

HEART OF LOS ANGELES YOUTH, INC.
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2021



Gursey | Schneider LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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Independent Auditor's Report

To the 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 its subsidiary ("HOLA" or the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and changes in net assets, 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 controls 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements 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 consolidated 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 on the previous page present fairly, in all material respects, the financial position of Heart of Los Angeles Youth, Inc. and its subsidiary as of June 30, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Gursey | Schneider LLP

June 28, 2022
Los Angeles, California

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Consolidated Statement of Financial Position
June 30, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 4,791,990
Investments, at fair value	1,474,456
Contributions receivable, current portion, net	1,644,602
Prepaid expenses and other assets	179,479

Total Current Assets	8,090,527
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OTHER ASSETS

Contributions receivable, long-term portion, net	2,385,399
Leaseholders' prepaid right to facilities	426,021
Property and equipment, net	19,524,478
Leveraged loan receivables	13,294,431

Total Other Assets	35,630,329
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TOTAL ASSETS	\$ 43,720,856
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 1,355,027
Accrued payroll and related liabilities	225,372
Loan payable - paycheck protection program	26,330

Total Current Liabilities	1,606,729
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OTHER LIABILITIES

Long-term debt	21,093,244
City of Los Angeles gift payable	61,310

Total Other Liabilities	21,154,554
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TOTAL LIABILITIES	22,761,283
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NET ASSETS

Without donor restrictions	15,060,694
With donor restrictions	5,898,879

TOTAL NET ASSETS	20,959,573
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TOTAL LIABILITIES AND NET ASSETS	\$ 43,720,856
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HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Contributions and grants	\$ 2,758,425	\$ 1,519,209	\$ 4,277,634
In-kind goods and services	507,790	-	507,790
Investment income	287,209	-	287,209
PPP loan forgiveness	925,158	-	925,158
SUBTOTAL	4,478,582	1,519,209	5,997,791
Released from restriction	5,169,988	(5,169,988)	-
TOTAL REVENUE AND SUPPORT	9,648,570	(3,650,779)	5,997,791
EXPENSES			
Program services	4,347,341	-	4,347,341
Supporting services	444,024	-	444,024
Fundraising	681,117	-	681,117
TOTAL EXPENSES	5,472,482	-	5,472,482
CHANGE IN NET ASSETS	4,176,088	(3,650,779)	525,309
NET ASSETS - Beginning of Year - As Previously Reported	11,271,042	9,204,721	20,475,763
Corrections to prior year	(386,436)	344,937	(41,499)
NET ASSETS - Beginning of Year - As Adjusted	10,884,606	9,549,658	20,434,264
NET ASSETS - End of Year	\$ 15,060,694	\$ 5,898,879	\$ 20,959,573

See Accompanying Notes to Consolidated Financial Statements

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2021

	Program Expenses						
	Arts Programs	Athletic Programs	Education Programs	Total Programs	Support Services	Fundraising Expenses	Total Expenses
PERSONNEL EXPENSES							
Salaries and wages	\$ 961,430	\$ 181,721	\$ 966,570	\$ 2,109,721	\$ 110,810	\$ 458,809	\$ 2,679,340
Payroll taxes	59,471	11,241	59,789	130,501	6,854	28,380	165,735
Employee benefits	68,174	25,621	76,517	170,312	3,598	43,172	217,082
Total Personnel Expenses	1,089,075	218,583	1,102,876	2,410,534	121,262	530,361	3,062,157
OTHER EXPENSES							
Auto expense	-	852	-	852	1,809	-	2,661
Bank charges and other fees	1,976	364	2,080	4,420	4,909	767	10,096
Depreciation	-	-	-	-	9,979	-	9,979
Dues and subscriptions	-	-	92	92	15,604	-	15,696
Education and training	15,604	2,865	16,369	34,838	818	5,320	40,976
Equipment and supplies	97,003	3,650	97,406	198,059	6,848	59,766	264,673
Fieldtrips	18,734	2,192	43,359	64,285	-	-	64,285
In-kind goods and services	47,513	7,272	191,615	246,400	123,760	16,643	386,803
Insurance	41,413	20,039	30,027	91,479	5,428	5,547	102,454
Office expenses	1,508	278	6,978	8,764	48,210	3,591	60,565
Outside services	3,595	-	1,764	5,359	21,969	2,232	29,560
Postage, printing, and publications	188	36	189	413	21	1,777	2,211
Professional fees	61,057	11,247	64,270	136,574	70,817	20,888	228,279
Rent	55,518	21,662	50,771	127,951	9,100	12,350	149,401
Repairs and maintenance	10,161	4,098	9,684	23,943	1,252	9,062	34,257
Scholarships	-	-	910,782	910,782	-	-	910,782
Taxes and licenses	-	-	-	-	299	-	299
Telephone and internet	8,963	1,651	9,435	20,049	472	3,153	23,674
Travel	1,487	274	1,565	3,326	78	641	4,045
Utilities	26,615	4,856	27,750	59,221	1,389	9,019	69,629
Total Other Expenses	391,335	81,336	1,464,136	1,936,807	322,762	150,756	2,410,325
TOTAL EXPENSES	\$ 1,480,410	\$ 299,919	\$ 2,567,012	\$ 4,347,341	\$ 444,024	\$ 681,117	\$ 5,472,482

