

**BOYS AND GIRLS CLUB OF LAGUNA BEACH**  
**Financial Statements**  
**Year ended December 31, 2016**  
**(With Independent Auditors' Report Thereon)**

BOYS AND GIRLS CLUB OF LAGUNA BEACH  
Financial Statements  
Year ended December 31, 2016

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

*Independent Auditors' Report*

**Report on the Financial Statements**

We have audited the accompanying statement of financial position of the Boys and Girls Club of Laguna Beach as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended and related notes to the financial statements.

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

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

***Auditors' Responsibility***

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

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

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

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Boys and Girls Club of Laguna Beach as of December 31, 2016 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Boys and Girls Club of Laguna Beach 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December, 31 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Dennis Lee CP".

Irvine, California  
April 25, 2017

BOYS AND GIRLS CLUB OF LAGUNA BEACH  
Statement of Financial Position  
December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

	2016	2015
<u>Assets</u>		
Cash and cash equivalents	\$ 238,443	492,737
Accounts receivable	109,921	40,121
Investments (note 3)	1,455,706	1,025,685
Unconditional promises to give, net (note 4)	391,140	402,453
Prepaid expenses	57,083	34,048
Land, buildings and equipment, net (note 5)	1,975,364	2,052,988
Total assets	\$ 4,227,657	4,048,032
<u>Liabilities and Net Assets</u>		
Accounts payable	\$ 74,405	49,468
Accrued expenses	77,207	62,705
Unearned revenue and deposits	59,120	58,904
Total liabilities	210,732	171,077
Net assets (note 7):		
Unrestricted:		
Undesignated	2,099,503	2,121,340
Board designated	449,977	369,956
Total unrestricted net assets	2,549,480	2,491,296
Temporarily restricted	461,716	379,930
Permanently restricted	1,005,729	1,005,729
Total net assets	4,016,925	3,876,955
Total liabilities and net assets	\$ 4,227,657	4,048,032

See accompanying notes to financial statements

BOYS AND GIRLS CLUB OF LAGUNA BEACH  
Statement of Activities  
Year ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2016	2015
<b>Support and Revenue:</b>					
Contributions (note 8)	\$ 580,452	100,000	-	680,452	800,206
Government grants (note 8)	105,305	-	-	105,305	146,688
Donated services	15,970	-	-	15,970	3,570
Memberships	88,971	-	-	88,971	101,184
Program activities	781,499	-	-	781,499	815,220
Miscellaneous revenue	3,013	-	-	3,013	4,937
Investment income/(loss) (note 3)	51,943	65,576	-	117,519	(19,005)
Special events, net of direct expenses (note 11)	740,902	-	-	740,902	536,800
Net assets released from restrictions (note 7)	83,790	(83,790)	-	-	-
<b>Total support and revenues</b>	<b>2,451,845</b>	<b>81,786</b>	<b>-</b>	<b>2,533,631</b>	<b>2,389,600</b>
<b>Expenses:</b>					
<b>Program Services:</b>					
Art	67,545	-	-	67,545	70,993
Basketball	31,988	-	-	31,988	40,593
Main branch	1,013,668	-	-	1,013,668	1,078,157
Preschool	173,520	-	-	173,520	167,622
Snack bar	37,921	-	-	37,921	47,391
Teen center	106,825	-	-	106,825	54,288
Bluebird branch	274,628	-	-	274,628	241,201
Lang branch	197,668	-	-	197,668	173,470
<b>Total program services expenses</b>	<b>1,903,763</b>	<b>-</b>	<b>-</b>	<b>1,903,763</b>	<b>1,873,715</b>
<b>Supporting services</b>					
Management and general	263,172	-	-	263,172	240,185
Fundraising	226,726	-	-	226,726	211,462
<b>Total supporting services expenses</b>	<b>489,898</b>	<b>-</b>	<b>-</b>	<b>489,898</b>	<b>451,647</b>
<b>Total expenses</b>	<b>2,393,661</b>	<b>-</b>	<b>-</b>	<b>2,393,661</b>	<b>2,325,362</b>
Increase (decrease) in net assets	58,184	81,786	-	139,970	64,238
Net assets at beginning of year	2,491,296	379,930	1,005,729	3,876,955	3,812,717
Net assets at end of year	<u>\$ 2,549,480</u>	<u>461,716</u>	<u>1,005,729</u>	<u>4,016,925</u>	<u>3,876,955</u>

