

Audited Consolidated Financial Statements



June 30, 2019

Quigley & Miron

Heart of Los Angeles Youth, Inc. and Subsidiary
Audited Consolidated Financial Statements
Table of Contents
June 30, 2019

| | <u>Page Number</u> |
|--|------------------------|
| Independent Auditor's Report..... | 1 |
| Audited Consolidated Financial Statements | |
| Consolidated Statement of Financial Position..... | 3 |
| Consolidated Statement of Activities..... | 4 |
| Consolidated Statement of Functional Expenses..... | 5 |
| Consolidated Statement of Cash Flows..... | 6 |
| Notes to Consolidated Financial Statements..... | 7 |

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Independent Auditor's Report

Board of Directors

Heart of Los Angeles Youth, Inc. and Subsidiary

Los Angeles, California

We have audited the accompanying consolidated financial statements of Heart of Los Angeles Youth, Inc. and Subsidiary (HOLA), a nonprofit organization, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

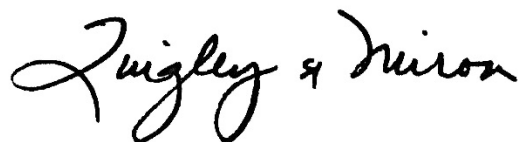
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Heart of Los Angeles Youth, Inc. and Subsidiary as of June 30, 2019, and the changes in its consolidated net assets and consolidated cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Quigley & Miron". The script is fluid and cursive, with the ampersand clearly visible between the two names.

Los Angeles, California
April 28, 2020

Heart of Los Angeles Youth, Inc. and Subsidiary
Consolidated Statement of Financial Position
June 30, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 2,406,271 | \$ 4,475,624 | \$ 6,881,895 |
| Restricted cash held for construction | 2,456,499 | 2,496,204 | 4,952,703 |
| Investments—Note 3 | 960,393 | 256,289 | 1,216,682 |
| Contributions receivable, net—Note 5 | 220,989 | 5,991,589 | 6,212,578 |
| Leverage loan receivable—Note 6 | 9,615,951 | | 9,615,951 |
| Prepaid expenses | 103,833 | | 103,833 |
| Leaseholder's prepaid right to facilities —Note 7 | 483,786 | | 483,786 |
| Property and equipment, net—Note 9 | 12,141,972 | | 12,141,972 |
| Total Assets | \$ 28,389,694 | \$ 13,219,706 | \$ 41,609,400 |
| Liabilities and Net Assets | | | |
| Liabilities | | | |
| Accounts payable and accrued liabilities | \$ 1,097,709 | \$ | \$ 1,097,709 |
| Accrued interest payable | 15,943 | | 15,943 |
| Loan payable—Note 10 | 5,750,000 | | 5,750,000 |
| NMTC notes payable—Note 11 | 14,314,000 | | 14,314,000 |
| City of Los Angeles gift payable—Note 7 | 61,310 | | 61,310 |
| Total Liabilities | 21,238,962 | | 21,238,962 |
| Commitments and Contingencies—Note 12 | | | |
| Net Assets | | | |
| Without donor restrictions | | | |
| Undesignated | 6,997,542 | | 6,997,542 |
| Board-designated reserve—Note 13 | 153,190 | | 153,190 |
| Total Net Assets | | | |
| Without Donor Restrictions | 7,150,732 | | 7,150,732 |
| With donor restrictions—Note 14 | | 13,219,706 | 13,219,706 |
| Total Net Assets | 7,150,732 | 13,219,706 | 20,370,438 |
| Total Liabilities and Net Assets | \$ 28,389,694 | \$ 13,219,706 | \$ 41,609,400 |

See notes to consolidated financial statements.

Heart of Los Angeles Youth, Inc. and Subsidiary
Consolidated Statement of Activities
Year Ended June 30, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|----------------------|
| Operating Activities | | | |
| Support and Revenue | | | |
| Contributions | | | |
| Corporate | \$ 335,438 | \$ 161,219 | \$ 496,657 |
| Foundations | 1,486,751 | 3,074,325 | 4,561,076 |
| Individuals | 577,864 | 63,801 | 641,665 |
| In-kind donations—Note 15 | 256,616 | | 256,616 |
| 30th Anniversary Gala | | | |
| Gross revenue | 705,587 | | 705,587 |
| Less cost of direct benefits to donors | (187,423) | | (187,423) |
| Net Gala Revenue | 518,164 | | 518,164 |
| Interest income | 96,696 | | 96,696 |
| Total Support and Revenue | 3,271,529 | 3,299,345 | 6,570,874 |
| Reclassifications | | | |
| Net assets released from restrictions | 1,961,327 | (1,961,327) | |
| Total Support and Revenue after Reclassifications | 5,232,856 | 1,338,018 | 6,570,874 |
| Expenses | | | |
| Youth after-school services | | | |
| Arts programs | 1,187,836 | | 1,187,836 |
| Athletic programs | 363,443 | | 363,443 |
| Education programs | 2,374,001 | | 2,374,001 |
| Total Youth After-School Services | 3,925,280 | | 3,925,280 |
| Supporting services | | | |
| Administrative | | | |
| Operations | 410,691 | | 410,691 |
| Construction-related | 198,752 | | 198,752 |
| Fundraising | 405,695 | | 405,695 |
| Total Supporting Services | 1,015,138 | | 1,015,138 |
| Total Expenses | 4,940,418 | | 4,940,418 |
| Change in Net Assets from Operations | 292,438 | 1,338,018 | 1,630,456 |
| Nonoperating Activities | | | |
| Investment return, net | 52,709 | 13,481 | 66,190 |
| Total Nonoperating Activities | 52,709 | 13,481 | 66,190 |
| Change in Net Assets | 345,147 | 1,351,499 | 1,696,646 |
| Net Assets at Beginning of Year | 6,805,585 | 11,868,207 | 18,673,792 |
| Net Assets at End of Year | \$ 7,150,732 | \$ 13,219,706 | \$ 20,370,438 |

