

BOYS AND GIRLS CLUBS
OF THE PENINSULA

JUNE 30, 2018

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

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

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A Century Strong

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, 2018, 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 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 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Boys and Girls Clubs of the Peninsula's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
November 14, 2018

Boys and Girls Clubs of the Peninsula

Statement of Financial Position

<i>June 30, 2018 (with comparative totals as of June 30, 2017)</i>	2018	2017
Assets		
Cash and cash equivalents	\$ 7,150,547	\$ 4,734,351
Investments	6,060,853	6,082,113
Contributions receivable	2,919,944	3,023,239
Other receivables	448,273	189,844
Prepaid expenses and deposits	101,466	67,660
Fixed assets	9,855,799	10,288,232
Total assets	\$ 26,536,882	\$ 24,385,439
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 945,226	\$ 715,853
Net Assets:		
Unrestricted:		
Board designated:		
Maintenance reserve	334,021	334,021
Quasi-endowments	2,560,274	2,574,781
Investment in fixed assets	9,855,799	10,288,232
Undesignated	5,616,136	3,561,724
Total unrestricted net assets	18,366,230	16,758,758
Temporarily restricted	5,300,426	4,985,828
Permanently restricted	1,925,000	1,925,000
Total net assets	25,591,656	23,669,586
Total liabilities and net assets	\$ 26,536,882	\$ 24,385,439

See accompanying notes to financial statements.

Boys and Girls Clubs of the Peninsula

Statement of Activities

Year Ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenues:					
Contributions	\$ 9,057,266	\$ 1,685,213		\$ 10,742,479	\$ 10,309,122
Donated goods and services	16,476			16,476	55,865
Special events	2,952,034			2,952,034	1,737,444
Membership revenue	11,423			11,423	6,347
Contract revenues	793,302			793,302	887,738
Other revenue	10,465			10,465	
Net assets released from restrictions	1,363,863	(1,363,863)		-	-
Total support and revenue	14,204,829	321,350		14,526,179	12,996,516
Expenses:					
Program services	9,525,805			9,525,805	7,228,547
Management and general	1,962,238			1,962,238	1,296,713
Fundraising	1,085,017			1,085,017	766,135
Total expenses	12,573,060	-		12,573,060	9,291,395
Change in Net Assets from Operations	1,631,769	321,350		1,953,119	3,705,121
Other Changes in Net Assets:					
Investment (loss) income	(24,297)	(6,752)		(31,049)	676,481
Donated goods				-	4,609,400
Change in Net Assets	1,607,472	314,598		1,922,070	8,991,002
Net Assets - Beginning of year	16,758,758	4,985,828	\$ 1,925,000	23,669,586	14,678,584
Net Assets - End of year	\$ 18,366,230	\$ 5,300,426	\$ 1,925,000	\$ 25,591,656	\$ 23,669,586

See accompanying notes to financial statements.

Boys and Girls Clubs of the Peninsula

Statement of Cash Flows

Year Ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	2018	2017
Cash Flows Provided by Operating Activities:		
Change in net assets	\$ 1,922,070	\$ 8,991,002
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	796,063	363,068
Net realized/unrealized losses (gains) on investments	103,728	(670,451)
Donated goods		(4,662,320)
Changes in operating assets and liabilities:		
Contributions receivable	103,295	(2,240,349)
Other receivables	(258,429)	125,553
Prepaid expenses and deposits	(33,806)	1,333
Accounts payable and accrued expenses	229,373	125,477
Net cash provided by operating activities	2,862,294	2,033,313
Cash Flows from Investing Activities:		
Purchases of fixed assets	(363,630)	(222,793)
Proceeds from sale of investments	6,090,715	5,798,816
Purchase of investments	(6,173,183)	(6,072,324)
Net cash used by investing activities	(446,098)	(496,301)
Net Change in Cash and Cash Equivalents	2,416,196	1,537,012
Cash and Cash Equivalents - Beginning of year	4,734,351	3,197,339
Cash and Cash Equivalents - End of Year	\$ 7,150,547	\$ 4,734,351
Supplemental Disclosure of Cash Flow Information:		
Donated goods	\$ 11,419	\$ 4,662,320

See accompanying notes to financial statements.

Boys and Girls Clubs of the Peninsula

Statement of Functional Expenses

Year Ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	2018				2017
	Program Services	Management and General	Fundraising	Total	Total
Personnel:					
Salaries	\$ 5,759,469	\$ 836,500	\$ 462,427	\$ 7,058,396	\$ 5,677,765
Payroll taxes and benefits	1,224,686	264,129	99,641	1,588,456	1,320,737
Total personnel expense	6,984,155	1,100,629	562,068	8,646,852	6,998,502
Facilities:					
Depreciation	796,063			796,063	363,068
Insurance	52,133	16,500	3,970	72,603	60,268
Utilities	162,777			162,777	130,849
Repairs and maintenance	286,283			286,283	241,682
All other facilities expense	12,394			12,394	26,267
Total facilities	1,309,650	16,500	3,970	1,330,120	822,134
Program Supplies	886,582			886,582	541,325
Other:					
Special events			411,892	411,892	175,933
Bad debt expense		414,899		414,899	70,341
Training	54,940	15,057	3,906	73,903	45,478
Professional fees		150,945		150,945	76,093
Telephone	61,205	7,379	4,282	72,866	69,242
Office supplies	64,898	36,701	8,505	110,104	99,473
Transportation	32,188	3,032	93	35,313	29,954
Dues		26,933		26,933	22,620
Recruiting		81,325		81,325	15,700
Employee events		42,869		42,869	19,085
Marketing			59,784	59,784	23,538
Evaluation	110,484			110,484	104,200
Miscellaneous	21,703	65,969	30,517	118,189	177,777
Total other expenses	345,418	845,109	518,979	1,709,506	929,434
Total expenses	\$ 9,525,805	\$ 1,962,238	\$ 1,085,017	\$ 12,573,060	\$ 9,291,395

See accompanying notes to financial statements.

