

Audited Consolidated Financial Statements



June 30, 2020

Quigley & Miron

Heart of Los Angeles Youth, Inc. and Subsidiary
Audited Consolidated Financial Statements
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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, 2020, 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

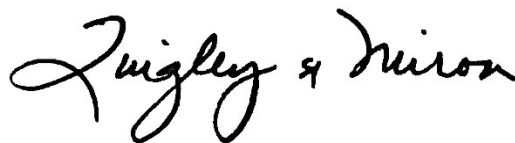
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance 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, 2020, 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, reading "Zigley & Miron". The signature is written in a cursive, flowing style.

Los Angeles, California
April 26, 2021

Heart of Los Angeles Youth, Inc. and Subsidiary
Consolidated Statement of Financial Position
June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Assets			
Cash and cash equivalents	\$ 1,720,768	\$ 1,217,998	\$ 2,938,766
Restricted cash held for construction	3,263,641	2,472,617	5,736,258
Investments—Note 3	948,893	250,388	1,199,281
Contributions receivable, net—Note 5	160,218	5,263,718	5,423,936
Insurance claim receivable—Note 6	266,253		266,253
Leverage loan receivable—Note 7	13,294,431		13,294,431
Prepaid expenses	190,725		190,725
Leaseholder's prepaid right to facilities —Note 8	454,904		454,904
Property and equipment, net—Note 10	17,577,004		17,577,004
Total Assets	\$ 37,876,837	\$ 9,204,721	\$ 47,081,558
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued liabilities	\$ 674,159	\$	\$ 674,159
Accrued interest payable	15,943		15,943
PPP advance—Note 11	390,383		390,383
Loan payable—Note 12	5,750,000		5,750,000
NMTC notes payable—Note 13	19,714,000		19,714,000
City of Los Angeles gift payable—Note 8	61,310		61,310
Total Liabilities	26,605,795		26,605,795
Commitments and Contingencies—Note 14			
Net Assets			
Without donor restrictions—Note 15			
Undesignated	11,117,279		11,117,279
Board-designated reserve	153,763		153,763
Total Net Assets			
Without Donor Restrictions	11,271,042		11,271,042
With donor restrictions—Note 16		9,204,721	9,204,721
Total Net Assets	11,271,042	9,204,721	20,475,763
Total Liabilities and Net Assets	\$ 37,876,837	\$ 9,204,721	\$ 47,081,558

See notes to consolidated financial statements.

Heart of Los Angeles Youth, Inc. and Subsidiary
Consolidated Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities			
Support and Revenue			
Contributions			
Corporate	\$ 488,215	\$ 46,500	\$ 534,715
Foundations	987,811	2,160,466	3,148,277
Individuals	743,237	104,445	847,682
Government agencies		79,000	79,000
PPP advance—Note 11	153,035		153,035
In-kind donations—Note 17	105,022		105,022
Insurance claim settlement—Note 6	380,663		380,663
Interest income	72,776		72,776
Total Support and Revenue	2,930,759	2,390,411	5,321,170
Reclassifications			
Net assets released from restrictions	6,407,188	(6,407,188)	
Total Support and Revenue after Reclassifications	9,337,947	(4,016,777)	5,321,170
Expenses			
Youth after-school services			
Arts programs	1,380,951		1,380,951
Athletic programs	379,383		379,383
Education programs	2,513,050		2,513,050
Total Youth After-School Services	4,273,384		4,273,384
Supporting services			
Administrative			
Operations	231,929		231,929
Construction-related	396,228		396,228
Fundraising	362,254		362,254
Total Supporting Services	990,411		990,411
Total Expenses	5,263,795		5,263,795
Change in Net Assets from Operations	4,074,152	(4,016,777)	57,375
Nonoperating Activities			
Investment return, net	46,158	1,792	47,950
Total Nonoperating Activities	46,158	1,792	47,950
Change in Net Assets	4,120,310	(4,014,985)	105,325
Net Assets at Beginning of Year	7,150,732	13,219,706	20,370,438
Net Assets at End of Year	\$ 11,271,042	\$ 9,204,721	\$ 20,475,763

See notes to consolidated financial statements.

