

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

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2022



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

Opinion

We have audited the financial statements of Heart of Los Angeles Youth, Inc. and Subsidiary (the Organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Gursey | Schneider LLP

January 31, 2023
Los Angeles, California

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Consolidated Statement of Financial Position
June 30, 2022

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 5,846,088
Investments, at fair value	1,220,444
Contributions receivable, current portion, net	2,283,146
Government contract receivable	124,276
Prepaid expenses and other assets	54,106

Total Current Assets	9,528,060
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OTHER ASSETS

Contributions receivable, long-term portion, net	2,095,362
Leaseholders' prepaid right to facilities	397,138
Property and equipment, net	19,251,979
Leveraged loan receivables	13,294,431

Total Other Assets	35,038,910
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TOTAL ASSETS	\$ 44,566,970
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 499,867
Accrued payroll and related liabilities	255,590
Loan payable - Paycheck Protection Program	-

Total Current Liabilities	755,457
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OTHER LIABILITIES

Long-term debt	19,714,000
City of Los Angeles gift payable	61,310

Total Other Liabilities	19,775,310
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TOTAL LIABILITIES	20,530,767
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NET ASSETS

Without donor restrictions	15,045,008
With donor restrictions	8,991,195

TOTAL NET ASSETS	24,036,203
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TOTAL LIABILITIES AND NET ASSETS	\$ 44,566,970
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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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Contributions and grants	\$ 2,767,365	\$ 6,823,820	\$ 9,591,185
In-kind goods and services	294,832	-	294,832
Government contract revenue	124,276	-	124,276
Investment income (loss)	(237,517)	-	(237,517)
Interest income	94,549	-	94,549
PPP loan forgiveness	26,330	-	26,330
SUBTOTAL	3,069,835	6,823,820	9,893,655
Released from restriction	3,758,626	(3,758,626)	-
TOTAL REVENUE AND SUPPORT	6,828,461	3,065,194	9,893,655
EXPENSES			
Program services	5,781,641	-	5,781,641
Support services	303,781	-	303,781
Fundraising	731,603	-	731,603
TOTAL EXPENSES	6,817,025	-	6,817,025
CHANGE IN NET ASSETS	11,436	3,065,194	3,076,630
NET ASSETS - Beginning of Year, As Previously Reported	15,060,694	5,898,879	20,959,573
Corrections to prior year	(27,122)	27,122	-
NET ASSETS - Beginning of Year, As Adjusted	15,033,572	5,926,001	20,959,573
NET ASSETS - End of Year	<u>\$ 15,045,008</u>	<u>\$ 8,991,195</u>	<u>\$ 24,036,203</u>

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, 2022

	Program Expenses						
	Arts Programs	Athletic Programs	Education Programs	Total Programs	Support Services	Fundraising Expenses	Total Expenses
PERSONNEL EXPENSES							
Salaries and wages	\$ 1,156,238	\$ 154,742	\$ 1,075,841	\$ 2,386,821	\$ 122,097	\$ 523,157	\$ 3,032,075
Payroll taxes	87,625	11,534	80,830	179,989	9,064	39,280	228,333
Employee benefits	67,852	16,702	85,187	169,741	2,630	42,074	214,445
Total Personnel Expenses	1,311,715	182,978	1,241,858	2,736,551	133,791	604,511	3,474,853
OTHER EXPENSES							
Auto expense	1,601	244	1,639	3,484	-	-	3,484
Bank charges and other fees	2,882	476	2,823	6,181	148	862	7,191
Depreciation	194,903	10,941	109,581	315,425	13,551	10,640	339,616
Dues and subscriptions	2,316	427	2,438	5,181	123	792	6,096
Education and training	4,271	787	4,495	9,553	224	1,461	11,238
Equipment and supplies	267,023	31,597	145,444	444,064	-	4,778	448,842
Fieldtrips	4,109	-	5,800	9,909	-	-	9,909
In-kind goods and services	97,038	23,064	92,735	212,837	63,254	18,741	294,832
Insurance	41,555	20,107	30,130	91,792	5,124	6,197	103,113
Interest	136,067	7,638	76,501	220,206	28,096	7,428	255,730
Office expenses	10,441	1,923	13,780	26,144	14,722	4,043	44,909
Outside services	141,240	12,258	62,532	216,030	26,308	7,512	249,850
Parking	22,658	2,849	16,388	41,895	812	5,357	48,064
Postage, printing, and publications	213	39	225	477	12	4,191	4,680
Professional fees	124,722	13,773	78,648	217,143	3,941	25,559	246,643
Rent	121,487	-	-	121,487	-	-	121,487
Repairs and maintenance	48,991	13,438	39,580	102,009	11,533	19,879	133,421
Scholarships	3,750	-	940,342	944,092	-	-	944,092
Taxes and licenses	1,224	592	888	2,704	575	183	3,462
Telephone and internet	7,833	1,419	8,110	17,362	406	5,127	22,895
Travel	1,723	317	1,814	3,854	90	894	4,838
Utilities	14,978	5,362	12,921	33,261	1,071	3,448	37,780
Total Other Expenses	1,251,025	147,251	1,646,814	3,045,090	169,990	127,092	3,342,172
TOTAL EXPENSES	\$ 2,562,740	\$ 330,229	\$ 2,888,672	\$ 5,781,641	\$ 303,781	\$ 731,603	\$ 6,817,025