See accompanying notes to financial statements

BOYS AND GIRLS CLUB OF LAGUNA BEACH  
Statement of Functional Expenses  
Year ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

	Art	Basketball	Main Branch	Preschool	Snack Bar	Teen Center
Salaries and wages	\$ 45,273	-	545,038	114,864	11,396	69,899
Employee benefits	4,291	-	32,566	11,133	-	5,202
Payroll taxes	3,737	-	51,070	8,822	1,139	5,848
Subtotal	<u>53,301</u>	<u>-</u>	<u>628,674</u>	<u>134,819</u>	<u>12,535</u>	<u>80,949</u>
Repairs and maintenance	285	-	55,253	841	-	100
Program supplies	3,910	15,110	135,453	12,201	-	8,385
Public relations	-	-	11,927	-	-	348
Office supplies	-	-	12,491	-	-	-
Merchandise expense	-	-	-	-	23,012	-
Training	-	-	28,506	-	-	-
Dues and subscriptions	405	-	4,773	1,024	95	615
Professional services	-	16,387	5,474	195	-	1,750
Donated services	-	-	-	-	-	-
Telephone	512	-	6,033	1,294	120	777
Insurance	3,040	-	28,557	7,376	735	4,638
Fundraising	-	-	-	-	-	-
Printing & advertising	-	-	768	-	-	-
Donated facilities	-	-	-	-	-	-
Utilities and janitorial	2,632	-	31,049	6,658	619	3,998
Depreciation	3,425	-	40,400	8,663	805	5,202
Automobile	35	-	8,726	207	-	64
Miscellaneous expense	-	491	15,585	242	-	-
Total expenses	<u>\$ 67,545</u>	<u>31,988</u>	<u>1,013,668</u>	<u>173,520</u>	<u>37,921</u>	<u>106,825</u>

See accompanying notes to financial statements

Program Services			Supporting Services			Totals	
Bluebird	Lang	Subtotal	Management and General	Fundraising	Subtotal	2016	2015
173,286	85,224	1,044,980	126,513	164,524	291,037	1,336,017	1,250,075
16,830	3,434	73,456	17,252	13,891	31,143	104,599	92,181
14,697	7,399	92,712	9,070	12,144	21,214	113,926	106,832
<u>204,813</u>	<u>96,057</u>	<u>1,211,148</u>	<u>152,835</u>	<u>190,559</u>	<u>343,394</u>	<u>1,554,542</u>	<u>1,449,088</u>
767	120	57,365	-	225	225	57,590	60,281
12,176	4,598	191,833	1,093	-	1,093	192,926	165,728
-	-	12,275	905	-	905	13,180	13,672
-	6	12,497	651	-	651	13,148	15,466
-	-	23,012	-	-	-	23,012	29,285
139	147	28,792	-	-	-	28,792	17,922
1,555	729	9,196	1,160	1,447	2,607	11,803	14,579
-	72	23,878	43,887	-	43,887	67,764	95,943
-	-	-	15,970	-	15,970	15,970	3,570
3,485	4,161	16,382	1,467	1,829	3,296	19,678	13,698
11,440	5,534	61,319	8,122	10,874	18,996	80,314	108,219
-	-	-	-	-	-	-	181
-	56	824	-	-	-	824	2,877
13,510	71,480	84,990	-	-	-	84,990	92,960
6,382	7,800	59,137	7,548	9,411	16,959	76,096	96,858
13,161	6,173	77,829	9,821	12,245	22,066	99,895	104,200
454	683	10,169	-	136	136	10,305	8,997
<u>6,746</u>	<u>52</u>	<u>23,116</u>	<u>19,713</u>	<u>-</u>	<u>19,713</u>	<u>42,830</u>	<u>31,838</u>
<u>274,628</u>	<u>197,668</u>	<u>1,903,762</u>	<u>263,172</u>	<u>226,726</u>	<u>489,898</u>	<u>2,393,660</u>	<u>2,325,362</u>

