

BOYS AND GIRLS CLUBS  
OF THE PENINSULA

JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

**Boys and Girls Clubs of the Peninsula**  
**Independent Auditors' Report and Financial Statements**

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## **Independent Auditors' Report**

THE BOARD OF DIRECTORS  
BOYS AND GIRLS CLUBS OF THE PENINSULA  
Menlo Park, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the **BOYS AND GIRLS CLUBS OF THE PENINSULA (the Club)** which comprise the statement of financial position as of June 30, 2016, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### **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 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 the Boys and Girls Clubs of the Peninsula as of June 30, 2016, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis-of-matter**

As discussed in notes 2d and 2m to the financial statements, the Club has elected to use the net asset value as a practical expedient for fair value. Our opinion is not modified with respect to this matter.

### **Report on Summarized Comparative Information**

We have previously audited the Boys and Girls Clubs of the Peninsula's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 12, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Hood & Strong LLP*

San Francisco, California  
September 26, 2016

# Boys and Girls Clubs of the Peninsula

## Statement of Financial Position

<i>June 30, 2016 (with comparative totals as of June 30, 2015)</i>	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 3,015,158	\$ 1,379,743
Investments	5,320,335	5,873,380
Unconditional promises to give, net	782,890	1,656,286
Other receivables	315,397	200,863
Prepaid expenses and deposits	68,993	57,613
Property, equipment and improvements, net	5,766,187	5,979,236
<b>Total assets</b>	<b>\$ 15,268,960</b>	<b>\$ 15,147,121</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 590,376	\$ 752,031
<b>Net Assets:</b>		
Unrestricted:		
Board designated:		
Maintenance reserve	334,021	334,021
Quasi-endowments	1,929,587	2,394,020
Undesignated	7,970,104	7,283,633
<b>Total unrestricted net assets</b>	<b>10,233,712</b>	<b>10,011,674</b>
Temporarily restricted	2,519,872	2,458,416
Permanently restricted	1,925,000	1,925,000
<b>Total net assets</b>	<b>14,678,584</b>	<b>14,395,090</b>
<b>Total liabilities and net assets</b>	<b>\$ 15,268,960</b>	<b>\$ 15,147,121</b>

See accompanying notes to financial statements.

# Boys and Girls Clubs of the Peninsula

## Statement of Activities

*Year Ended June 30, 2016 (with comparative totals for the year ended June 30, 2015)*

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Support and Revenues:</b>					
Contributions	\$ 6,770,507	\$ 1,002,351		\$ 7,772,858	\$ 5,765,946
Special events	537,297			537,297	491,584
Membership revenue	15,278			15,278	29,209
Contract revenues	710,925			710,925	650,789
Net assets released from restrictions	876,818	(876,818)			
<b>Total support and revenue</b>	<b>8,910,825</b>	<b>125,533</b>		<b>9,036,358</b>	<b>6,937,528</b>
<b>Expenses:</b>					
Program services	6,896,788			6,896,788	6,760,737
Management and general	1,038,949			1,038,949	827,912
Fundraising	656,705			656,705	579,266
<b>Total expenses</b>	<b>8,592,442</b>	<b>-</b>		<b>8,592,442</b>	<b>8,167,915</b>
<b>Change in Net Assets from Operations</b>	<b>318,383</b>	<b>125,533</b>		<b>443,916</b>	<b>(1,230,387)</b>
<b>Other Changes in Net Assets:</b>					
Investment income	(96,345)	(64,077)		(160,422)	(36,174)
<b>Change in Net Assets</b>	<b>222,038</b>	<b>61,456</b>		<b>283,494</b>	<b>(1,266,561)</b>
<b>Net Assets - Beginning of year</b>	<b>10,011,674</b>	<b>2,458,416</b>	<b>\$ 1,925,000</b>	<b>14,395,090</b>	<b>15,661,651</b>
<b>Net Assets - End of year</b>	<b>\$ 10,233,712</b>	<b>\$ 2,519,872</b>	<b>\$ 1,925,000</b>	<b>\$ 14,678,584</b>	<b>\$ 14,395,090</b>

See accompanying notes to financial statements.