See Accompanying Notes to Consolidated Financial Statements

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (decrease) in net assets	\$ 525,309
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Bad-debt reserve	139,385
Depreciation	9,979
Unrealized (gains) losses on investments, net	(230,687)
Forgiveness of Paycheck Protection Program loan	(364,053)
Non-cash donation of stock	(101,105)
(Increase) decrease in assets:	
Contributions receivable, net	1,213,050
Other receivables	266,253
Prepaid expenses and other assets	40,130
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	680,868
Accrued payroll and related liabilities	209,429

NET CASH PROVIDED BY OPERATING ACTIVITIES

2,388,558

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(1,957,452)
Net proceeds from sale of investments	56,617

NET CASH USED IN INVESTING ACTIVITIES

(1,900,835)

CASH FLOWS FROM FINANCING ACTIVITY

Principal payments on promissory notes	(4,370,756)
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NET DECREASE IN CASH AND CASH EQUIVALENTS

(3,883,033)

CASH AND CASH EQUIVALENTS - Beginning of Year

8,675,023

CASH AND CASH EQUIVALENTS - End of Year

\$ 4,791,990

CASH PAID DURING THE YEAR FOR:

Interest paid	<u>\$ 322,662</u>
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NON-CASH INVESTING ACTIVITY

Interest and loan fees capitalized as building costs	<u>\$ 163,703</u>
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HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2021

NOTE 1 – ORGANIZATION

Heart of Los Angeles Youth, Inc. (“HOLA”) is a California nonprofit public benefit corporation, 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*, which 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 many 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 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 expanded its campus through a new Arts, Enrichment and Recreation Center, located in Lafayette Park, which 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), The Huntington Library, Art Museum and Botanical Gardens, dozens of colleges and universities, 70+ local feeder public 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 resolute 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
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2021

NOTE 1 – ORGANIZATION – (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 627 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 \$5.0 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, to expand the quality and quantity of services provided to the community, HOLA entered a partnership with the City of Los Angeles to construct a new Arts, Enrichment and Recreation Center (Center) (See Note 6), 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” or the “Organization” will refer to both HOLA and HOLA-CP unless otherwise indicated.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

Basis of Presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred. The consolidated financial statements include the accounts of HOLA and HOLA-CP. Any significant intercompany balances and transactions have been eliminated in consolidation.

Restatement of Prior Year Net Assets – During the current fiscal year, management identified several grants that were recorded in the incorrect period and ones that were misclassified between donor-restricted and unrestricted. The table below summarizes the impact and correction of these timing and classification errors in net assets with and without donor restrictions.

	Net Asset Balances		
	Without Donor Restriction	With Donor Restriction	Total
As reported - June 30, 2020	\$ 11,271,042	\$ 9,204,721	\$ 20,475,763
Corrections to prior year	(386,436)	344,937	(41,499)
As adjusted - June 30, 2020	<u>\$ 10,884,606</u>	<u>\$ 9,549,658</u>	<u>\$ 20,434,264</u>

The net adjustment for \$41,499 represents income recorded during the year ended June 30, 2020, that is being reversed from the prior year as it is being reflected in the accompanying consolidated financial statements for the year ended June 30, 2021.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Use of Estimates – The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include cash held in money market and checking accounts which are insured up to the federal limit by the Federal Deposit Insurance Corporation. Cash and cash equivalents have maturities at date of purchase of three months or less.