See notes to consolidated financial statements.

Heart of Los Angeles Youth, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

| | Youth After-School Services | | | | Supporting Services | | | | | |
|--|-----------------------------|----------------------|-----------------------|---------------------|---------------------|--------------------------|-------------------|----------------|---------------------|---------------------|
| | Arts Programs | Athletic Programs | Education Programs | Total | Administrative | | Fundraising | Gala | Total | Total |
| | | | | | Operations | Construction -Related | | | | |
| Salaries and wages | \$ 794,399 | \$ 191,991 | \$ 1,095,978 | \$ 2,082,368 | \$ 117,668 | \$ | \$ 253,912 | \$ | \$ 371,580 | \$ 2,453,948 |
| Employee benefits | 54,478 | 9,687 | 94,643 | 158,808 | 32,868 | | 25,102 | | 57,970 | 216,778 |
| Payroll taxes | 59,698 | 14,080 | 80,972 | 154,750 | 10,451 | | 18,717 | | 29,168 | 183,918 |
| Cost of direct benefits to donors | | | | | | | | 187,423 | 187,423 | 187,423 |
| Depreciation | 3,142 | 3,142 | 15,467 | 21,751 | 1,208 | | 1,208 | | 2,416 | 24,167 |
| Equipment and supplies | 43,241 | 79,082 | 122,123 | 244,446 | 53 | | 33 | | 86 | 244,532 |
| Insurance | 11,843 | 5,922 | 29,608 | 47,373 | 6,249 | 8,602 | 2,060 | | 16,911 | 64,284 |
| Interest expense—Note 10 | | | | | 181,894 | | | | 181,894 | 181,894 |
| Occupancy | | | | | | | | | | |
| Rent | 140,442 | 6,532 | 94,520 | 241,494 | 6,535 | | | | 6,535 | 248,029 |
| Security services and parking | 33,261 | 7,586 | 38,195 | 79,042 | 2,668 | 108,287 | 2,653 | | 113,608 | 192,650 |
| Office expense | 4,604 | 2,129 | 14,240 | 20,973 | 37,714 | 1,893 | 22,264 | | 61,871 | 82,844 |
| Professional fees | 27,102 | 39,896 | 59,307 | 126,305 | 12,859 | 79,970 | 78,948 | | 171,777 | 298,082 |
| Student enrichment activities | | | | | | | | | | |
| Fieldtrips | 12,613 | 1,889 | 25,619 | 40,121 | | | | | | 40,121 |
| Scholarships | | | 695,807 | 695,807 | | | | | | 695,807 |
| Telephone | 3,013 | 1,507 | 7,522 | 12,042 | 524 | | 798 | | 1,322 | 13,364 |
| Total Expenses by Function | 1,187,836 | 363,443 | 2,374,001 | 3,925,280 | 410,691 | 198,752 | 405,695 | 187,423 | 1,202,561 | 5,127,841 |
| Less expenses included with revenues on the statement of activities | | | | | | | | | | |
| Cost of direct benefits to donors | | | | | | | | (187,423) | (187,423) | (187,423) |
| Total Expenses Included in Expense Section of the Statement of Activities | \$ 1,187,836 | \$ 363,443 | \$ 2,374,001 | \$ 3,925,280 | \$ 410,691 | \$ 198,752 | \$ 405,695 | \$ | \$ 1,015,138 | \$ 4,940,418 |

See notes to consolidated financial statements.