# Boys and Girls Clubs of the Peninsula

## Statement of Functional Expenses

*Year Ended June 30, 2016 (with comparative totals for the year ended June 30, 2015)*

	2016				2015	
	Program Services	Management and General	Fundraising	Total	Total	
<b>Personnel:</b>						
Salaries	\$ 4,294,596	\$ 491,960	\$ 386,180	\$ 5,172,736	\$ 5,040,041	
Payroll taxes and benefits	942,195	133,249	91,695	1,167,139	1,109,348	
Total personnel expense	5,236,791	625,209	477,875	6,339,875	6,149,389	
<b>Facilities:</b>						
Depreciation	350,677			350,677	384,596	
Insurance	35,726	4,092	3,215	43,033	50,613	
Utilities	127,654			127,654	125,544	
Repairs and maintenance	233,560			233,560	189,041	
All other facilities expense	11,097			11,097	12,453	
Total facilities	758,714	4,092	3,215	766,021	762,247	
<b>Program Supplies</b>	582,979			582,979	615,417	
<b>Other:</b>						
Special events			98,315	98,315	84,723	
Bad debt expense		136,805		136,805	17,766	
Training	136,422	1,260	954	138,636	89,127	
Professional fees		75,756		75,756	64,782	
Telephone	55,094	6,311	4,957	66,362	63,561	
Office supplies	81,802	21,325		103,127	96,564	
Transportation	27,425	736	619	28,780	31,369	
Dues		22,507		22,507	20,916	
Recruiting		39,478		39,478	13,081	
Employee events		17,211		17,211	9,998	
Advertising			21,171	21,171	23,951	
Evaluation		26,180		26,180	7,173	
Miscellaneous	17,561	62,079	49,599	129,239	117,851	
Total other expenses	318,304	409,648	175,615	903,567	640,862	
Total expenses	\$ 6,896,788	\$ 1,038,949	\$ 656,705	\$ 8,592,442	\$ 8,167,915	

See accompanying notes to financial statements.

# Boys and Girls Clubs of the Peninsula

## Statement of Cash Flows

*Year Ended June 30, 2016 (with comparative totals for the year ended June 30, 2015)*

	2016	2015
<b>Cash Flows Provided by Operating Activities:</b>		
Change in net assets	\$ 283,494	\$ (1,266,561)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	350,677	384,596
Net realized/unrealized losses on investments	168,815	41,538
Donated equipment and other	(13,024)	
Changes in operating assets and liabilities:		
Unconditional promises to give	873,396	917,841
Other receivables	(114,534)	(178,921)
Prepaid expenses and deposits	(11,380)	11,391
Accounts payable and accrued expenses	(161,655)	(50,277)
Net used provided (used) by operating activities	1,375,789	(140,393)
<b>Cash Flows from Investing Activities:</b>		
Purchases of property, equipment and improvements	(137,627)	(95,989)
Proceeds from sale of investments	558,222	89,572
Purchase of investments	(160,969)	(79,611)
Net cash provided (used) by investing activities	259,626	(86,028)
<b>Net Change in Cash and Cash Equivalents</b>	<b>1,635,415</b>	<b>(226,421)</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>1,379,743</b>	<b>1,606,164</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 3,015,158</b>	<b>\$ 1,379,743</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
In-kind contributions of equipment	\$ 13,024	\$ -

See accompanying notes to financial statements.