Investments – Investments are stated at fair value with unrealized gains and losses on investments resulting from fair value fluctuations recorded in the consolidated statement of activities in the period that such fluctuations occur. Purchases and sales of investments are recorded on the trade date. Dividend income is recorded based on the recorded date. Interest income is recorded as earned on an accrual basis. Bond premiums and discounts are amortized to the first call date using a method that approximates the effective interest method. Realized gains and losses are recorded upon disposition of securities. Investment income and realized and unrealized gains and losses are recognized as unrestricted net assets unless their use is temporarily or permanently restricted by donors to a specified purpose or future period.

Net Asset Accounting - To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of HOLA are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Without Donor Restrictions** – Net assets are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by actions of the board of directors or may otherwise be limited by contractual agreements with outside parties. On June 30, 2021, HOLA had net assets without donor restrictions of \$15,060,694.
- **With Donor Restrictions** – Net assets that are subject to donor-imposed restrictions that limit the use of their contributions. Donor restrictions may result in *temporarily restricted net assets*, where the use of contributions is limited by donor-imposed stipulations that either expire by the passage of time or when used for specified purposes. Donor restrictions may also result in *permanently restricted net assets*, where the donor stipulates those resources are to be maintained permanently but permits HOLA to expend all the income (or other economic benefits) derived from the donated assets. At June 30, 2021, HOLA had \$5,898,879 in temporarily restricted net assets.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Contributions – Contributions, including unconditional promises to give, are recorded in the period made. All contributions are available for unrestricted use, unless specifically restricted by the donor. Conditional promises to give are recognized when the condition on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their undiscounted carrying value. Unconditional promises to give due in the subsequent years are discounted at the treasury yield curve rates of comparable duration. An estimate for uncollectible contributions is recorded against contributions. HOLA has determined that an allowance against contributions receivable of \$139,385 is required as of June 30, 2021.

Scholarships – HOLA awards renewable scholarships for up to five years if the scholar fulfills all scholarship renewal requirements each year. Scholarship recipients may receive up to their unmet financial need in scholarships per year. Students are required to provide a status report semi-annually and meet certain academic performance and other criteria to maintain scholarship eligibility. Scholars must re-apply to receive subsequent year awards after their initial award. The Scholarship budget is subject to availability of funds received. All scholarships are awarded and paid out in two installments during the fiscal year after a student meets continuing eligibility requirements. Therefore, no commitments are made for future years and no scholarship liability is accrued as of June 30, 2021.

In-Kind Donations –

- *Donated Goods* – Donations of goods are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. During the year ended June 30, 2021, HOLA received \$235,995 of donated goods and supplies for distribution. This amount is reflected as contributions revenue in the accompanying consolidated statement of activities.
- *Donated Services* – Contributed services are recognized if the services received (a) increase or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the year ended June 30, 2021, HOLA received \$216,795 of donated legal services and \$65,000 of donated rent. These amounts are reflected as contributions revenue in the accompanying consolidated statement of activities.

Functional Allocations of Expenses – The costs of providing HOLA's programs and supporting services have been summarized on a functional basis in the statement of activities. Costs related to program and support services are charged directly to the functional category. Indirect costs not directly chargeable to a functional category have been allocated. Management allocates salaries and related employee benefits to functional categories based on approximation of labor hours spent between program and supporting services and allocates facilities and overhead costs based on approximate square footage of facilities usage. Management believes labor hours and space utilization is the most representative allocation for indirect costs.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Property and Equipment - Acquisition of property and equipment more than \$5,000 is capitalized at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed over the estimated useful lives of the assets ranging from five to fifteen years, using the straight-line method. Construction in process is not depreciated until the underlying asset is placed in service.

Income Taxes - HOLA is a public charity exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for federal and state income taxes in the accompanying consolidated financial statements.

HOLA may be subject to unrelated business income tax for income from operating activities not related to their exempt purpose. Unrelated business income is taxed based on the applicable statutory federal and state income tax rates for for-profit organizations. Management does not anticipate any income being subject to unrelated business income tax during the current year.

HOLA's accounting policy is to provide liabilities for uncertain tax positions (including penalties and interest) when a tax position would not be considered "more likely than not" to be upheld by a tax authority examination. Management is not aware of any violation of its tax status (being exempt from income taxes), nor any exposure to unrelated business income tax. HOLA's federal income tax and informational returns for tax years 2018 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, HOLA's most significant jurisdiction, remain subject to examination by the California Franchise Tax Board for years 2017 and subsequent.

Concentrations of 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 the Federal Deposit Insurance Corporation (FDIC) insure accounts up to \$250,000. At times, in the normal course of business, such cash and cash equivalent balances are more than 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.