Heart of Los Angeles Youth, Inc. and Subsidiary
Consolidated Statement of Cash Flows
Year Ended June 30, 2019

Cash Flows from Operating Activities

| | |
|---|------------------|
| Change in net assets | \$ 1,696,646 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 24,167 |
| Gain on investments | (15,937) |
| Change in assets and liabilities: | |
| Contributions receivable, net | 1,672,628 |
| Prepaid expenses | 2,277 |
| Leaseholder's prepaid right to facilities | 28,883 |
| Accounts payable and accrued liabilities | 382,117 |
| Accrued interest payable | (8,920) |
| Net Cash Provided by Operating Activities | 3,781,861 |

Cash Flows from Investing Activities

| | |
|---|--------------------|
| Purchase of property and equipment | (2,763,826) |
| Purchase of investments | (434,484) |
| Proceeds from sales and maturities of investments | 395,548 |
| Net Cash Used in Investing Activities | (2,802,762) |

Net Increase in Cash, Cash Equivalents, and Restricted Cash **979,099**

Cash, Cash Equivalents, and Restricted Cash at Beginning of Year

10,855,499

Cash, Cash Equivalents, and Restricted Cash at End of Year

\$ 11,834,598

Supplemental Disclosures

| | |
|---|------------|
| Cash paid during the year for: | |
| Income taxes paid | \$ |
| Interest paid | \$ 392,510 |
| Noncash investing activities: | |
| Construction-in-progress included in accounts payable | \$ 821,484 |

See notes to consolidated financial statements.

Note 1—Organization and Summary of Significant Accounting Policies

Organization—Heart of Los Angeles Youth, Inc. (HOLA) is a nonprofit organization, founded in 1989 and incorporated in 1992. HOLA provides at-risk and underserved youth, ages 6-24, living in Los Angeles with free, exceptional after-school programming in academics, arts, and athletics within a nurturing environment, empowering them to develop their potential, pursue their education, and strengthen their communities. HOLA was founded in 1989 by Mitchel Moore, who saw the plight of youth living in and around the Rampart District and wanted to offer them an alternative to a life of gangs and drugs. He started playing basketball with a handful of students in a dilapidated gym in the basement of a local church and now, HOLA has grown to serve 2,100 youth, along with their families, each year through innovative and transformational after-school programs and myriad wraparound services.

HOLA has intensive core academic programs, including Smart Start Elementary Education Program, Bridges Education Program and College and Career Success Program, that begin investing in youth as young as elementary school and support them on their educational journey through middle school, high school, college and career. HOLA also has myriad enrichment offerings that expose students to a plethora of engaging and innovative opportunities that include a dynamic music (Music Studios) and youth orchestra program (YOLA at HOLA), premiere sports leagues and clinics that serve 1,000 youth each year, an intensive and sophisticated visual arts department that offers 100+ free art classes annually, as well as leadership and Science, Technology, Engineering, Arts and Math (STEAM) classes, myriad wraparound and counseling services, comprehensive alumni support, and scholarships, as well as parent and family resources.

HOLA operates Monday through Saturday year-round, and all programs are free—an essential feature for the area's economically struggling families. All of HOLA's programs operate in its existing four-building, 32,000 square-foot community campus in the Rampart District and Westlake area of Los Angeles that includes multiple classrooms, a synthetic turf soccer field, a full gymnasium and indoor athletic facility, several academic and art libraries, an art studio and gallery, music and orchestra rooms, three computer labs and a science, technology and digital media center. In 2020, HOLA will be expanding its campus through a new Arts, Enrichment and Recreation Center, located in Lafayette Park, that will significantly expand HOLA's physical footprint in the neighborhood, and will allow HOLA to increase strategic partnerships, grow the scope of its programs and significantly increase its overall impact on this community and its residents.

HOLA has recognized the invaluable role that strong and deliberate partnerships play in the success of its programs and meeting HOLA's overall mission, as well as the need to expand the educational village for low-income youth and leverage local resources. Organizationally, HOLA has strategically sought out and developed hundreds of community partnerships, including the City of Los Angeles Department of Recreation and Parks, Los Angeles Philharmonic Association, UCLA CityLab, Ghetto Film School Los Angeles, Los Angeles County Museum of Art (LACMA), Longy School of Music at Bard College, dozens of college and universities, 70+ local feeder schools, community-based organizations, parents, local police departments and local businesses. HOLA is also largely supported by a committed group of volunteers who serve selflessly as mentors, tutors, advocates, teachers and advisers, as well as dedicated Board members who provide the organization with the leadership, resources, depth and innovation that make HOLA so unique in its field.

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

HOLA has been able to demonstrate the long-term impact of its programs and services through a variety of outcomes. Over the last decade, HOLA has graduated 572 seniors from high school, boasting an accumulative 99% high school graduation rate and a 98% high school-to-college matriculation rate. Since 2009, HOLA has awarded more than \$3.7 million in college scholarships to HOLA youth and has welcomed dozens of alumni back to HOLA as staff, board members, teachers, artists, musicians, coaches, volunteers and mentors.

In September 2017, in an effort to expand the quality and quantity of services provided to the community, HOLA entered into a joint partnership with the City of Los Angeles to construct a new Arts, Enrichment and Recreation Center (Center) (See Note 8), adjacent to its present facilities in Lafayette Park. Financing for this facility was provided in part by a New Markets Tax Credit (NMTC) transaction, requiring the establishment by HOLA of a related California not-for-profit corporate subsidiary, HOLA Community Partners (HOLA-CP). HOLA-CP is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable state law. HOLA-CP is a supporting organization of HOLA and is controlled by HOLA as specified in Section 509(a)(3) of the IRC. HOLA-CP holds title to the Center building. Throughout the remainder of these notes, the term HOLA will refer to both HOLA and HOLA-CP unless otherwise indicated.