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, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (decrease) in net assets	\$ 3,076,630
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	339,616
Realized and unrealized (gains) losses on investments, net	318,021
Forgiveness of Paycheck Protection Program loan	(26,330)
Non-cash donation of stock	(48,649)
(Increase) decrease in assets:	
Contributions receivable, net	(348,507)
Government contract receivable	(124,276)
Prepaid expenses and other assets	28,992
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(729,896)
Accrued payroll and related liabilities	30,218

NET CASH PROVIDED BY OPERATING ACTIVITIES	2,515,819
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CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(67,117)
Net investment purchases	(15,360)

NET CASH USED IN INVESTING ACTIVITIES	(82,477)
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CASH FLOWS FROM FINANCING ACTIVITY

Principal payments on promissory notes	(1,379,244)
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NET INCREASE IN CASH AND CASH EQUIVALENTS	1,054,098
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CASH AND CASH EQUIVALENTS - Beginning of Year	4,791,990
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CASH AND CASH EQUIVALENTS - End of Year	\$ 5,846,088
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CASH PAID DURING THE YEAR FOR:

Interest paid	\$ 333,159
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NON-CASH INVESTING ACTIVITY

Interest expense capitalized as building costs	\$ 77,429
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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, 2022

NOTE 1 – ORGANIZATION

Heart of Los Angeles Youth, Inc. (“HOLA” or the “Organization”) is a California nonprofit public benefit corporation, founded in 1989 and incorporated in 1992. HOLA helps young people, ages 6 – 24, living in Los Angeles overcome barriers through exceptional, free, integrated programs and personalized guidance in a trusted, nurturing environment. 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 3,100 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.

The majority of HOLA’s programs operate in its central campus, a 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 and opened a new Arts, Enrichment and Recreation Center, located in Lafayette Park, which significantly expanded HOLA’s physical footprint in the neighborhood, and allowed HOLA to increase strategic partnerships, grow the scope of its programs and significantly increase its overall impact on this community and its residents.

After 30+ years of service in the Lafayette Park community, HOLA took its expertise in empowering youth to achieve their self-defined versions of success to a new community. In 2022, HOLA expanded its programming to South Central Los Angeles, where it is now providing after-school classes in Visual Arts and STEAM in partnership with Augustus F. Hawkins Nature Park to over 100 students annually, along with programming serving over 800 students in LAUSD elementary and middle schools in the Dorsey/Crenshaw neighborhoods.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2022

NOTE 1 – ORGANIZATION – (CONTINUED)

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; Los Angeles Unified School District; Los Angeles Public Library; dozens of colleges and universities; 80+ 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.

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 680 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 \$5.9 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 8), adjacent to its present facilities in Lafayette Park.

Financing for this facility was provided in part by a New Markets Tax Credit ("NMTC") transaction, requiring the establishment by HOLA of a related California not-for-profit corporate subsidiary, HOLA Community Partners ("HOLA-CP"). HOLA-CP is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and applicable state law. HOLA-CP is a supporting organization of HOLA and is controlled by HOLA as specified in Section 509(a)(3) of the IRC. HOLA-CP holds title to the Center building. Throughout the remainder of these notes, the term "HOLA" 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.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Restatement of Prior Year Net Assets – During the current fiscal year, management identified two endowments with amounts 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, 2021	\$ 15,060,694	\$ 5,898,879	\$ 20,959,573
Corrections to prior year	(27,122)	27,122	-
As adjusted - June 30, 2021	<u>\$ 15,033,572</u>	<u>\$ 5,926,001</u>	<u>\$ 20,959,573</u>

This adjustment does not impact the reported results of operations or cash flows for the year ended June 30, 2021.