Investments are subject to certain risks such as market fluctuation and changes in interest rates, which could result in losses in the event of adverse economic circumstances. HOLA attempts to limit its credit risks associated with its investments through diversification and choosing investments that are traded in active market. Management of HOLA has assessed the credit risk associated with the investments held at June 30, 2021 and has determined that an allowance for potential losses due to credit risk in the investment portfolio is not necessary.

One donor comprises approximately 75% of contributions receivable on June 30, 2021. No other donor comprises more than 10% of the total.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Effect of Recently Issued Accounting Standards - In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “*Leases*” (Topic 842). This ASU requires a lessee to recognize a right-of-use asset and a lease liability under most operating leases in its balance sheet. For non-public entities, the standard is effective for fiscal years beginning after December 15, 2021, and interim periods beginning the following year. The new standard must be adopted using a modified retrospective transition and provides for certain practical expedients during the period of adoption. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. Management is currently evaluating the impact this change in accounting standards will have on HOLA’s consolidated financial statements and related disclosures.

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. HOLA is currently evaluating the impact that the adoption of ASU 2020-07 will have on its financial statements.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets consist of the Organization’s cash and cash equivalents, investments, and contributions receivable. The following table summarizes the Organization’s financial assets as of June 30, 2021, reduced by amounts not available for general use within one year of June 30, 2021.

Cash and cash equivalents	\$ 4,791,990
Investments	1,474,456
Contributions receivable (net of allowance and present value)	<u>4,030,001</u>
Subtotal	10,296,447
Less assets unavailable for general expenditures within one year:	
Contributions receivable (long-term) - excluding purpose restricted amounts	(250,000)
Restricted by donors with purpose restrictions	<u>(5,505,212)</u>
	<u><u>\$ 4,541,235</u></u>

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2021

NOTE 3 – LIQUIDITY AND AVAILABILITY – (CONTINUED)

Financial assets available to meet cash needs for general expenditures within one year represent funding for ongoing operational requirements and program expenditures in 2022.

HOLA has an investment policy authorized by the board of directors that provides guidance and oversight for the management of cash and cash equivalents. The policy provides that HOLA maintain an adequate level of cash to meet on-going operational and liquidity requirements. HOLA's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$1,350,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments represent marketable equity securities that are stated at their fair value. Investment income and gains are reflected as increases in unrestricted net assets unless such income has an imposed restriction.

HOLA accounts for the fair value of its marketable securities in accordance with FASB ASC Topic 820, "*Fair Value Measurements*." ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

HOLA utilized market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the evaluation technique. These inputs can be readily observable, market corroborated, or generally unobservable. HOLA classifies fair value balances based on the observability of those inputs. ASC Topic 820 established a fair value hierarchy that prioritizes the inputs used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy defined by ASC Topic 820 are as follows:

- Level 1: Observable inputs such as quoted prices for identical instruments in active markets.
- Level 2: Inputs other than quoted prices in active markets that are observable either directly or indirectly through corroboration with observable market data.
- Level 3: Unobservable inputs in which there is little or no market data, which would require HOLA to develop its own assumptions.

The assets or liabilities' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. ASC Topic 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. These methods are used on a consistent basis and HOLA has not made changes in the valuation techniques used.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2021

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS – (CONTINUED)

All fair value measurements at June 30, 2021 are based on quoted prices in active markets for identical assets (level 1). The following is a summary of investments by fair value hierarchy on June 30, 2021:

Investments	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
Equities	\$ 704,669	\$ -	\$ -	\$ 704,669
Fixed income	386,290	-	-	386,290
Mixed assets	383,497	-	-	383,497
	<u>\$ 1,474,456</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,474,456</u>

Investment income for the year ended June 30, 2021, is summarized as follows:

Interest and dividends income	\$ 56,522
Realized and unrealized gains, net	<u>230,687</u>
	<u>\$ 287,209</u>

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable on June 30, 2021 are composed of the following:

Receivable in less than one year	\$ 1,644,602
Receivable in one to five years	<u>2,574,454</u>
	4,219,056
Less: allowance for doubtful pledges	(139,385)
Less: present value discount	<u>(49,670)</u>
Total contributions receivable, net	<u>\$ 4,030,001</u>

NOTE 6 – LAFAYETTE PARK COMMUNITY CENTER

In 2006, HOLLA, 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-term and long-term needs, programmatic expansion, and the renovation and expansion of the Lafayette Park Community Center (Community Center).