Principles of Consolidation—The consolidated financial statements include the accounts of HOLA and its related entity, HOLA-CP. Any significant intercompany balances and transactions have been eliminated in consolidation.

Income Taxes—HOLA and HOLA-CP are nonprofit organizations exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). Accordingly, no provision for income taxes is included in the consolidated financial statements. In addition, HOLA and HOLA-CP have been determined by the Internal Revenue Service not to be private foundations within the meaning of Section 509(a) of the Code.

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered ‘*more likely than not*’ to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2019. Generally, HOLA’s information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Consolidated Financial Statement Presentation—In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. HOLA has adopted ASU No. 2016-14 for the year ended June 30, 2019 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

The consolidated financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. HOLA’s net assets are

Note 1—Organization and Summary of Significant Accounting Policies—Continued

classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of HOLA and changes therein are presented and reported as follows:

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

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of HOLA and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit HOLA to use all or part of the income earned on related investments for general or specific purposes.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to HOLA's ongoing youth after-school services and interest earned. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more usual or nonrecurring nature.

Restricted Cash—In February 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The guidance requires entities to present the change in restricted cash and restricted cash equivalents with cash and cash equivalents to reconcile amounts on the balance sheet to the statement of cash flows. Entities are required to disclose the nature of the restrictions, as well as reconcile the totals in the statement of cash flows to cash, cash equivalents, restricted cash, and restricted cash equivalents on the balance sheet when these are shown in more than one line item. HOLA has adopted ASU No. 2016-18 on a retrospective basis for the year ended June 30, 2019, and has adjusted the presentation of these statements accordingly.

Cash, Cash Equivalents, and Restricted Cash—HOLA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Unspent cash from the NMTC transaction is reflected as restricted cash held for construction on the consolidated statement of financial position. Its use is limited to the Center project (see Note 8) and the disbursements are subject to a blocked account agreement. HOLA-CP maintains its cash at bank accounts which, at times, may exceed federally insured limits. HOLA-CP has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position to the cash, cash equivalents, and restricted cash total shown in the statement of cash flows at June 30, 2019:

| | |
|--|-----------------------------|
| Cash and cash equivalents | \$ 6,881,895 |
| Restricted cash held for construction | <u>4,952,703</u> |
| Total Cash, Cash Equivalents, and Restricted Cash | <u>\$ 11,834,598</u> |

Restricted cash held for construction on the statement of financial position includes restricted cash received with a donor-imposed restriction that limits the use of that cash to long-term purposes.

Investments—Investments are initially recorded at cost, if purchased, or at fair market value if received as a contribution. Subsequent to acquisition, investments in securities are reported at fair value. Investment transactions are recorded on the trade date. Investment income and realized and unrealized gains and losses, net of investment management fees, are reported as increases or decreases in the appropriate net asset category.

Concentrations of Credit Risk—Financial instruments which potentially subject HOLA to concentrations of credit risk consist of cash and cash equivalents, investments, and contributions receivable. HOLA maintains cash balances at various high-quality financial institutions, where accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, in the normal course of business, such cash and cash equivalent balances are in excess of the FDIC insurance limits. Management regularly reviews the financial stability of its cash depositories and deems the risk of loss due to these concentrations to be minimal.

Management of HOLA has assessed the credit risk associated with the investments held at June 30, 2019 and has determined that an allowance for potential losses due to credit risk in the investment portfolio is not necessary.

Contributions receivable at June 30, 2019 are due from nonprofit organizations, businesses, government agencies, and individuals well-known to HOLA, with favorable past payment histories. At June 30, 2019, the largest contribution receivable from a single entity represented 71% of HOLA's gross contributions receivable. This contribution is a pledge for college scholarship funds to be awarded to qualifying students. Management of HOLA has assessed the credit risk associated with these contributions receivable and has determined that an allowance for potential uncollectible amounts is not necessary.

Government Grants—Revenues from government grants are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred. The amounts expended in excess of reimbursements are reported as grants receivable. Amounts received in excess of amounts expended are recorded as deferred revenue.

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Functional Expenses—The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the youth after-school services and supporting services benefitted. Such allocations are determined by management on an equitable basis. The basis of allocations used for these expenses were as follows: time and effort for salaries and wages, payroll taxes, and employee benefits; full-time equivalent for insurance, office expense, and telephone; and square footage for depreciation and occupancy.

