

BOYS AND GIRLS CLUB OF LAGUNA BEACH
Financial Statements
Year ended December 31, 2015
(With Independent Auditors' Report Thereon)

BOYS AND GIRLS CLUB OF LAGUNA BEACH
Financial Statements
Year ended December 31, 2015

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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, 2015, 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, 2015 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

The financial statements of the Boys and Girls Club of Laguna Beach for the fiscal year ended December 31, 2014, were audited by other auditors whose report dated March 20, 2015, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink that reads "Davis Law LLP". The signature is written in a cursive, flowing style.

Irvine, California
April 20, 2016

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Statement of Financial Position

December 31, 2015

(with comparative totals as of December 31, 2014)

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 492,737	1,271,988
Accounts receivable	67,644	27,758
Investments (note 3)	1,025,685	-
Unconditional promises to give, net (note 4)	374,930	478,272
Prepaid expenses	34,048	60,212
Land, buildings and equipment, net (note 5)	<u>2,052,988</u>	<u>2,130,099</u>
Total assets	<u>\$ 4,048,032</u>	<u>3,968,329</u>
<u>Liabilities and Net Assets</u>		
Accounts payable	\$ 49,468	30,169
Accrued expenses	62,705	50,375
Unearned revenue and deposits	<u>58,904</u>	<u>75,068</u>
Total liabilities	<u>171,077</u>	<u>155,612</u>
Net assets (note 7):		
Unrestricted:		
Undesignated	2,121,340	2,551,573
Board designated	<u>369,956</u>	<u>77,253</u>
Total unrestricted net assets	2,491,296	2,628,826
Temporarily restricted	379,930	528,162
Permanently restricted	<u>1,005,729</u>	<u>655,729</u>
Total net assets	<u>3,876,955</u>	<u>3,812,717</u>
Total liabilities and net assets	<u>\$ 4,048,032</u>	<u>3,968,329</u>

See accompanying notes to financial statements

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Statement of Activities

Year ended December 31, 2015

(with comparative totals for the year ended December 31, 2014)

	Unrestricted	Temporarily	Permanently	Totals	
		Restricted	Restricted	2015	2014
Support and Revenue:					
Contributions (note 8)	\$ 427,963	22,243	350,000	800,206	461,040
Government grants (note 8)	146,688	-	-	146,688	471,300
Donated services	3,570	-	-	3,570	134,661
Donated facilities	-	-	-	-	41,011
Memberships	101,184	-	-	101,184	107,310
Program activities	815,220	-	-	815,220	753,672
Miscellaneous revenue	4,937	-	-	4,937	10,275
Investment income/(loss) (note 3)	(19,005)	-	-	(19,005)	42,154
Special events, net of direct expenses (note 11)	536,800	-	-	536,800	681,512
Net assets released from restrictions (note 7)	<u>170,475</u>	<u>(170,475)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>2,187,832</u>	<u>(148,232)</u>	<u>350,000</u>	<u>2,389,600</u>	<u>2,702,935</u>
Expenses:					
Program Services:					
Art	70,993	-	-	70,993	73,149
Basketball	40,593	-	-	40,593	20,070
Main branch	1,078,157	-	-	1,078,157	1,161,380
Preschool	167,622	-	-	167,622	196,441
Snack bar	47,391	-	-	47,391	78,452
Teen center	54,288	-	-	54,288	131,123
Bluebird branch	241,201	-	-	241,201	425,577
Lang branch	<u>173,470</u>	<u>-</u>	<u>-</u>	<u>173,470</u>	<u>83,719</u>
Total program services expenses	1,873,715	-	-	1,873,715	2,169,911
Supporting services					
Management and general	240,185	-	-	240,185	261,080
Fundraising	<u>211,462</u>	<u>-</u>	<u>-</u>	<u>211,462</u>	<u>176,115</u>
Total supporting services expenses	<u>451,647</u>	<u>-</u>	<u>-</u>	<u>451,647</u>	<u>437,195</u>
Total expenses	<u>2,325,362</u>	<u>-</u>	<u>-</u>	<u>2,325,362</u>	<u>2,607,106</u>
Increase (decrease) in net assets	(137,530)	(148,232)	350,000	64,238	95,829
Net assets at beginning of year	<u>2,628,826</u>	<u>528,162</u>	<u>655,729</u>	<u>3,812,717</u>	<u>3,716,888</u>
Net assets at end of year	<u>\$ 2,491,296</u>	<u>379,930</u>	<u>1,005,729</u>	<u>3,876,955</u>	<u>3,812,717</u>