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NOTE 6 – LAFAYETTE PARK COMMUNITY CENTER – (CONTINUED)

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, 2021 was \$61,310, as no payments were made during the year ended June 30, 2021. In exchange for the Gift, the City entered into a Memorandum of Agreement (Agreement) with HOLA to provide non-transferable 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.

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, 2021, the amounts remaining to be amortized into rent expense are as follows:

Years Ending June 30,		
2022	\$	28,883
2023		28,883
2024		28,883
2025		28,883
2026		28,883
Thereafter		281,606
	\$	426,021

During the year ended June 30, 2021, 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, 2021, the projected annual operating budget for program services provided at the Community Center by HOLA is approximately \$1.0 million.

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NOTE 7 – 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 for the Center is to be located on undeveloped property at Lafayette Park in the City of Los Angeles. The estimated project cost is \$20 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's 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. The building project was completed in the year ended June 30, 2021, and HOLA obtained the certificate of occupancy on October 6, 2021, after year end. As of June 30, 2021, HOLA has capitalized \$19.5 million in costs related to the construction of the facility. The building was placed into service after year end.

To finance the development of the Center, in September 2017, HOLA entered a NMTC financing transaction. All prior building costs capitalized as construction-in-progress by HOLA were transferred to HOLA-CP, which qualified to be funded by NMTC financing. The NMTC financing completed the financing for the project, resulting in approximately \$3.0 million of additional net financing for the project.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following on June 30, 2021:

Furniture and fixtures	\$ 5,326
Computer equipment	34,872
Leasehold improvements	107,329
Autos and trucks	108,143
Construction in progress	<u>19,506,782</u>
	19,762,452
Less: accumulated depreciation	<u>(237,974)</u>
Total property and equipment, net	<u><u>\$ 19,524,478</u></u>

All property and equipment are held for use. Depreciation expense for the year ended June 30, 2021 was \$9,979.

NOTE 9 – NMTC 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 1.0% 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, 2021, the loan receivable balance was \$13,294,431.

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NOTE 9 – NMTC LEVERAGE LOAN RECEIVABLE – (CONTINUED)

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 10. Interest income capitalized was \$158,959 for the year ended June 30, 2021.

To fund the above loan receivable, HOLA paid \$13,294,431 in cash on hand (including \$2,802,919 in lender reimbursements because of the NMTC transaction). These proceeds were raised from the NMTC loans described in Note 10.

NOTE 10 – LONG-TERM DEBT AND NEW MARKETS TAX CREDIT PROGRAMS

The following is a summary of all long-term debt as of June 30, 2021.

Paycheck Protection Program Loans

First PPP Loan – On April 9, 2020, HOLA borrowed \$543,418 through the Paycheck Protection Program ("PPP") offered by the United States Small Business Administration. HOLA elected to recognize loan forgiveness income as qualifying expenditures were made monthly. Under this methodology, HOLA recognized \$153,035 of PPP loan forgiveness income for the year ended June 30, 2020. On January 22, 2021, the lender fully forgave this loan and related accrued interest. The accompanying consolidated statement of activities reflect the remaining loan forgiveness of \$390,383 as other income for the year ended June 30, 2021, related to this First PPP Loan.

Second PPP Loan – On January 28, 2021, HOLA borrowed a second PPP loan of \$561,105. HOLA recognized \$534,775 of PPP loan forgiveness income during the year ended June 30, 2021, related to this Second PPP Loan. On April 20, 2022, the lender fully forgave this loan and the related accrued interest.

The accompanying statement of financial position reflects this loan as a current liability for the year ended June 30, 2021 in the amount of \$26,330.

U.S. Bank Loan Payable

In September 2017, HOLA entered a term loan with U.S. Bank for \$5,750,000, bearing interest at 1.98% and maturing in September 2020. As part of the loan agreement, the Weingart Foundation agreed to function as a guarantor to assist HOLA in qualifying for extension of credit from U.S. Bank. HOLA partially paid off the U.S. Bank loan in September 2020 and the U.S. Bank refinanced the remainder of the loan. The loan's outstanding balance at June 30, 2021 is \$1,379,244 with an interest rate of 0.875%. Interest expense capitalized for the year ended June 30, 2021, totaled \$24,702.

After year end, the Weingart Foundation lent HOLA \$1,300,000 as a program-related investment loan to repay the U.S. Bank loan. After year-end, HOLA repaid the Weingart Foundation loan in full.