Use of Estimates—The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2—Availability and Liquidity

The following represents the availability and liquidity of HOLA's financial assets at June 30, 2019 to cover operating expenses for the next fiscal year:

| | |
|--|---------------------|
| Financial assets | |
| Cash and cash equivalents | \$ 6,881,895 |
| Restricted cash held for construction | 4,952,703 |
| Investments | 1,216,682 |
| Contributions receivable, net | 6,212,578 |
| Leverage loan receivable | 9,615,951 |
| | <hr/> |
| Total Financial Assets | 28,879,809 |
| Less amounts not available to be used within one year: | |
| Net assets with donor restrictions | |
| Restricted due to purpose | |
| Youth after-school services | |
| Arts programs | (636,726) |
| Athletic programs | (47,220) |
| Education programs | (5,364,741) |
| Organizational capacity support | (875,497) |
| Capital Campaign | (6,295,522) |
| Cash held for HOLA Community Partners building project | (4,952,703) |
| Leverage loan receivable | (9,615,951) |
| Board-designated reserve | (153,190) |
| | <hr/> |
| Total Amounts Not Available to be Used Within One Year | (27,941,550) |
| | <hr/> |
| Financial Assets Available to Meet General Expenditures Over the Next Twelve Months | \$ 938,259 |

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements—Continued

Note 2—Availability and Liquidity—Continued

HOLA's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$1,250,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts.

Note 3—Investments

HOLA's investments carried at quoted market values at June 30, 2019 are summarized as follows:

| | Cost Basis | Accumulated Unrealized Gains (Losses) | Fair Market Value |
|-----------------------------|---------------------|--|------------------------------|
| Mutual funds | | | |
| Core Bond | \$ 119,012 | \$ 4,327 | \$ 123,339 |
| Core Plus Bond | 59,372 | 2,748 | 62,120 |
| Emerging Markets | 44,682 | 4,296 | 48,978 |
| Flexible Portfolio | 149,438 | 15,256 | 164,694 |
| Global Equity Income | 151,281 | 7,922 | 159,203 |
| Global Large-Cap Core | 141,330 | 9,370 | 150,700 |
| Global Large-Cap Growth | 47,620 | 9,527 | 57,147 |
| Global Small/Mid-Cap | 22,919 | 4,626 | 27,545 |
| High Yield | 32,875 | (196) | 32,679 |
| Mixed Target All Growth | 213,673 | 20,744 | 234,417 |
| Mixed Target All Moderate | 67,036 | 1,922 | 68,958 |
| Multi-Cap Core | 48,194 | 6,698 | 54,892 |
| Short-term Investment Grade | 31,646 | 364 | 32,010 |
| Totals | \$ 1,129,078 | \$ 87,604 | \$ 1,216,682 |

It is HOLA's investment policy to invest in both equity and fixed-income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. The allocation between equity and fixed-income securities is rebalanced annually according to the percentage guidelines set forth by HOLA's Investment Committee's Annual Investment Plan.

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements—Continued

Note 4—Fair Value Measurements

In determining the fair value of assets and liabilities, HOLA utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. HOLA determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are characterized in one of the following levels:

Level 1—Quoted market prices in active markets for identical assets or liabilities. Level 1 assets include equity securities and mutual funds valued at the closing price reported on the active market on which the individual securities are traded.

Level 2—Observable market-based inputs, either directly or indirectly, but are other than quoted prices in actively traded markets. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable inputs that can be corroborated by observable market data.

Level 3—Unobservable inputs that are supported by little or no market activity which are significant to the fair value of the asset or liability. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

HOLA may utilize a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by HOLA to value private investments is the Net Asset Value (NAV) per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. HOLA had no assets or liabilities classified at NAV as a practical expedient during the year ended June 30, 2019.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2019 consist of investments in mutual funds, which are considered to have Level 1 inputs.

Note 5—Contributions Receivable, Net

Net contributions receivable at June 30, 2019 consist of the following:

| | |
|---|---------------------|
| Unconditional promises expected to be collected in: | |
| Less than one year | \$ 2,059,877 |
| One year to five years | 4,185,000 |
| Over five years | 300,000 |
| | <hr/> |
| Gross Contributions Receivable | 6,544,877 |
| Less 2.00% discount to present value | (332,299) |
| | <hr/> |
| Contributions Receivable, Net | \$ 6,212,578 |

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements—Continued

Note 5—Contributions Receivable, Net—Continued

Gross contributions receivable at June 30, 2019 by funder category consist of the following:

| | |
|---------------------------|----------------------------|
| Foundations | \$ 6,019,502 |
| Corporate and individuals | 389,257 |
| Government agencies | 136,118 |
| Total | <u>\$ 6,544,877</u> |

Note 6—Leverage Loan Receivable

In connection with HOLA's financing obtained through the NMTC program, HOLA made a leverage loan to a qualified equity investment fund (QEIF). The loan accrues interest at a fixed rate of 1%, and requires quarterly interest-only payments for the first seven years (Compliance Period); and quarterly principal and interest payments of \$153,948 through September 2047. At June 30, 2019, the loan receivable balance was \$9,615,951.