See accompanying notes to financial statements

BOYS AND GIRLS CLUB OF LAGUNA BEACH
Statement of Functional Expenses
Year ended December 31, 2015
(with comparative totals for the year ended December 31, 2014)

	Program Services					
	Art	Basketball	Main Branch	Preschool	Snack Bar	Teen Center
Salaries and wages	\$ 49,166	-	574,467	114,392	10,630	32,340
Employee benefits	6,917	-	26,238	13,092	-	5,099
Payroll taxes	4,311	-	48,373	10,028	1,051	2,260
Subtotal	<u>60,394</u>	<u>-</u>	<u>649,078</u>	<u>137,512</u>	<u>11,681</u>	<u>39,699</u>
Repairs and maintenance	-	-	54,929	6	-	367
Program supplies	2,097	12,387	119,182	9,705	559	6,494
Public relations	-	123	8,702	-	-	-
Office supplies	-	-	13,785	-	-	-
Merchandise expense	-	-	458	-	28,374	122
Training	-	35	16,014	308	15	-
Dues and subscriptions	395	226	5,726	935	261	400
Professional services	-	23,374	20,109	-	-	-
Donated services	-	-	-	-	-	-
Telephone	184	105	4,532	436	121	142
Insurance	2,933	1,677	54,139	6,937	1,926	2,262
Fundraising	-	-	181	-	-	-
Printing & advertising	-	-	1,788	-	-	-
Donated facilities	-	-	-	-	-	-
Utilities and janitorial	2,100	1,201	51,629	4,966	1,379	1,619
Depreciation	2,890	1,465	67,699	6,450	2,514	3,103
Automobile	-	-	7,998	125	-	80
Miscellaneous expense	-	-	2,208	242	561	-
Total expenses	<u>\$ 70,993</u>	<u>40,593</u>	<u>1,078,157</u>	<u>167,622</u>	<u>47,391</u>	<u>54,288</u>

See accompanying notes to financial statements

Program Services			Supporting Services			Totals	
Bluebird	Lang	Subtotal	Management and General	Fundraising	Subtotal	2015	2014
142,636	62,788	986,419	101,449	162,207	263,656	1,250,075	1,394,418
15,249	1,376	67,971	13,728	10,482	24,210	92,181	41,985
13,637	5,625	85,285	8,503	13,044	21,547	106,832	117,611
<u>171,522</u>	<u>69,789</u>	<u>1,139,675</u>	<u>123,680</u>	<u>185,733</u>	<u>309,413</u>	<u>1,449,088</u>	<u>1,554,014</u>
1,305	3,513	60,120	161	-	161	60,281	55,760
10,669	4,635	165,728	-	-	-	165,728	215,756
50	1,062	9,937	3,655	80	3,735	13,672	12,457
11	128	13,924	1,082	460	1,542	15,466	3,762
235	96	29,285	-	-	-	29,285	40,230
899	417	17,688	234	-	234	17,922	16,838
1,391	1,072	10,406	4,173	-	4,173	14,579	13,008
3,060	288	46,831	47,248	1,864	49,112	95,943	55,500
-	-	-	3,570	-	3,570	3,570	117,349
2,613	4,285	12,418	727	553	1,280	13,698	12,409
10,324	7,654	87,852	11,569	8,798	20,367	108,219	189,382
-	-	181	-	-	-	181	253
-	1,089	2,877	-	-	-	2,877	2,944
23,570	69,390	92,960	-	-	-	92,960	41,011
10,235	9,148	82,277	8,282	6,299	14,581	96,858	90,018
1,617	694	86,432	10,093	7,675	17,768	104,200	123,852
375	175	8,753	244	-	244	8,997	11,532
<u>3,325</u>	<u>35</u>	<u>6,371</u>	<u>25,467</u>	<u>-</u>	<u>25,467</u>	<u>31,838</u>	<u>51,031</u>
<u>241,201</u>	<u>173,470</u>	<u>1,873,715</u>	<u>240,185</u>	<u>211,462</u>	<u>451,647</u>	<u>2,325,362</u>	<u>2,607,106</u>