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.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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, 2022, HOLA had net assets without donor restrictions of \$15,045,008.
- **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, 2022, HOLA had \$8,225,890 in temporarily restricted, donor-restricted net assets, and \$765,305 in permanently restricted, donor-restricted net assets.

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, 2022.

Government Contract Revenue – In fiscal year 2022, HOLA entered into a contractual agreement with the Los Angeles Unified School District to provide Visual Arts and STEAM classes in programming in elementary and middle schools in the Dorsey / Crenshaw neighborhoods of South-Central Los Angeles for 16 week program, beginning in February 2022. HOLA staff provide these classes and recognizes the revenue as the programming services are performed during the 16 week program period. These fees are accounted for as exchange transactions following the guidance of FASB Topic 606, Revenue from Contracts with Customers (“ASC 606”). ASC 606 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASC 606 creates a five-step model that requires entities to exercise judgment when considering the terms of contracts, which includes (1) identifying the contracts or agreement with a customer, (2) identifying performance obligations in the contract or agreement, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue as each performance obligation is satisfied.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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, 2022.

Donated In-Kind Goods and Services – Donations of goods are recorded as contributions at their estimated fair value at the date of donation. 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.

In September 2020, The FASB issued Accounting Standards Update (ASU) 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The purpose of ASU 2020-07 is to clarify the presentation and disclosure of contributed nonfinancial assets with an intention to provide the reader of the financial statements a clearer understanding of what type of nonfinancial assets were received and how they are used and recognized by not-for-profit organizations. It is important to note that ASU 2020-07 does not change the accounting and recognition of nonfinancial assets but rather the presentation and disclosure requirements in the financial statements. This accounting standards update is effective for fiscal years beginning after June 15, 2021. During the year ended June 30, 2022, the Organization received \$294,832 in contributed non-financial assets and adopted the presentation and disclosure requirements under ASU 2020-07.

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.

Income Taxes – HOLA (including HCP) 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.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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 2019 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 2018 and subsequent.

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 5 to 39 years, using the straight-line method.

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, 2022 and has determined that an allowance for potential losses due to credit risk in the investment portfolio is not necessary.

Unconditional Promises to Give and Contributions – For the year-ended June 30, 2022, there were two donors that made up approximately 68% of the Organization's unconditional promises to give. No other donor comprises more than 10% of the total. For the year-ended June 30, 2022, four donors represent 47% of total revenue.

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.

Subsequent Events – Management has reviewed subsequent events through January 31, 2023, the date that the consolidated financial statements were available to be issued.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2022

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, 2022, reduced by amounts not available for general use within one year of June 30, 2022.

Cash and cash equivalents	\$ 5,846,088
Investments	1,220,444
Contributions receivable (net of allowance and present value)	4,378,508
Government contract receivable	<u>124,276</u>
Subtotal	11,569,316
Less assets unavailable for general expenditures within one year:	
Restricted by donors with purpose restrictions	(7,975,890)
Endowment net assets	<u>(765,305)</u>
	<u>\$ 2,828,121</u>

Financial assets available to meet cash needs for general expenditures within one year represent funding for ongoing operational requirements and program expenditures in 2023.

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 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 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.

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NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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.

All fair value measurements at June 30, 2022 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, 2022:

Investments	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
Equity mutual funds	\$ 519,086	\$ -	\$ -	\$ 519,086
Fixed income mutual funds	353,469	-	-	353,469
Balanced mutual funds	347,889	-	-	347,889
	<u>\$ 1,220,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,220,444</u>

Investment income (loss) for the year ended June 30, 2022, is summarized as follows:

Interest and dividends income	\$ 80,504
Realized gains (losses), net	34,543
Unrealized gains (losses), net	<u>(352,564)</u>
	<u><u>\$ (237,517)</u></u>

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NOTE 5 – CONTRIBUTED NON-FINANCIAL ASSETS

For the year ended June 30, 2022, contributed non-financial assets recognized in the accompanying statements of activities included:

	Program Expenses	Support Services	Fundraising Expenses	Total
Legal services	\$ 111,573	\$ 60,024	\$ 14,835	\$ 186,432
Rent	57,863	3,230	3,907	65,000
Goods for distribution	43,400	-	-	43,400
	<u>\$ 212,836</u>	<u>\$ 63,254</u>	<u>\$ 18,742</u>	<u>\$ 294,832</u>

Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Legal services – These contributed services are comprised of legal services from attorneys advising the Organization on various administrative legal matters and on one lawsuit in which HOLA is the complainant (see Note 15). Contributed services are valued and reported at the estimated fair value based on current hours and billing rates for similar services.