# Boys and Girls Clubs of the Peninsula

## Notes to Financial Statements

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### Note 1 - Description of the Organization:

The Boys and Girls Clubs of the Peninsula (the Club) provide places where young people are welcome and can belong to after school and all day during the summer. At each of the Club's sites located in the most challenged areas of Menlo Park, East Palo Alto and Redwood City, California, staff and volunteers work through a broad range of programs to guide and inspire youth to develop the attitudes and life skills they need to thrive. Founded in 1958, the Club is now regarded as one of the most comprehensive youth development organizations in the San Francisco Bay Area. The Club's programs focus on Academics, Science and Technology, Social Education and Life Skills, Athletics and Fitness, and the Arts. Many of these programs are offered in partnership with local schools and other community organizations. The Club's annual budget is dependent on a balanced combination of support from individuals, foundations, corporations and public partners.

### Note 2 - Summary of Significant Accounting Policies:

#### a. Basis of Accounting

The Club prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

#### b. Description of Net Assets

*Unrestricted Net Assets* - the portion of net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations. These net assets are intended for use by management and the Board of Directors for general operations and certain Board designated uses, including the Maintenance Reserve for building repairs and the Quasi-endowment – funds the Board has chosen to retain and invest for the present.

*Temporarily Restricted Net Assets* - the portion of net assets that are limited by donor - imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Club. Also included in temporarily restricted net assets are earnings on the permanently restricted endowment which have not yet been appropriated for use.

*Permanently Restricted Net Assets* - the portion of net assets that are limited by donor - imposed stipulations that neither expire by passage of time nor can be removed by actions of the Club. These net assets represent the Club's endowment.

#### c. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of short-term, highly liquid investments and investments with original maturity dates of three months or less and do not include cash held as investment.

# Boys and Girls Clubs of the Peninsula

## Notes to Financial Statements

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### d. Fair Value Measurements

The Club classifies its financial assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, the Club reports certain investments using the net asset value (NAV) per share method under the so-called “practical expedient.” The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met.

Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Club’s determination of assumptions that market participants might reasonably use in valuing the securities. The Club maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value or in accordance with practical expedient NAV rules, which allow for either Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying funds.

In determining the appropriate levels, the Club performed an analysis of the assets and liabilities that are subject to Financial Accounting Standards Board (FASB) Codification Topic 820.

### e. Investments

Investments are valued at fair value with realized and unrealized gains and losses reflected in the statement of activities.

Investments in a multi asset fund are valued at NAV per share or ownership interest of the investment.

### f. Unconditional Promises to Give

Unconditional promises to give are recorded at their net realizable value. Unconditional promises to give which are due in more than one year have been discounted to the present value of their estimated future cash flows. The calculated amount of the discount was not material to the financial statements.

An allowance for uncollectible unconditional promises to give is provided based upon management’s judgment including such factors as prior collection history and type of contribution.

# Boys and Girls Clubs of the Peninsula

## Notes to Financial Statements

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g. Property, Equipment and Improvements

The Club capitalizes property, equipment and improvements in excess of \$4,000 or \$4,000 in the aggregate at cost of acquisition or construction or, if donated, at the fair market value at the date of donation. Depreciation is computed using the straight-line method with lives ranging from 3 to 40 years.

h. Revenue Recognition

Contributions are recorded at their fair value and are recognized as revenue when the donor makes an unconditional promise to give to the Club. 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 and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the same year in which the contributions are recognized. Net assets released from restrictions represent the satisfaction of donor restrictions or the passage of time and the appropriation of previously unappropriated endowment earnings. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. There was \$320,500 in conditional promises as of June 30, 2016.

Contract revenue from school districts and municipalities is recognized when earned for services rendered.

Special event revenue is recognized when the event occurs.

Non-cash donations are recorded at the fair value of the gift at the date of the donation.

Contributions of donated services that create or enhance non-financial assets that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

i. Income Taxes

The Club has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. In addition, the Club has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

Management evaluated the Club's tax positions and concluded that the Club had maintained its tax exempt status and had not taken uncertain tax positions that required adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

# Boys and Girls Clubs of the Peninsula

## Notes to Financial Statements

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j. Allocation of Expenses

Certain indirect costs have been allocated by management among programs and supporting services based on estimates of time, space and other factors.

k. Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

l. Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not in sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Club's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

m. Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient; rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. This guidance is effective for the fiscal year ending after December 15, 2016. Early adoption is permitted. The Club has adopted the standard as of June 30, 2016.