After the Compliance Period, there are put and call agreements between HOLA and the investor in the QEIF. It is anticipated that the NMTC investor will put their option and HOLA will own the funds in the QEIF at the end of the Compliance Period; however, if the investor does not put their interest, management plans to exercise its option to call. This action will essentially result in forgiveness of these loans as well as extinguishment of HOLA's debt described in Note 11. Interest income was \$96,160 for the year ended June 30, 2019.

In order to fund the above loan, HOLA paid \$9,615,951 in cash on hand (including \$2,802,919 in lender reimbursements as a result of the NMTC transaction).

Note 7—Lafayette Park Community Center

In 2006, HOLA, together with the City of Los Angeles, Department of Recreation and Parks (City), launched the "Building for the Future" project. Funds raised through this public/private partnership secured working capital for several short- and long-term needs, programmatic expansion, and the renovation and expansion of the Lafayette Park Community Center (Community Center).

In November 2006, HOLA received a grant of \$1 million (Grant) from The Everychild Foundation (Foundation). The Grant was restricted to certain capital renovations that were made by the City to the Community Center, and to increase and expand the programs offered by HOLA to children at the Community Center. Through this support, HOLA was able to leverage additional funds for program expansion from other private sources.

In December 2007, HOLA entered into a Gift Agreement (Gift) with the City to provide \$722,070 of the Foundation's Grant to the City for the Community Center construction project. The remaining balance owed to the City under this Gift at June 30, 2019 was \$61,310, as no payments were made during the year ended June 30, 2019. In exchange for the Gift, the City entered into a Memorandum of Agreement (Agreement) with HOLA to provide nontransferable use of a portion of the Community Center facilities, including utilities and general maintenance, for a term of 25 years, commencing March 2011.

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements—Continued

Note 7—Lafayette Park Community Center—Continued

The Agreement requires HOLA to provide youth development programming at the Community Center, at its own cost, including programs such as Athletics, HOLA Bridges Middle School and PAT High School Education, and STEAM (Science, Technology, Engineering, Arts, and Math) classes.

HOLA recorded the Grant as a restricted gift with the amount committed to the City recorded as a leaseholder's prepaid right to facilities. As of June 30, 2019, the amounts remaining to be amortized into rent expense are as follows:

| <u>Year Ending June 30,</u> | |
|-----------------------------|--------------------------|
| 2020 | \$ 28,883 |
| 2021 | 28,883 |
| 2022 | 28,883 |
| 2023 | 28,883 |
| 2024 | 28,883 |
| Thereafter | <u>339,371</u> |
| Total | <u>\$ 483,786</u> |

During the year ended June 30, 2019, HOLA recorded \$28,883 in rent expense related to the amortization of the leaseholder's prepaid right to facilities.

The Lafayette Park Community Center enables HOLA to provide an expanded range of educational and recreational programs to over 2,200 youth. As of June 30, 2019, the projected annual budget for program services provided at the Community Center by HOLA is approximately \$1 million.

Note 8—Arts, Enrichment, and Recreation Center Project

In response to increased programmatic facility needs, and to ensure future program sustainability, HOLA began an effort to build and furnish a new Arts, Enrichment, and Recreation Center (Center) in 2015. The building is to be located on undeveloped property at Lafayette Park in the city of Los Angeles. At the date of this report, the estimated project cost is \$17 million, and more than \$15.5 million in capital funding has been secured. The Center's building site is being provided through HOLA's public/private partnership with the City of Los Angeles (City) Department of Recreation and Parks. The City negotiated a fifty-year land lease with HOLA-CP at a nominal cost of \$1 per year, essentially gifting the building site to HOLA-CP. The land lease agreement between HOLA-CP and the City, which was fully executed in 2017, includes an option to further extend the lease beyond this initial fifty-year period. Completion of the building project is expected in Spring 2020. As of June 30, 2019, HOLA has capitalized \$11,663,108 in costs related to the construction of the facility.

In September 2017, HOLA entered into a NMTC financing transaction for the Center project. All prior building costs expended and capitalized as construction-in-progress by HOLA were transferred to HOLA-CP, which received NMTC financing. The NMTC financing (described in Notes 6, 10 and 11) completed the financing for the project, resulting in approximately \$3 million of additional net financing for the project.

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements—Continued

Note 8—Arts, Enrichment, and Recreation Center Project—Continued

The Center's building construction expenditures during the year ended June 30, 2019 totaled \$2,755,553 and are included in "property and equipment" in the consolidated statement of financial position and in Note 9, Property and Equipment, under the sub-category of "construction-in-progress." The remaining Campaign-related expenditures during the year ended June 30, 2019 totaled \$28,078 and were recorded as "professional fees" expense in the consolidated statement of functional expenses.

Note 9—Property and Equipment, Net

Property and equipment, net at June 30, 2019 consists of the following:

| | |
|-------------------------------|----------------------|
| Construction-in-progress | \$ 12,105,809 |
| Leasehold improvements | 107,329 |
| Equipment | 52,347 |
| Vehicles | 75,737 |
| | <hr/> |
| | 12,341,222 |
| Less accumulated depreciation | (199,250) |
| | <hr/> |
| Net | \$ 12,141,972 |

Depreciation expense for the year ended June 30, 2019 totaled \$24,167.