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NOTE 10 – LONG-TERM DEBT AND NEW MARKETS TAX CREDIT PROGRAMS – (CONTINUED)

Contractual maturities for the Weingart Foundation loan are summarized as follows:

Years Ending June 30,	
2022	\$ 206,667
2023	248,000
2024	248,000
2025	248,000
2026	349,333
	<hr/>
	\$ 1,300,000
	<hr/> <hr/>

New Markets Tax Credit Program

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 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, 2021, 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
	<hr/>
Subtotal	14,314,000
	<hr/>

Round 2 - Funding

LADF XXIII, LLC Note A	3,678,480
LADF XXIII, LLC Note B	1,721,520
	<hr/>
Subtotal	5,400,000
	<hr/>
	\$ 19,714,000
	<hr/> <hr/>

All Round 1 loans bear interest at 1.41% and all Round 2 loans bear interest at 1.53% 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. Interest capitalized was \$285,141 for the year ended June 30, 2021.

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NOTE 10 – LONG-TERM DEBT AND NEW MARKETS TAX CREDIT PROGRAMS – (CONTINUED)

These loan agreements contain 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 can 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.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTION

Temporarily restricted net assets as of June 30, 2021 consists of the following:

	Balance at June 30, 2020	Donor-Restricted Contributions	Released From Restriction	Balance at June 30, 2021
Capital Campaign	\$ 2,826,482	\$ 36,947	\$ (2,863,429)	\$ -
Purpose Restricted	6,020,676	1,250,595	(1,766,059)	5,505,212
Time Restricted	702,500	231,667	(540,500)	393,667
	<u>\$ 9,549,658</u>	<u>\$ 1,519,209</u>	<u>\$ (5,169,988)</u>	<u>\$ 5,898,879</u>

NOTE 12 – RETIREMENT PLAN

HOLA sponsors a qualified pension plan that covers substantially all full-time employees meeting certain eligibility requirements. Employees may contribute a portion of their annual compensation to the plan, limited to the maximum annual amount as set periodically by the Internal Revenue Service.

NOTE 13 – COMMITMENTS

In addition to the facility space provided for one dollar per year to HOLA by the Bryson Apartments complex, HOLA leases program space in an adjacent building (the Royale) under a non-cancellable operating lease agreement, expiring in May 2022. Payments related to this lease agreement totaled approximately \$55,000 during the year ended June 30, 2021.

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NOTE 13 – COMMITMENTS – (CONTINUED)

After year-end, HOLA signed a third lease amendment with the Royale to extend the lease for another five years. With this third amendment, the minimum lease commitments for the next five fiscal years and thereafter are as follows:

Years Ending June 30,		
2022	\$	86,724
2023		89,624
2024		92,312
2025		95,082
2026		97,934
Thereafter		92,235
	\$	<u>553,911</u>

NOTE 14 – 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 a construction contracting firm (the Contractor) that had been engaged to work on the Center. The complaint seeks damages to offset additional expenses incurred for the Center project because 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. In April 2020, the Contractor filed its own complaint against HOLA-CP. The Contractor also filed a third-party complaint against various subcontractors responsible for the construction of the Center. Subsequently, the court ordered that virtually all claims brought by the Contractor against HOLA-CP be dismissed with prejudice.

In addition, prior to these separate court filings, 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. An additional round of mediation began on June 15, 2022. The subcontractor defendants will participate in mediation in addition to HOLA-CP and the Contractor. If the dispute is not resolved through the mediation process, the case will proceed to trial. Trial is currently scheduled for January 31, 2023.

The accompanying financial statements do not reflect any accrual for damages as management believes it has paid all amounts owed to the Contractor under the development of the project.

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NOTE 15 – SUBSEQUENT EVENTS

Management has reviewed subsequent events through June 28, 2022, the date that the consolidated financial statements were available to be issued. The following subsequent events were identified:

- Repayment of Weingart Foundation Loan – As disclosed in Note 10, management refinanced the U.S. Bank loan with proceeds from a program loan from the Weingart Foundation. Then, the HOLA subsequently repaid this program loan in full.
- Extension of The Royale Lease – As disclosed in Note 13, management extended the apartment lease in the Royale complex for an additional five years.
- Amendment to Form 990 – Subsequent to the filing of the HOLA's Form 990 for the year ended June 30, 2021, management identified some costs that had been incorrectly reported in the cost allocation plan used to prepare the tax filing. These costs were reallocated and have been correctly reported in these consolidated financial statements. On June 28, 2022, the Board of Directors approved the filing of an amended Form 990 for the year ended June 30, 2021 to reflect this correction to the cost allocation.