Heart of Los Angeles Youth, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

	Youth After-School Services				Supporting Services				
	Arts Programs	Athletic Programs	Education Programs	Total	Administrative		Fundraising	Total	Total
					Operations	Construction -Related			
Salaries and wages	\$ 869,241	\$ 212,548	\$ 1,047,440	\$ 2,129,229	\$ 93,753	\$	\$ 264,727	\$ 358,480	\$ 2,487,709
Employee benefits	61,202	25,528	93,777	180,507	39,997		28,214	68,211	248,718
Payroll taxes	61,489	15,035	74,095	150,619	6,633		18,727	25,360	175,979
Cost of direct benefits to donors									
Depreciation	2,767	2,766	13,619	19,152	1,064		1,064	2,128	21,280
Equipment and supplies	25,250	37,087	61,948	124,285			209	209	124,494
Insurance	13,086	6,215	24,859	44,160	22,409	11,694	2,151	36,254	80,414
Interest expense—Note 12						147,314		147,314	147,314
Occupancy									
Rent	256,329	4,246	50,185	310,760	9,651			9,651	320,411
Security services and parking	48,861	36,259	35,905	121,025	3,012	120,017	3,011	126,040	247,065
Office expense	7,738	3,096	13,635	24,469	16,729	661	29,331	46,721	71,190
Professional fees	26,400	33,518	55,065	114,983	34,868	116,542	14,331	165,741	280,724
Student enrichment activities									
Fieldtrips	5,279	1,518	17,796	24,593					24,593
Program supplies	433	129	65,814	66,376					66,376
Scholarships			953,150	953,150					953,150
Telephone	2,876	1,438	5,762	10,076	3,813		489	4,302	14,378
Total Expenses	\$ 1,380,951	\$ 379,383	\$ 2,513,050	\$ 4,273,384	\$ 231,929	\$ 396,228	\$ 362,254	\$ 990,411	\$ 5,263,795

See notes to consolidated financial statements.

Heart of Los Angeles Youth, Inc. and Subsidiary
Consolidated Statement of Cash Flows
Year Ended June 30, 2020

Cash Flows from Operating Activities

Change in net assets	\$ 105,325
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	21,280
Gain on investments	(5,421)
Gain on insurance proceeds received for damage to property	(380,663)
Change in assets and liabilities:	
Contributions receivable, net	788,642
Insurance claim receivable	(266,253)
Leverage loan receivable	(3,678,480)
Prepaid expenses	(86,892)
Leaseholder's prepaid right to facilities	28,882
Accounts payable and accrued liabilities	(423,550)
PPP advance	390,383

**Net Cash Used in
Operating Activities** **(3,506,747)**

Cash Flows from Investing Activities

Purchase of property and equipment	(5,456,312)
Insurance proceeds received for damage to property	380,663
Purchase of investments	(1,008,935)
Proceeds from sales and maturities of investments	1,031,757

**Net Cash Used in
Investing Activities** **(5,052,827)**

Cash Flows from Financing Activities

Proceeds from issuance of NMTC notes payable	5,400,000
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**Net Cash Provided by
Financing Activities** **5,400,000**

**Net Decrease in
Cash, Cash Equivalents, and Restricted Cash** **(3,159,574)**

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

11,834,598

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

\$ 8,675,024

Supplemental Disclosures

Cash paid during the year for:	
Income taxes paid	\$
Interest paid	\$ 477,982
Noncash investing activities:	
Construction-in-progress included in accounts payable	\$ 384,400

See notes to consolidated financial statements.

Heart of Los Angeles Youth, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020

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 June 2021, 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 9), 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, 2020. 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—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 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.

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

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

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.

Recently Adopted Accounting Principles

Cash Classification—In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (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 has been adopted by HOLA for the year ended June 30, 2020 and noted that there was no material effect on the financial statements.

Contributions—In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope of the accounting guidance for contributions received and contributions made. The clarifications and improved scope assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions, and 2) determining whether a contribution is conditional. The clarified guidance applies to all entities that receive or make contributions (grants). ASU No. 2018-08 has been adopted by HOLA for the year ended June 30, 2020. HOLA has determined that adopting ASU No. 2018-08 has had no material effect on the financial statements.

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 9) 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, 2020:

Cash and cash equivalents	\$ 2,938,766
Restricted cash held for construction	<u>5,736,258</u>
Total Cash, Cash Equivalents, and Restricted Cash	<u>\$ 8,675,024</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, 2020 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, 2020 are due from nonprofit organizations, businesses, government agencies, and individuals well-known to HOLA, with favorable past payment histories. At June 30, 2020, the largest contribution receivable from a single entity represented 70% 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.