See accompanying notes to financial statements



BOYS AND GIRLS CLUB OF LAGUNA BEACH

Statement of Cash Flows

Year ended December 31, 2016

(with comparative totals for the year ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Increase in net assets	\$ 139,970	64,238
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	99,895	104,200
(Gain) loss on investments	(102,657)	19,005
(Increase) decrease in accounts receivable	(69,800)	(39,886)
(Increase) decrease in unconditional promises to give	11,313	103,342
(Increase) decrease in prepaid expenses	(23,035)	26,164
Increase (decrease) in accounts payable	24,937	19,299
Increase (decrease) in unearned revenue and deposits	<u>14,718</u>	<u>(3,834)</u>
Net cash provided by operating activities	<u>95,341</u>	<u>292,528</u>
Cash flows from investing activities:		
Purchase of fixed assets	(22,271)	(27,089)
Purchase of investments	(350,000)	(1,045,330)
Proceeds from sale of investments	<u>22,636</u>	<u>640</u>
Net cash flows provided (used) by investing activities	<u>(349,635)</u>	<u>(1,071,779)</u>
Net increase (decrease) in cash and cash equivalents	(254,294)	(779,251)
Cash and cash equivalents at beginning of year	<u>492,737</u>	<u>1,271,988</u>
Cash and cash equivalents at end of year	<u>\$ 238,443</u>	<u>492,737</u>

There were no significant noncash investing and financing activities for the years ended December 31, 2016 and 2015.

See accompanying notes to financial statements

# BOYS AND GIRLS CLUB OF LAGUNA BEACH

## Notes to the Financial Statements

Year ended December 31, 2016

### (1) Nature of Organization

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

### (2) Summary of Significant Accounting Policies

#### (a) Basis of Accounting

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

#### (b) Financial Statement Presentation

The Club has implemented the financial statement presentation recommended by the Financial Accounting Standards Boards (FASB) in its Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*. Under ASC 958-205, the Club is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

#### (c) Cash and Cash Equivalents

The Club considers cash, demand deposits and money market funds to be cash and cash equivalents. The following items on the Statement of Financial Position were considered cash and cash equivalents for purposes of the Statement of Cash Flows as of December 31, 2016:

Petty cash	\$ 500
Money market funds	175,754
Demand deposits	<u>62,189</u>
Total	<u>\$ 238,443</u>

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

# BOYS AND GIRLS CLUB OF LAGUNA BEACH

## Notes to the Financial Statements

Year ended December 31, 2016

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

#### (d) Investments

The Club's financial statements are presented in accordance with ASC 958-320, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under ASC 958-320, the Club is required to report certain information related to the fair value and type of investments held and their related performance. All investments held by the Club are considered to be alternative investments, which are not readily marketable, the investment manager at Laguna Beach Community Foundation ("LBCF") estimates the fair value of interests in the Foundation's pooled investments that do not have a readily determinable fair value using the net asset value per share (or its equivalent, such as ownership interest in pool's capital to which a proportionate share of net assets is attributed) of the pooled investments, as determined by the respective investment manager. To the extent that a pooled investment records its investments at an amount other than fair value, such as cost, tax, or some other basis of accounting, or if the investment manager determines that the most recent net asset value (or its equivalent) reported by the pooled investment does not represent fair value, or if the pooled investment fails to report a net asset value to LBCF, a fair value determination is made by the investment manager and is based upon all relevant factors as specified in Fund Agreement. The Club reviews and evaluates the values provided by the investment managers and estimates the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for those securities existed. Donated investments are recorded at the market value at the date of donation and thereafter carried in accordance with ASC 958-320. Net appreciation (depreciation) in the fair value of investments, which consists of the realized and unrealized gains or losses on those investments, is shown in the Statements of Activities. Investment income (loss) is allocated to unrestricted and temporarily restricted investment accounts based on each accounts respective average percentage of the total investment portfolio.

