Housing Associates	-	3,257
Hope through Housing	-	20,250
San Marcos Unified School District – JAL	22,862	18,826
San Marcos Unified School District – LMA	33,692	18,788
San Marcos Unified School District – SME	18,415	10,760
San Marcos Unified School District – SMMS	36,322	14,255
San Marcos Unified School District – WPMS	27,070	9,826
	<u>165,962</u>	<u>124,815</u>
<u>Unconditional promises to give</u>		
Annual auction sponsorships and donations	-	36,798
Holiday Hotcakes sponsorship	-	3,000
	<u>-</u>	<u>39,798</u>
	<u>\$ 165,962</u>	<u>\$ 164,613</u>

All unconditional promises to give are receivable in less than one year. The Club believes all receivables are fully collectible and that no allowance for uncollectible accounts is needed.

H. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30:

	<u>2020</u>	<u>2019</u>
Building	\$ 1,318,013	\$ 1,318,013
Computers and peripherals	97,706	94,910
Furniture and fixtures	111,464	107,786
Leasehold improvements	365,906	365,906
Office equipment	20,630	20,630
Software	12,121	12,121
Vehicles	76,344	76,344
	<u>2,002,184</u>	<u>1,995,710</u>
Less accumulated depreciation	<u>(1,517,465)</u>	<u>(1,423,754)</u>
	<u>\$ 484,719</u>	<u>\$ 571,956</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$93,711 and \$92,794, respectively.

BOYS AND GIRLS CLUB OF SAN MARCOS
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I. OPERATING LEASE OBLIGATION

The Club leases land for \$1 per year from the City of San Marcos under an agreement expiring in September 2043. No amounts have been reflected in the financial statements for donated rent or a promise to give because there is no clear measurable and objective basis for determining its value.

J. MAJOR GRANT CONTRACTS

After School Education and Safety (ASES) Program: There are contract agreements between San Marcos Unified School District and the Club (contractor) to operate an ASES program to improve academic achievement and provide safe and healthy recreation and prevention activities for students at qualified school sites. Initial grant contract terms covered a three years period with extensions. Although this period has expired, the contract terms are eligible for renewal on an annual basis, and were renewed for the years ended June 30, 2020 and 2019. Award amounts totaled \$773,972 and \$ 703,233 for the years ended June 30, 2020 and 2019, respectively. Payments received totaled \$753,237 and \$703,233 for the years ended June 30, 2020 and 2019, respectively. Due to the COVID-19 Pandemic, not all awarded funds were used due to the shutdown of the afterschool programs.

Boys & Girls Club National Youth Mentoring Program (OJP): There are contract agreements between Boys & Girls Clubs of America and the Club (contractor) to create and/or preserve full-time equivalent paid staff positions and to implement or expand an evidence-based mentoring program. Grant contract terms cover a calendar year period. Any remaining amounts may carry forward to the next year. Total payments received for the years ended June 30, 2020 and 2019 were \$51,248 and \$ 33,185, respectively.

Copper Creek After School Program: There are contract agreements between BRIDGE Housing Corporation and the Club (contractor) to operate after school programs at Copper Creek Apartments to provide academic readiness and decreased tolerance for bullying and violence programs to youth members. The grant contract terms cover a calendar year period. Total payments received for the years ended June 30, 2020 and 2019 were \$12,964 and \$20,067, respectively.

Hope through Housing After School Program: There are contract agreements between the Hope Through Housing Foundation and the Club (contractor) to operate after school programs at satellite sites located in four different affordable housing sites to provide academic readiness and decreased tolerance for bullying and violence programs to youth members. The grant contract terms covered ten-month periods from August 2019 through June 2020 and August 2018 through June 2019. Award amounts totaled \$12,000 per month (up to \$120,000) for the years ended June 30, 2020 and 2019. For the years ended June 30, 2020 and June 30, 2019 there were additional funds provided for summer programs. Total payments received for the years ended June 30, 2020 and 2019 were \$96,750 and \$128,250, respectively. Due to the COVID-19 Pandemic, not all awarded funds were used due to the shutdown of the afterschool programs. The remainder will be carried over to the next fiscal year.

BOYS AND GIRLS CLUB OF SAN MARCOS
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J. MAJOR GRANT CONTRACTS (CONTINUED)

Clubhouse Network: There are contract agreements between The Clubhouse Network and the Club (contractor) that provide grants to the Club when it establishes certain programs as follows: (1) Clubhouse-to-Career Pathways to Success Program for which \$45,000 and \$45,000 was received for the years ended June 30, 2020 and 2019, respectively, (2) Refresh & Retool Grant for the Club's Teen Tech Center for which \$10,000 and \$0 was received for the years ended June 30, 2020 and 2019, respectively and (3) an annual membership that includes a grant and license agreement for the Club's Best Buy Teen Tech Center for which \$50,000 and \$50,000 was received for the years ended June 30, 2020 and 2019, respectively.