On February 25, 2016, FASB issued ASU 2016-02—*Leases (Topic 842)*. Under the ASU, a lessee will be required to recognize right-to-use assets and liabilities on their balance sheet for all leases with lease terms of more than twelve months. The ASU is effective for fiscal years beginning after December 15, 2019. Early application will be permitted for all organizations. The impact of adopting this guidance on subsequent periods has not yet been determined.

# Boys and Girls Clubs of the Peninsula

## Notes to Financial Statements

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In August 2016, the FASB issued ASU 2016-14 – Not-For-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*. The amendments in this ASU make improvements to the information provided in the financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB’s improvements to net asset classification requirements and the information presented about a not-for-profit entity’s liquidity, financial performance, and cash flows. The amendments in the update are effective for the fiscal year ending after December 15, 2017. Early application of the amendments in the ASU is permitted and applied retrospectively. The Club is currently evaluating the impact of this pronouncement on its financial statements.

n. Subsequent Events

The Club evaluated subsequent events from June 30, 2016 through September 26, 2016, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

**Note 3 - Investments and Fair Value Measurements:**

The fair value of assets measured on a recurring basis, are as follows as of June 30, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash funds	\$ 9,789	\$ 9,789		
Domestic securities	182,180	182,181		
<hr/>				
Total assets measured at fair value	191,970	<u>\$ 191,970</u>		
Investment value using net asset value practical expedient	5,128,365			
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Total	\$ 5,320,335			

# Boys and Girls Clubs of the Peninsula

## Notes to Financial Statements

The Club uses NAV to determine the fair value of all the underlying investments which do not have readily determinable fair value. The following table lists these investments by major category as of June 30, 2016:

Strategies	Valuation	No. of Funds	Redemption Frequency	Notice Period
TIFF Multi-Asset Fund (a)	\$ 5,128,365	1	N/A	N/A
Total	\$ 5,128,365			

(a) The Investment Fund for Foundation's (TIFF) Multi-Asset Fund (MAF) is a mutual fund and is valued using its NAV. At June 30, 2016, the TIFF MAF was invested approximately 65% in total return assets (primarily equity-oriented assets) and 35% in hedging assets (primarily hedge funds and cash equivalents). The fund's performance objective is to achieve a total return (price appreciation plus dividends and interest income) net of expenses that, over a majority of market cycles, exceeds inflation, as measured by the Consumer Price Index, plus 5% per annum.

### Note 4 - Promises to Give:

Unconditional promises to give are comprised of the following at June 30, 2016:

Pledges	\$ 809,198
Less:	
Allowance for doubtful accounts	(22,900)
Discount to net present value of estimated future cash flows	(3,408)
Net unconditional promises to give	\$ 782,890

Net unconditional promises to give are expected to be collected as follows as of June 30, 2016:

Due in one year or less	\$ 556,298
Due in one to five years	226,592
	\$ 782,890

At June 30, 2016, 13% of unconditional promises to give were due from board members and companies of board members and are included above.

# Boys and Girls Clubs of the Peninsula

## Notes to Financial Statements

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### Note 5 - Property, Equipment and Improvements:

Property, equipment and improvements and accumulated depreciation are as follows at June 30, 2016:

Buildings, improvements and landscaping	\$ 10,047,725
Equipment	1,596,405
Vehicles	200,130
<hr/>	
	11,844,260
Less accumulated depreciation	(6,078,073)
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	\$ 5,766,187

Depreciation expense was \$350,677 for the year ended June 30, 2016.