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

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

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

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, 2020 to cover operating expenses for the next fiscal year:

Financial assets	
Cash and cash equivalents	\$ 2,938,766
Restricted cash held for construction	5,736,258
Investments	1,199,281
Contributions receivable, net	5,423,936
Leverage loan receivable	13,294,431
Insurance settlement receivable	266,253
	<hr/>
Total Financial Assets	28,858,925
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	(763,230)
Athletic programs	(2,865)
Education programs	(4,940,919)
Organizational capacity support	(806,676)
Capital Campaign	(2,691,031)
Cash held for HOLA Community Partners building project	(5,736,258)
Leverage loan receivable	(13,294,431)
Board-designated reserve	(153,763)
	<hr/>
Total Amounts Not Available to be Used Within One Year	(28,389,173)
	<hr/>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	\$ 469,752

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, 2020 are summarized as follows:

	Cost Basis	Accumulated Unrealized Gains (Losses)	Fair Market Value
Mutual funds			
Allocation—50% to 70% Equity	\$ 305,074	\$ 10,512	\$ 315,586
Intermediate Core-Plus Bond	307,357	13,777	321,134
Intermediate Government	64,942	131	65,073
Large Growth	352,648	20,752	373,400
World Large Stock	106,420	17,668	124,088
Totals	\$ 1,136,441	\$ 62,840	\$ 1,199,281

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.

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.

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

Note 4—Fair Value Measurements—Continued

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, 2020.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2020 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, 2020 consist of the following:

Unconditional promises expected to be collected in:	
Less than one year	\$ 2,173,956
One year to five years	3,180,000
Over five years	300,000
	<hr/>
Gross Contributions Receivable	5,653,956
Less 2.00% discount to present value	(230,020)
	<hr/>
Contributions Receivable, Net	\$ 5,423,936

Gross contributions receivable at June 30, 2020 by funder category consist of the following:

Foundations	\$ 5,205,853
Corporate and individuals	232,985
Government agencies	215,118
	<hr/>
Total	\$ 5,653,956

Note 6—Insurance Claim Receivable

The Arts, Enrichment, and Recreation Center project (see Note 9) was damaged by weather-related water intrusion during the 2018-2019 winter, resulting in a builder's risk insurance claim settlement for damages totaling \$380,663 during the year ended June 30, 2020. As of June 30, 2020, \$114,410 had been received with \$266,253 remaining outstanding.

Note 7—Leverage Loan Receivable

In connection with HOLA's financing obtained through the NMTC program, HOLA made leverage loans to a qualified equity investment fund (QEIF). The loans accrue 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 \$228,139 through September 2047. At June 30, 2020, the loan receivable balance was \$13,294,431.

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 12. Interest income was \$72,120 for the year ended June 30, 2020.

In order to fund the above loan, HOLA paid \$13,294,431 in cash on hand (including \$2,802,919 in lender reimbursements as a result of the NMTC transaction).

Note 8—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, 2020 was \$61,310, as no payments were made during the year ended June 30, 2020. 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.

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.

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

Note 8—Lafayette Park Community Center—Continued

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, 2020, the amounts remaining to be amortized into rent expense are as follows:

<u>Year Ending June 30,</u>	
2021	\$ 28,883
2022	28,883
2023	28,883
2024	28,883
2025	28,883
Thereafter	<u>310,489</u>
Total	<u>\$ 454,904</u>

During the year ended June 30, 2020, 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, 2020, the projected annual budget for program services provided at the Community Center by HOLA is approximately \$1 million.

Note 9—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 and occupancy of the building project is expected in June 2021. As of June 30, 2020, HOLA has capitalized \$16,778,193 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 7, 12 and 13) 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 9—Arts, Enrichment, and Recreation Center Project—Continued

The Center's building construction expenditures during the year ended June 30, 2020 totaled \$5,125,085 and are included in "property and equipment" in the consolidated statement of financial position and in Note 10, *Property and Equipment, Net*, under the sub-category of "construction-in-progress." The remaining Campaign-related expenditures during the year ended June 30, 2020 totaled \$79,148 and were recorded as "professional fees" expense in the consolidated statement of functional expenses.

Note 10—Property and Equipment, Net

Property and equipment, net at June 30, 2020 consists of the following:

Construction-in-progress	\$ 17,557,709
Leasehold improvements	107,329
Equipment	56,759
Vehicles	108,143
	<hr/>
	17,829,940
Less accumulated depreciation	(252,936)
	<hr/>
Net	<u>\$ 17,577,004</u>

Depreciation expense for the year ended June 30, 2020 totaled \$21,280.

Note 11—PPP Advance

On April 9, 2020, HOLA received a \$543,418 advance through the U.S. Small Business Administration's (SBA) Paycheck Protection Program (PPP). The advance is designed to provide a direct incentive for small businesses struggling from the impact of the COVID-19 pandemic (see Note 20) to keep their workers on the payroll. While these funds carry loan repayment terms, it is the opinion of management that all funds received will be forgiven under the present terms of the PPP. As a consequence, HOLA has adopted the "conditional contribution" model for these PPP advance funds and has recognized \$153,035 in federal grant contributions. As of June 30, 2020, the PPP advance loan balance is \$390,383.

Note 12—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, 2020 is \$5,750,000 with an interest rate of 0.9375%. Interest expense for the year ended June 30, 2020, totaled \$147,314.