Note 10—Loan Payable

In September 2017, HOLA negotiated a term loan with U.S. Bank for \$5,750,000, bearing interest initially at 1.98111% and requiring monthly interest-only payments until the loan's maturity date in September 2020 whereupon HOLA will pay off the principal in a single balloon payment. As part of the loan agreement, the Weingart Foundation agreed to act as a guarantor in order to assist HOLA in qualifying for extension of credit from U.S. Bank. The loan's outstanding balance at June 30, 2019 is \$5,750,000 with an interest rate of 3.25%. Interest expense for the year ended June 30, 2019, totaled \$181,894.

As part of the NMTC program being utilized for the construction of the Center project, the proceeds of this loan were used to make a leverage loan to a QEIF (see Note 6) for the purpose of securing additional financing for HOLA-CP.

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements—Continued

Note 11—New Markets Tax Credit Notes Payable

In September 2017, HOLA-CP obtained financing in an arrangement structured under the New Markets Tax Credit (NMTC) program. This program, enacted by Congress as part of the Community Renewal Tax Relief Act of 2000, permits individual and corporate taxpayers to receive a credit against federal income taxes for making a quality equity investment (QEI) in qualified community development entities (CDEs). The CDEs used substantially all of each QEI to make qualified low-income community investment (QLICI) loans on favorable terms to HOLA-CP as a qualified active low-income community business (QALICB).

Loans made to HOLA-CP by the CDEs in September 2017 and outstanding as of June 30, 2019 are as follows:

| | |
|---|-----------------------------|
| New Markets Community Capital XXI, LLC Note A | \$ 7,809,751 |
| New Markets Community Capital XXI, LLC Note B | 3,754,249 |
| LADF XIII, LLC Note A | 1,806,200 |
| LADF XIII, LLC Note B | <u>943,800</u> |
| Total | <u>\$ 14,314,000</u> |

HOLA-CP used some proceeds from the loans to reimburse HOLA for Center project construction-related disbursements made prior to September 14, 2018 to continue construction of the Center (Note 8).

All the loans bear interest at 1.409069% and require quarterly interest-only payments for the first seven years (Compliance Period) and principal and interest payments through maturity in September 2047. The loans can be repaid any time after the Compliance Period. Quarterly interest payments commenced December 14, 2017. Interest capitalized was \$211,535 for the year ended June 30, 2019.

There are put and call agreements between HOLA-CP and the investor in the QEIF (which has ownership interest in the CDEs making the loans above). If the investor does not exercise their put option, HOLA-CP has the ability to call the ownership in the interest in the QEIF for fair market value. It is anticipated that the NMTC investor will put their option and HOLA-CP will own the funds in the QEIF at the end of the Compliance Period. However, if the investor does not put their interest, management plans to exercise its option to call. By acquiring the ownership interests, HOLA-CP would be in a position whereby it can forgive the NMTC notes payable, resulting in a substantial reduction in outstanding debt at that point in time and recognition of the benefits from the NMTC program (in turn, it is expected that HOLA-CP would forgive the NMTC notes receivable). The loans are collateralized by essentially all HOLA-CP property and equipment.

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements—Continued

Note 12—Commitments and Contingencies

In addition to the facility space provided for one dollar per year to HOLA by the Bryson Apartments complex (see Note 15), HOLA leases program space in an adjacent building (the Royale) under a non-cancellable operating lease agreement, expiring in May 2020. Future minimum annual rental payments under this lease agreement total \$37,056. Payments related to this lease agreement totaled approximately \$40,000 during the year ended June 30, 2019.

Additionally, HOLA rents program space on a month-to-month basis in another adjacent building (HOLA North).

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. While that is a possibility, the Board deems the contingency remote since, by accepting a grant and its terms, the Board is acknowledging the requirements of the grantor at the time of receipt of the grant.

Note 13—Net Assets without Donor Restrictions

Net assets without donor restrictions at June 30, 2019 consist of the following:

| | |
|--|----------------------------|
| Undesignated | \$ 6,997,542 |
| Board-designated reserve | <u>153,190</u> |
| Total Net Assets Without Donor Restrictions | <u>\$ 7,150,732</u> |

The board-designated reserve consists of voluntary board-approved segregations of net assets without donor restrictions for specific purposes, projects, or investments, and to provide funds to allow HOLA to operate effectively, despite reductions or curtailment of portions of its funding in the future. The HOLA Board of Directors' board-designated reserve fund policy has a goal to maintain sufficient cash between the board-designated reserve and undesignated cash to fund three months of operating expenses.