#### (e) Fair Value Measurements

Accounting Standards Codification ("ASC") 820, Fair Value Measurements ("ASC 820"), defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Club accounts for its investments under ASC 820. The Statement establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Club's assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

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

# BOYS AND GIRLS CLUB OF LAGUNA BEACH

## Notes to the Financial Statements

Year ended December 31, 2016

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

#### (e) Fair Value Measurements, (continued)

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

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

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the Club's financial statements.

#### (f) Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Club that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increase in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

#### (g) Property and Equipment

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

# BOYS AND GIRLS CLUB OF LAGUNA BEACH

## Notes to the Financial Statements

Year ended December 31, 2016

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

#### (h) Donations and Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions.

#### (i) Contributed Services and Facilities

Donated materials and other noncash contributions, if received, would be reflected in the accompanying statements at their estimated market values at date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis of deriving their value. Donated services in the amount of \$15,970 were recorded during the year ended December 31, 2016.

On July 1, 2013, the Club entered into a ten year lease agreement with the City of Laguna Beach for the land under the Bluebird location at Bluebird Park for rent of \$1 a year. A contribution receivable is recorded for the difference between the fair value of the land at the date of the agreement and the amount paid. The fair value of the land was calculated at \$13 per sq. ft. based on appraisal information of the value of donated land for childcare purposes. The original contribution receivable of \$133,000, net of a present value discount, will be recognized as donated use of facilities over the term of the lease. For the year ended December 31, 2016, the Club recognized \$12,310 of expense related to the lease.

On August 25, 2014, the Club entered into a five year lease agreement with the City of Laguna Beach for the property designated as the Lang location for rent of \$1 a year. A contribution receivable is recorded for the difference between the fair value of the land at the date of the agreement and the amount paid. The fair value of the land was calculated at \$6,704 a month based upon similar property rents nearby leased by the City. The original contribution receivable of \$368,000, net of a present value discount, will be recognized as donated use of facilities over the term of the lease. For the year ended December 31, 2016, the Club recognized \$71,480 of expense related to the lease.

# BOYS AND GIRLS CLUB OF LAGUNA BEACH

## Notes to the Financial Statements

Year ended December 31, 2016

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

#### (j) Membership Dues

Membership dues are reported as income when earned. Amounts received or billed in advance, but not earned, are reported as unearned revenue. As of December 31, 2016 unearned membership dues was \$53,546.

#### (k) Income Taxes

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

#### (l) Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### (m) Advertising Costs

Advertising costs are expensed as incurred by the Club. Total advertising costs for the year ended December 31, 2016 were \$824.

#### (n) Net Assets

To ensure observance of limitations and restrictions placed on the use of financial resources available to the Club, the accounts of the Club are maintained in accordance with the principles of net asset accounting. This is the procedure by which financial resources for various purposes are classified for accounting and reporting purposes into net asset classification established according to their nature and purpose. Separate accounts are maintained for each net asset classification; however, in the accompanying financial statements, net asset classifications that have similar characteristics have been combined into net asset groups as noted below.

Net assets, revenue, gains, expenses, and losses are classified as unrestricted, temporarily restricted, or permanently restricted, as follows:

- Unrestricted net assets represent the portion of expendable funds available for support of the operations of the Club.
- Temporarily restricted net assets consist of contributions that are subject to specific donor imposed stipulations that can be fulfilled by

# BOYS AND GIRLS CLUB OF LAGUNA BEACH

## Notes to the Financial Statements

Year ended December 31, 2016

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

#### (n) Net Assets, (continued)

actions of the Club pursuant to those stipulations or that expire by the passage of time. The Club's temporarily restricted net assets consist primarily of contributions that are restricted for expansion or creation of new programs or acquisition of other property and equipment. Temporarily restricted contributions received and spent in the same year have been recorded as unrestricted support.

- Permanently restricted net assets consist of contributions, such as permanent endowment funds, subject to donor imposed stipulations that the principal be maintained permanently by the Club. Generally, the donors permit the Club to use all or part of the income earned on these assets.