See accompanying notes to financial statements

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Statement of Cash Flows

Year ended December 31, 2015

(with comparative totals for the year ended December 31, 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Increase in net assets	\$ 64,238	95,829
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	104,200	123,852
(Gain) loss on investments	19,005	3,951
(Increase) decrease in accounts receivable	(39,886)	(8,834)
(Increase) decrease in unconditional promises to give	103,342	(332,772)
(Increase) decrease in prepaid expenses	26,164	19,253
Increase (decrease) in accounts payable	19,299	(9,229)
Increase (decrease) in unearned revenue and deposits	<u>(3,834)</u>	<u>(9,736)</u>
Net cash provided by operating activities	<u>292,528</u>	<u>(117,686)</u>
Cash flows from investing activities:		
Purchase of fixed assets	(27,089)	(27,784)
Purchase of investments	(1,045,330)	(585,039)
Proceeds from sale of investments	<u>640</u>	<u>1,776,471</u>
Net cash flows provided (used) by investing activities	<u>(1,071,779)</u>	<u>1,163,648</u>
Net increase (decrease) in cash and cash equivalents	(779,251)	1,045,962
Cash and cash equivalents at beginning of year	<u>1,271,988</u>	<u>226,026</u>
Cash and cash equivalents at end of year	<u>\$ 492,737</u>	<u>1,271,988</u>

There were no significant noncash investing and financing activities for the years ended December 31, 2015 and 2014.

See accompanying notes to financial statements

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2015

(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 well being. 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, 2015:

Petty cash	\$	25
Money market funds		350,046
Demand deposits		<u>142,666</u>
Total	\$	<u>492,737</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, 2015

(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, 2015

(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, 2015

(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 \$3,570 were recorded during the year ended December 31, 2015.

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, 2015, the Club recognized \$23,570 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, 2015, the Club recognized \$69,390 of expense related to the lease.

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2015

(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, 2015 unearned membership dues was \$53,479.

(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 three 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, 2015 were \$2,877.

(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, 2015

(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, 2015

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

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2015

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

(r) Line of Credit

As of December 31, 2015, 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 20, 2016, which is the date the financial statements were available to be issued.

(3) Investments

Investment income (expense) for the year ended December 31, 2015, consisted of the following:

Investment income (expense):	
Interest and dividend income	\$ 20,173
Unrealized loss	(42,383)
Realized gain	13,500
Investment fees	<u>(10,295)</u>
	<u>\$ (19,005)</u>

Fair values of assets measured on a recurring basis at December 31, 2015:

	<u>Fair Value</u>	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Laguna Beach Community Foundation Pools:				
Cash Equivalents Pool	\$ 7,900	-	-	7,900
Equity Pool	546,751	-	-	546,751
Fixed Income Pool	434,336	-	-	434,336
Short Term Pool	<u>36,698</u>	<u>-</u>	<u>-</u>	<u>36,698</u>
Total	<u>\$ 1,025,685</u>	<u>-</u>	<u>-</u>	<u>1,025,685</u>

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2015

(3) Investments, (continued)

Changes in investments reported at Level 3 for the period January 1, 2015 to December 31, 2015, were as follows:

Balance at beginning of period	\$ -
Reinvested interest and dividend income	20,173
Investment purchases	1,045,330
Investment sold	(640)
Investment fees	(10,295)
Change in fair value of investments	<u>(28,883)</u>
Balance at end of period	<u>\$ 1,025,685</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, 2015, the pool was invested in 85% stocks and 15% cash equivalents. The investments in the pool 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	\$ 92,960
One to five years	301,210
More than five years	<u>-</u>
Subtotal	394,170
Less discount on amounts due in more than one year	<u>(19,240)</u>
Total	<u>\$ 374,930</u>

Changes in donations and pledges receivable for the year ended December 31, 2015 was as follows:

Pledges receivable at beginning of year	\$ 478,272
Change in present value of receivable	17,243
Payments received	<u>(120,585)</u>
Pledges receivable at end of year	<u>\$ 374,930</u>

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2015

(5) Property and Equipment

Property and equipment at December 31, 2015 are summarized as follows:

Land	\$ 112,710
Playfield and equipment	2,474
Furniture and equipment	143,447
Automotive equipment	101,956
Building and improvements	<u>3,417,910</u>
 Total property and equipment	 3,778,497
Less: Accumulated depreciation	<u>1,725,509</u>
 Net property and equipment	 <u>\$ 2,052,988</u>

Depreciation and amortization expense was \$104,200 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, 2015 was \$31,745. 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, 2015:

Unrestricted net assets:	
Net investment in property and equipment	\$ 2,052,988
Board designated endowment	369,956
Undesignated – available for programs	<u>68,352</u>
Total unrestricted net assets	<u>2,491,296</u>
Temporarily restricted net assets:	
Time restriction for promises to give	374,930
Scholarship Fund	<u>5,000</u>
Total temporarily restricted net assets	<u>379,930</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>\$ 3,876,955</u>

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2015

(7) Net Assets, (continued)

Net assets released from restrictions consist of the following at December 31, 2015:

Allocation of assets for expenditures:	
Release of accumulated investment income	\$ 47,647
Release of time restrictions	<u>122,828</u>
Total release of restrictions	<u>\$ 170,475</u>

Endowment net asset composition by type of fund as of December 31, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	-	1,005,729	1,051,048
Board-designated endowment funds	<u>369,956</u>	-	-	<u>369,956</u>
Total	<u>\$ 369,956</u>	<u>-</u>	<u>1,005,729</u>	<u>1,375,685</u>

Changes in endowment net assets as of December 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 77,253	47,647	655,729	780,629
Contributions	311,708	-	350,000	661,708
Investment income	(19,005)	-	-	(19,005)
Release of restriction	<u>-</u>	<u>(47,647)</u>	<u>-</u>	<u>(47,647)</u>
Endowment net assets, end of year	<u>\$ 369,956</u>	<u>-</u>	<u>1,005,729</u>	<u>1,375,685</u>

(8) Contribution Revenue

Contribution revenue for the year ended December 31, 2015, consisted of the following:

Corporate contributions	\$ 72,941
Foundation contributions	636,424
United Way	3,178
Government contributions	146,688
Individual contributions	<u>87,663</u>
	<u>\$ 946,894</u>

BOYS AND GIRLS CLUB OF LAGUNA BEACH

Notes to the Financial Statements

Year ended December 31, 2015

(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, 2015, are:

Fiscal year:

2016	\$ 10,668
2017	<u>10,668</u>
Total minimum future payments	<u>\$ 21,336</u>

Rental expenses for operating agreements were \$14,251 for the year ended December 31, 2015.

(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, 2015 are estimated to be worth \$3,570.

The Club has cash with Union Bank at December 31, 2015. 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	\$485,271	117,600	166,167	69,505	838,543
Less direct expenses	<u>(143,547)</u>	<u>(55,612)</u>	<u>(74,266)</u>	<u>(28,318)</u>	<u>(301,743)</u>
Net support from special events	<u>\$341,724</u>	<u>61,988</u>	<u>91,901</u>	<u>41,187</u>	<u>536,800</u>