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 7) 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 13—New Markets Tax Credit Notes Payable

In September 2017 (Round 1 funding) and May 2020 (Round 2 funding), 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 the first round of funding in September 2017 and in the second round of funding in May 2020, and outstanding as of June 30, 2020, are as follows:

Round 1 funding	
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	943,800
Round 2 funding	
LADF XIII, LLC Note A	3,678,480
LADF XIII, LLC Note B	1,721,520
	<hr/>
Total	\$ 19,714,000

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 Round 1 loans bear interest at 1.409069% and all Round 2 loans bear interest at 1.531278%, 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 \$330,668 for the year ended June 30, 2020.

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 14—Commitments and Contingencies

In addition to the facility space provided for one dollar per year to HOLA by the Bryson Apartments complex (see Note 17), HOLA leases program space in an adjacent building (the Royale) under a non-cancellable operating lease agreement, expiring in May 2021. Future minimum annual rental payments under this lease agreement total \$43,809. Payments related to this lease agreement totaled approximately \$40,000 during the year ended June 30, 2020.

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 15—Net Assets Without Donor Restrictions

Net assets without donor restrictions at June 30, 2020 consist of the following:

Undesignated	\$ 11,117,279
Board-designated reserve	<u>153,763</u>
Total Net Assets Without Donor Restrictions	<u>\$ 11,271,042</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 16—Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2020 consist of the following:

Subject to expenditure for specified purpose:

Youth after-school services	
Arts programs	\$ 341,230
Athletic programs	2,865
Education programs	828,533
Organizational capacity support	295,759
Capital Campaign	2,472,617

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

Youth after-school services	
Arts programs	422,000
Education programs	4,112,386
Organizational capacity support	510,917
Capital Campaign	218,414

Total Net Assets with Donor Restrictions \$ 9,204,721

Net assets released from donor restrictions for the year ended June 30, 2020 are as follows:

Satisfaction of purpose restrictions:

Youth after-school services	
Arts programs	\$ 378,392
Athletic programs	83,355
Education programs	1,842,817
Organizational capacity support	393,688
Capital Campaign	3,708,936

Total Net Assets Released From Donor Restrictions \$ 6,407,188

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

Note 17—In-Kind Donations

In-kind donations consist of the following for the year ended June 30, 2020:

Equipment and supplies	\$	25,841
Rent		65,000
Capital Campaign consulting services		9,020
Student fieldtrips		5,161
		<hr/>
Total	\$	105,022

In-kind rent represents the fair value of facility space utilized by HOLA at the Bryson Apartments complex for the year ended June 30, 2020. 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 18—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, 2021, 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.

Gifts-in-Kind—In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires increased transparency around the use and valuation of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit entities. Under the updated guidance, gifts-in-kind are required to be presented as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, and to be disaggregated in the notes to the financial statements by the category that depicts the type of contributed nonfinancial assets. There are additional required disclosures regarding qualitative information denoting whether the gifts-in-kind were monetized or utilized during the reporting period; the entity’s policy, if any, about monetizing rather than utilizing contributed nonfinancial assets; and the valuation techniques and inputs used to arrive at a fair value measure. ASU No. 2020-07 is to be applied retrospectively and is effective for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. Early adoption is permitted. HOLA is currently evaluating the impact that the adoption of ASU 2020-07 will have on its financial statements.

Note 19—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 was held over two days in June and July 2020 with no settlement reached. Management is evaluating whether to resume settlement discussions.

In management's opinion, since the resolution of this dispute has yet to be fully mediated or adjudicated, the material effect on the consolidated financial position of HOLA at June 30, 2020, if any, cannot be determined.

Note 20—Risks and Uncertainties

In early March 2020, the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, has been, and continues to be, severely impacted, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. HOLA has continued to conduct its youth after-school services activities, on a remote basis, and to monitor the ongoing impact of the pandemic response on its overall operations. At the time of this reporting, the cumulative financial impact of the pandemic on HOLA, if any, cannot be fully determined, therefore no related adjustment has been made to these financial statements.

Note 21—Subsequent Events

During the period from September 2020 through February 2021, HOLA made payments totaling \$4,351,006 on the principal owed on the U.S. Bank loan payable (see Note 12).

On January 27, 2021, HOLA received \$561,105 in a second round of PPP loan funding from the SBA under the federal *Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act*, passed by Congress in December 2020, which extended and broadened the original PPP loan program (see Note 11).

On January 22, 2021, HOLA received notification from the SBA that their first round PPP advance of \$543,418 was fully forgiven (see Note 11).

Management has evaluated subsequent events through April 26, 2021, the date the consolidated financial statements were available to be issued and concluded that, other than the events described above, no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.