### Note 6 - Endowment Funds:

#### *Interpretation of Relevant Law*

Based on the Board of Directors interpretation of State Prudent Management of Institutional Funds Act (SPMIFA), 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 endowment fund that is not classified in permanently restricted net assets (the accumulated past earnings of the endowment which have not yet been appropriated), 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 SPMIFA.

In accordance with SPMIFA, 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, (7) the investment policies of the Club.

# Boys and Girls Clubs of the Peninsula

## Notes to Financial Statements

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Club to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2016.

### *Return Objectives and Risk Parameters*

The Club has adopted investment and spending policies for endowment assets that will ultimately provide a predictable stream of funding to provide support for the various programs of the Club. Endowment assets include those assets of donor-restricted funds that the Club must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to realize a competitive rate of return comparable to index benchmarks.

### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Club relies on a diversified asset investment strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Club targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Club is expecting to provide annual distributions of 5% of the market value of the portfolio as calculated on a 3 year rolling average. The investment managers are required to invest funds so as to ensure that required distributions of income or principal are met.

Endowment funds at June 30, 2016 are recorded as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted:				
Original gifts		\$ 1,283,567	\$ 1,925,000	\$ 3,208,567
Board Designated	\$ 1,929,587			1,929,587
<b>Total Funds</b>	<b>\$ 1,929,587</b>	<b>\$ 1,283,567</b>	<b>\$ 1,925,000</b>	<b>\$ 5,138,154</b>



# Boys and Girls Clubs of the Peninsula

## Notes to Financial Statements

Net changes in endowment funds for the year ended June 30, 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	\$ 2,394,020	\$ 1,546,880	\$ 1,925,000	\$ 5,865,900
Investment return:				
Income	2,548	1,445		3,993
Net depreciation	(110,735)	(62,782)		(173,517)
Total investment return	(108,187)	(61,337)		(169,524)
Appropriation of endowment earnings	(356,246)	(201,976)		(558,222)
Endowment net assets, June 30, 2016	\$ 1,929,587	\$ 1,283,567	\$ 1,925,000	\$ 5,138,154

### Note 7 - Temporarily Restricted Net Assets:

As of June 30, 2016, temporarily restricted net assets were comprised of the following:

Pledges	\$ 442,733
Unappropriated earnings on endowment	1,283,567
Program services	793,571
	<u>\$ 2,519,871</u>

Net assets of \$876,818 were released during 2016 in accordance with the donors' intent.

# Boys and Girls Clubs of the Peninsula

## Notes to Financial Statements

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### **Note 8 - Commitments and Contingencies:**

The Club has entered into several exchange agreements to lease its facilities at Menlo Park, Redwood City and East Palo Alto from various municipalities where the facilities are situated. These exchange agreements require the Club to perform certain duties in return for lease payments of \$1 per year. The leases run from 25 years (June, 2023) to 66 years (May, 2064) with options to renew. The building and improvements, constructed by the Club at Menlo Park, will revert to the municipality in the event the Club abandons the premises, which is not deemed probable by management. Rent for the Menlo Park and East Palo Alto facilities was prepaid by the Club.

### **Note 9 - Employee Benefits:**

The Club has made available, to qualified employees, a 401(k) safe harbor plan. This plan includes a non-elective employer contribution of 3% of eligible participants' compensation and the Club can elect to make an additional discretionary contribution that vests over 3 years. Employees are eligible to participate in the plan after one year of employment if they work over 1,000 hours a year. For the year ended June 30, 2016, the amount of pension expense was \$306,671.

### **Note 10 - Concentrations of Risk:**

The Club has defined its financial instruments, which are potentially subject to risk as cash and cash equivalents, investments and unconditional promises to give.

At times, the Club has cash deposits in financial institutions in excess of federally insured limits. Investments are held in various holdings in order to limit the concentration of market risk.

### **Note 11 - Related Party Transactions:**

Contributions received from members of the Club's Board of Directors their foundations and companies totaled approximately \$332,000 or 4% of total contribution revenue. Most of those contributions were cash.