#### (o) Endowments

The Club's endowment consists of funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. However, only donor-restricted funds are shown as "permanently restricted." As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions. The Board of Directors of the Club has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Club classifies as 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 funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Club in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Club considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Club, and (7) the Club's investment policies.

# BOYS AND GIRLS CLUB OF LAGUNA BEACH

## Notes to the Financial Statements

Year ended December 31, 2016

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

#### (o) Endowments, (continued)

##### Investment Return Objectives, Risk Parameters and Strategies

The Club has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Donor endowed and quasi-endowment assets are invested by the Laguna Beach Community Foundation in a manner that is intended to provide sufficient liquidity to make an annual distribution of approximately 5%, while growing the funds if possible. Actual returns in any given year may vary from this amount.

##### Spending Policy

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

#### (p) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. However, management anticipates any variances to be immaterial.

#### (q) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles.



BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2016

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

(q) Prior Year Data, (continued)

Accordingly, such information should be read in conjunction with the Boys and Girls Club of Laguna Beach's prior year financial statements, from which this selected financial data was derived.

(r) Line of Credit

As of December 31, 2016, the Organization had available a \$75,000 unsecured line of credit from Union Bank at an interest rate of 6.9%, none of which was outstanding at that date.

(s) Subsequent Events

Subsequent events have been evaluated by management through April 25, 2017, which is the date the financial statements were available to be issued.

(3) Investments

Investment income (expense) for the year ended December 31, 2016, consisted of the following:

Investment income (expense):	
Interest and dividend income	\$ 27,720
Unrealized Gain	101,265
Realized gain	1,392
Investment fees	<u>(12,858)</u>
	<u>\$ 117,519</u>

Fair values of assets measured on a recurring basis at December 31, 2016:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Laguna Beach Community Foundation Pools:				
Cash Equivalents Pool	\$ 60,430	-	-	60,430
Equity Pool	564,624	-	-	564,624
Fixed Income Pool	<u>830,652</u>	<u>-</u>	<u>-</u>	<u>830,652</u>
Total	<u>\$ 1,455,706</u>	<u>-</u>	<u>-</u>	<u>1,455,706</u>

# BOYS AND GIRLS CLUB OF LAGUNA BEACH

## Notes to the Financial Statements

Year ended December 31, 2016

### (3) Investments, (continued)

Changes in investments reported at Level 3 for the period January 1, 2016 to December 31, 2016, were as follows:

Balance at beginning of period	\$ 1,025,685
Reinvested interest and dividend income	27,658
Investment purchases	350,000
Investment sold	(37,935)
Investment fees	(12,359)
Change in fair value of investments	<u>102,657</u>
Balance at end of period	<u>\$ 1,455,706</u>

The pooled investments fair value equals the accumulated cash contributions, distributions, gains or losses and interest credited to the fund. The pooled investments are held with the Laguna Beach Community Foundation, which holds, manages, invests and re-invests the funds as well as collects the interest earned and distributes the total return based upon the spending policy, which is 5% annually based upon the average of the prior three-years ending fund balances. At December 31, 2016, the pool was invested in 96% stocks and 4% cash equivalents. The investments in the pool have quoted prices in active markets and are reported at fair value.

### (4) Unconditional Promises to Give

Unconditional promises to give are expected to be collected as follows:

Less than one year	\$ 186,300
One to five years	204,840
More than five years	<u>-</u>
Total	<u>\$ 391,140</u>

Changes in donations and pledges receivable for the year ended December 31, 2016 was as follows:

Pledges receivable at beginning of year	\$ 474,930
Payments received	<u>(83,790)</u>
Pledges receivable at end of year	<u>\$ 391,140</u>

# BOYS AND GIRLS CLUB OF LAGUNA BEACH

## Notes to the Financial Statements

Year ended December 31, 2016

### (5) Property and Equipment

Property and equipment at December 31, 2016 are summarized as follows:

Land	\$ 112,710
Playfield and equipment	2,474
Furniture and equipment	162,153
Automotive equipment	101,956
Building and improvements	<u>3,421,475</u>
Total property and equipment	3,800,768
Less: Accumulated depreciation	<u>(1,825,404)</u>
Net property and equipment	<u>\$ 1,975,364</u>

Depreciation and amortization expense was \$99,895 for the year.