Boys and Girls Clubs of the Peninsula

Notes to Financial Statements

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

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.

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.

e. Investments

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

f. 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 were no conditional promises as of June 30, 2018.

Contributions receivable are recorded at their net realizable value. Contributions receivable 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 contributions receivable is provided based upon management's judgment including such factors as prior collection history and type of contribution.

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

Boys and Girls Clubs of the Peninsula

Notes to Financial Statements

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 goods and 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 value in the period received. The Club recorded \$16,476 in donated goods and services during the year ended June 30, 2018 which includes \$11,419 of donated goods, program supplies/food and \$5,056 of donated professional services.

g. Fixed Assets

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

h. 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.

i. 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.

j. 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.

Boys and Girls Clubs of the Peninsula

Notes to Financial Statements

k. 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Club's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

l. Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 Club for the fiscal year ending June 30, 2019. 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.

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 the Club for the fiscal year ending June 30, 2021. Early application will be permitted for all organizations. The impact of adopting this guidance on subsequent periods has not yet been determined.

m. Subsequent Events

The Club evaluated subsequent events from June 30, 2018 through November 14, 2018, 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.

Boys and Girls Clubs of the Peninsula

Notes to Financial Statements

Note 3 - Investments and Fair Value Measurements:

The table below presents investments measured at fair value on a recurring basis at June 30, 2018 and are valued as level 1 investments under the fair value hierarchy:

Money market funds and other short-term investments	\$ 1,040,641
Mutual funds:	
U.S. fixed income fund	1,525,215
Non-U.S. fixed income fund	255,033
U.S. equity fund	1,913,111
Non-U.S. equity fund	1,326,853
	<hr/>
	\$ 6,060,853

Investment loss for the year ended June 30, 2018 is as follows:

Interest and dividends, net of investment fees of \$179	\$ 72,679
Net unrealized and realized losses	(103,728)
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	\$ (31,049)

Note 4 - Promises to Give:

Contributions receivable are comprised of the following at June 30, 2018:

Pledges	\$ 3,291,749
Less:	
Allowance for doubtful accounts	(290,499)
Discount to net present value of estimated future cash flows	(81,306)
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Net contributions receivable	\$ 2,919,944

Net contributions receivable are expected to be collected as follows as of June 30, 2018:

Due in one year or less	\$ 1,396,250
Due in one to five years	1,523,694
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	\$ 2,919,944

At June 30, 2018, 30% of contributions receivable 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

Note 5 - Fixed Assets:

Fixed assets and accumulated depreciation are as follows at June 30, 2018:

Buildings, improvements and landscaping	\$ 14,797,812
Equipment	1,065,534
Vehicles	358,799
	<hr/>
	16,222,145
Less accumulated depreciation	(6,366,346)
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	\$ 9,855,799

Depreciation expense was \$796,063 for the year ended June 30, 2018.

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, and (7) the investment policies of the Club.

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 U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2018.

Boys and Girls Clubs of the Peninsula

Notes to Financial Statements

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. There was no distribution taken during 2018. 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, 2018 are recorded as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted:				
original gifts		\$ 1,575,579	\$ 1,925,000	\$ 3,500,579
Board designated	\$ 2,560,274			2,560,274
Total funds	\$ 2,560,274	\$ 1,575,579	\$ 1,925,000	\$ 6,060,853

Boys and Girls Clubs of the Peninsula

Notes to Financial Statements

Net changes in endowment funds for the year ended June 30, 2018 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2017	\$ 2,574,781	\$ 1,582,331	\$ 1,925,000	\$ 6,082,112
Investment loss:				
Income	47,403	22,063		69,466
Unrealized losses	(61,910)	(28,815)		(90,725)
Total investment loss	(14,507)	(6,752)		(21,259)
Endowment net assets, June 30, 2018	\$ 2,560,274	\$ 1,575,579	\$ 1,925,000	\$ 6,060,853

Note 7 - Temporarily Restricted Net Assets:

As of June 30, 2018, temporarily restricted net assets were comprised of the following:

Pledges, restricted for time	\$ 2,562,002
Unappropriated earnings on endowment	1,575,580
Program services	1,162,844
	<u>\$ 5,300,426</u>

Net assets of \$1,363,863 were released during 2018 in accordance with the donors' intent.

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.

Boys and Girls Clubs of the Peninsula

Notes to Financial Statements

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 three 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, 2018, the amount of pension expense was \$456,445.

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 contributions receivable.

At times, the Club has cash deposits in financial institutions in excess of federally insured limits. Investments are diversified into various types of holdings, as described in Note 3, in order to limit the concentration of market risk.

Receivables are due from various individuals and organizations which mitigate the risk associated therein. Three donors represent 69% of contributions receivable.

Note 11 - Related Party Transactions:

Contributions received from members of the Club's Board of Directors, their foundations or companies totaled approximately \$457,000 or 5% of total contribution revenue. Most of those contributions were cash.