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements—Continued

Note 14—Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2019 consist of the following:

Subject to expenditure for specified purpose:

| | |
|---------------------------------|------------|
| Youth after-school services | |
| Arts programs | \$ 568,726 |
| Athletic programs | 7,220 |
| Education programs | 775,229 |
| Organizational capacity support | 121,363 |
| Capital Campaign | 5,755,579 |

Promises to give, the proceeds from which have
been restricted by donors for:

| | |
|---------------------------------|-----------|
| Youth after-school services | |
| Arts programs | 68,000 |
| Athletic programs | 40,000 |
| Education programs | 4,589,512 |
| Organizational capacity support | 754,134 |
| Capital Campaign | 539,943 |

| | |
|---|----------------------|
| Total Net Assets with Donor Restrictions | \$ 13,219,706 |
|---|----------------------|

Net assets released from donor restrictions for the year ended June 30, 2019 are as follows:

Satisfaction of purpose restrictions:

| | |
|---------------------------------|------------|
| Youth after-school services | |
| Arts programs | \$ 237,442 |
| Athletic programs | 64,675 |
| Education programs | 315,373 |
| Organizational capacity support | 70,381 |
| Capital Campaign | 157,904 |

Promises to give, the proceeds from which have
been restricted by donors for:

| | |
|---------------------------------|---------|
| Youth after-school services | |
| Arts programs | 241,891 |
| Education programs | 672,436 |
| Organizational capacity support | 201,225 |

| | |
|--|---------------------|
| Total Net Assets Released From Donor Restrictions | \$ 1,961,327 |
|--|---------------------|

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements—Continued

Note 15—In-Kind Donations

In-kind donations consist of the following for the year ended June 30, 2019:

| | | |
|--------------------------------------|-----------|----------------|
| Equipment and supplies | \$ | 133,667 |
| Rent | | 65,000 |
| Special event management services | | 52,541 |
| Capital Campaign consulting services | | 4,575 |
| Student fieldtrips | | 833 |
| | | <hr/> |
| Total | \$ | 256,616 |

In-kind rent represents the fair value of facility space utilized by HOLA at the Bryson Apartments complex for the year ended June 30, 2019. All other in-kind donations are valued at their estimated fair market value at the date of gift.

The above in-kind contributions are included under the captions “equipment and supplies,” “fieldtrips,” “professional fees,” and “rent” in the consolidated statement of functional expenses.

Note 16—Recent Accounting Pronouncements

Leases—In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for nonprofit organizations with fiscal years beginning after December 15, 2019, with early adoption permitted. HOLA is currently evaluating the impact that the adoption of ASU No. 2016-02 will have on its consolidated financial statements.

Cash Classification—In August 2016, FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 addresses various classification issues related to the statements of cash flows. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. HOLA is currently evaluating the impact that the adoption of ASU No. 2016-15 will have on its consolidated financial statements.

Contributions—In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 clarifies the definition of an exchange transaction. As a result, not-for-profit entities (NFPs) will account for most federal grants as donor-restricted conditional contributions rather than as exchange transactions (the prevalent practice today). An accommodation (“simultaneous release” option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today. Donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/right of release) to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements. No new disclosures are required.

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements—Continued

Note 16—Recent Accounting Pronouncements—Continued

ASU No. 2018-08 is effective for resource recipients with fiscal years beginning after December 15, 2018, and for resource providers with fiscal years beginning after December 15, 2019; early adoption is permitted. HOLA is currently evaluating the impact that the adoption of ASU No. 2018-08 will have on its consolidated financial statements.

Note 17—Legal Matters

In April 2020, HOLA-CP filed a complaint with the Superior Court for the State of California for the County of Los Angeles against an independent contracting firm (the Contractor) that had been engaged to work on the Arts, Enrichment and Recreation Center (Center). The complaint seeks damages to offset additional expenses incurred on the Center project as a result of the Contractor's failure to meet a reasonable standard of construction quality and complete the contract on schedule, per the obligations under its agreement with HOLA-CP. Concurrently, in April 2020, the Contractor filed its own complaint against HOLA-CP.

In addition, prior to these separate court filings by HOLA-CP and the Contractor, both parties had agreed to mediation to resolve this dispute. The mediation had been scheduled for March 2020, however, it was postponed as a result of the COVID-19 virus pandemic (see Note 18) and had yet to be rescheduled as of the date of this report.

In management's opinion, since the resolution of this dispute has yet to be mediated or adjudicated, the material effect on the consolidated financial position of HOLA at June 30, 2019, if any, cannot be determined.

Note 18—Risks and Uncertainties

In early March 2020, the COVID-19 virus was declared a global pandemic, and it unfortunately continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. HOLA shifted all programs and services to a remote model as of March 14, 2020, and management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.

Note 19—Subsequent Events

Management has evaluated all activities of Heart of Los Angeles Youth, Inc. and Subsidiary through April 28, 2020, which is the date the consolidated financial statements were available to be issued, and concluded that, other than the legal matters described in Note 17 and the response to the COVID-19 virus pandemic described in Note 18, no other material subsequent events have occurred that would require adjustment to the consolidated financial statements or disclosure in the notes to the consolidated financial statements.