### (6) Employee Benefit Plan

Employees of the Club are eligible for a defined contribution pension plan administered under the umbrella of the Boys and Girls Club of America. Total contributions to the plan by the Club for the year ended December 31, 2016 was \$41,608. The Club does not hold or manage plan assets and is not responsible for the administration or payment of benefits of the plan and, accordingly, the present value of the related vested benefits is not reflected in these financial statements.

### (7) Net Assets

Net assets consisted of the following as of at December 31, 2016:

Unrestricted net assets:	
Net investment in property and equipment	\$ 1,975,364
Board designated endowment	449,977
Undesignated – available for programs	<u>124,139</u>
Total unrestricted net assets	<u>2,549,480</u>
Temporarily restricted net assets:	
Time restriction for promises to give	391,140
Interest accrued on endowment	65,576
Scholarship Fund	<u>5,000</u>
Total temporarily restricted net assets	<u>461,716</u>
Permanently restricted net assets:	
Scholarship	75,519
Bluebird Branch	87,753
Endowment	<u>842,457</u>
Total permanently restricted net assets	<u>1,005,729</u>
Total net assets	<u>\$ 4,016,925</u>

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2016

(7) Net Assets, (continued)

Net assets released from restrictions consist of the following at December 31, 2016:

Allocation of assets for expenditures:	
Release of time restrictions	\$ <u>83,790</u>
Total release of restrictions	\$ <u>83,790</u>

Endowment net asset composition by type of fund as of December 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	65,576	1,005,729	1,071,305
Board-designated endowment funds	<u>384,401</u>	-	-	<u>384,401</u>
Total	<u>\$ 384,401</u>	<u>65,576</u>	<u>1,005,729</u>	<u>1,455,706</u>

Changes in endowment net assets as of December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 396,956	-	1,005,729	1,375,685
Contributions	-	-	-	-
Investment income	14,445	65,576	-	80,021
Release of restriction	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 384,401</u>	<u>65,576</u>	<u>1,005,729</u>	<u>1,455,706</u>

(8) Contribution Revenue

Contribution revenue for the year ended December 31, 2016, consisted of the following:

Corporate contributions	\$ 66,165
Foundation contributions	431,225
United Way	700
Government contributions	105,305
Individual contributions	<u>182,362</u>
	<u>\$ 785,757</u>

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2016

(9) Lease Commitments

The Club leases certain office equipment under an operating lease agreement expiring on December 31, 2017. In addition, the Club leases land on Bluebird Park from the City of Laguna Beach under a lease expiring on June 23, 2023. This leased land is the location of the Club's branch, Bluebird. Also, the Club leases land on Wesley Drive from the City of Laguna Beach under a lease expiring August 31, 2019. This leased land is the location of the Club's branch, Lang. Minimum required future rental payments under leases as of December 31, 2016, are:

Fiscal year:

2017	\$ 10,668
Total minimum future payments	<u>\$ 10,688</u>

Rental expenses for operating agreements were \$10,668 for the year ended December 31, 2016.

(10) Related Party Transactions

The Club has received in-kind donation in the form of printing services from a member of the Board. The services received during the year ended December 31, 2016 are estimated to be worth \$15,970.

The Club has a bank account with Union Bank at December 31, 2016. A Board member is an employee at Union Bank. This Board member abstains from decisions made concerning matters that would be a conflict of interest.

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

The Club's attorney who provides services to the Club throughout the year is related to a member of the Board.

(11) Special Events

	<u>Gala</u>	<u>Girls Night Out</u>	<u>The Ranch</u>	<u>Other Events</u>	<u>Total</u>
Special event revenue	\$612,359	134,358	210,126	64,608	1,021,451
Less direct expenses	<u>(152,071)</u>	<u>(35,507)</u>	<u>(71,737)</u>	<u>(21,234)</u>	<u>(280,549)</u>
Net support from special events	<u>\$460,288</u>	<u>98,851</u>	<u>138,389</u>	<u>43,374</u>	<u>740,902</u>