K. RELATED PARTY TRANSACTIONS

There is a receivable from a board member included in unconditional promises to give from annual auction events as of June 30, 2020 and 2019 in the amount of \$0 and \$6,000, respectively.

L. RESTRICTED NET ASSETS

Changes in restricted net assets for the year ended June 30, 2020 are as follows:

<u>Purpose restrictions</u>	<u>2019</u>	<u>Additions</u>	<u>Released</u>	<u>2020</u>
Best Buy scholarship	\$ -	\$ 5,000	\$ -	\$ 5,000
Youth of the year scholarships	<u>347</u>	<u>10,000</u>	<u>(10,000)</u>	<u>347</u>
	<u>347</u>	<u>15,000</u>	<u>(10,000)</u>	<u>5,347</u>
<u>Permanently restricted</u>				
Endowment fund	<u>65,001</u>	<u>-</u>	<u>-</u>	<u>65,001</u>
	<u>65,001</u>	<u>-</u>	<u>-</u>	<u>65,001</u>
	<u>\$ 65,348</u>	<u>\$ 15,000</u>	<u>\$ (10,000)</u>	<u>\$ 70,348</u>

Changes in restricted net assets for the year ended June 30, 2019 are as follows:

<u>Purpose restrictions</u>	<u>2018</u>	<u>Additions</u>	<u>Released</u>	<u>2019</u>
Youth of the year scholarships	\$ <u>347</u>	\$ <u>12,000</u>	\$ <u>(12,000)</u>	\$ <u>347</u>
	<u>347</u>	<u>12,000</u>	<u>(12,000)</u>	<u>347</u>
<u>Permanently restricted</u>				
Endowment fund	<u>65,001</u>	<u>-</u>	<u>-</u>	<u>65,001</u>
	<u>65,001</u>	<u>-</u>	<u>-</u>	<u>65,001</u>
	<u>\$ 65,348</u>	<u>\$ 12,000</u>	<u>\$ (12,000)</u>	<u>\$ 65,348</u>

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M. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Club to concentrations of credit risk consist principally of cash deposits and investment securities in bank and financial institutions. The Club maintains cash and cash equivalents and short and long-term investments with major banks and financial institutions. Accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. At June 30, 2020 and 2019, the Club had balances in excess of the FDIC coverage of \$44,124 and \$0, respectively.

The Club also maintains accounts with a brokerage company. These accounts contain cash and securities and balances are insured up to \$500,000 (with a limit of \$250,000 for cash) by the Securities Investor Protection Company (SIPC). For the years ended June 30, 2020 and 2019, the Club had a balance in excess of coverage of \$495,995 and \$490,948, respectively.

N. PENSION PLAN

On July 1, 2014, the Club adopted a defined 401(k) profit sharing plan. The plan is open to all eligible employees. The Club makes a mandatory three percent (3%) contribution per the requirements of Boys and Girls Club of America. In addition to that, the Club matches 100% up to 4% of employees' compensation. Employees become vested in the plan based on a two-to-six year graded vesting scale.

The total pension expense for the years ended June 30, 2020 and 2019 was \$32,185 and \$29,786, respectively.

O. REVENUE CONCENTRATION

The Club received several grants from the San Marcos Unified School District, which provided \$753,237 and \$703,233, or approximately 32% of the Club's total revenue for year ending June 30, 2020 and 29% for the year ended June 30, 2019.

P. COVID-19 PANDEMIC

During March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Club's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Club is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

With the outbreak, the children and communities served by the non-profit industry have experienced an increased demand for assistance. The Club, while complying with government mandates, is partnering with many state and local officials to continue to serve children and families during the crisis.

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Q. PAYCHECK PROTECTION PROGRAM LOAN

On April 10, 2020, the Club received loan proceeds in the amount of \$221,100. under the Paycheck Protection Program ("PPP"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. The Club intends to use PPP loan proceeds for purposes consistent with the PPP terms and apply for forgiveness within 10 months of the end of the covered period.

Management and the board of directors are of the opinion that the PPP loan funds received will be forgiven under the present terms of the PPP. Accordingly, the funds have been accounted for in accordance with FASB ASC 958-605 whereby the PPP loan funds are treated as a conditional governmental grant and recorded as a refundable advance. As the qualifying payroll expenses are incurred, the Club recognizes contribution revenue and decreases the refundable advance. For the year ending June 30, 2020, \$148,426 of the \$221,100 funds received is included in grant revenue in the statement of activities, leaving \$72,674 to be expensed as the related payroll expenses are incurred in the next fiscal year.

R. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 27, 2021, the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to January 27, 2021 that would require adjustment to, or disclosure in the financial statements.