Rent – Donated rent is based on a per square foot value of comparable rent times the number of square feet utilized.

Goods for distribution – goods for distribution consist of goods (food and clothing) provided to members of the community. These amounts are determined based on fair market value based on retail selling price or similar measure of value.

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable on June 30, 2022 are composed of the following:

Receivable in less than one year	\$ 2,283,146
Receivable in one to five years	<u>2,416,119</u>
	4,699,265
Less: allowance for doubtful pledges	(139,385)
Less: present value discount	<u>(181,372)</u>
Total contributions receivable, net	<u><u>\$ 4,378,508</u></u>

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NOTE 7 – LAFAYETTE PARK COMMUNITY CENTER

In 2006, HOLA, together with the City of Los Angeles, Department of Recreation and Parks (City), launched the *"Building for the Future"* project. Funds raised through this public / private partnership secured working capital for several short-term 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, 2022 was \$61,310, as no payments were made during the year ended June 30, 2022. 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, 2022, the amounts remaining to be amortized into rent expense are as follows:

Years Ending June 30,		
2023	\$	28,883
2024		28,883
2025		28,883
2026		28,883
2027		28,883
Thereafter		<u>252,723</u>
	\$	<u><u>397,138</u></u>

During the year ended June 30, 2022, 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, 2022, 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 8 – ARTS, ENRICHMENT, AND RECREATION CENTER PROJECT

Commencing in 2015, in response to increased programmatic facility needs, and to ensure future program sustainability, HOLA began building and furnishing a new Arts, Enrichment, and Recreation Center (Center). The building project was completed in the year ended June 30, 2022, and HOLA obtained the certificate of occupancy on October 6, 2021.

The Center is located on undeveloped property at Lafayette Park in the City of Los Angeles. The Center's building site is being provided through HOLA's public / private partnership with the City's Department of Recreation and Parks. In 2017, the City negotiated a fifty (50) 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 includes an option to further extend the lease beyond this initial fifty (50) year period.

In September 2017, to finance the development of the Center, 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 resulted in approximately \$3.0 million of additional net financing for the project.

NOTE 9 – PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following on June 30, 2022:

Buildings - Arts and Recreation Center	\$ 19,573,899
Vehicles	108,143
Building improvements	107,329
Computers and software	34,872
Office furniture and fixtures	<u>5,326</u>
	19,829,569
Less: accumulated depreciation	<u>(577,590)</u>
Total property and equipment, net	<u>\$ 19,251,979</u>

All property and equipment are held for use. Depreciation expense for the year ended June 30, 2022 was \$339,616.

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NOTE 10 – 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, 2022, 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 may exercise its option to call the loan receivable. This action will essentially result in forgiveness of these loans as well as extinguishment of HOLA's debt described in Note 11. Interest income capitalized (during the construction period) was \$31,516 for the year ended June 30, 2022.

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 11.

NOTE 11 – LONG-TERM DEBT AND NEW MARKETS TAX CREDIT PROGRAMS

The following is a summary of all long-term debt as of June 30, 2022.

Paycheck Protection Program Loans

On January 28, 2021, HOLA borrowed \$561,105 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 \$534,775 of PPP loan forgiveness income during the year ended June 30, 2021. On April 20, 2022, the lender fully forgave this loan and the related accrued interest. The accompanying consolidated statement of activities reflect the remaining loan forgiveness of \$26,330 as PPP loan forgiveness for the year-ended June 30, 2022.

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 Weingart Foundation lent HOLA \$1,300,000 as a program-related investment loan to repay the U.S. Bank loan. In fiscal year-ended June 30, 2022, HOLA repaid the Weingart Foundation loan in full.

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NOTE 11 – LONG-TERM DEBT AND NEW MARKETS TAX CREDIT PROGRAMS – (CONTINUED)

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, 2022, 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	<u>943,800</u>
Subtotal	<u>14,314,000</u>

Round 2 - Funding

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

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 \$77,429 for the year ended June 30, 2022.

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.

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NOTE 12 – NET ASSETS WITH DONOR RESTRICTION

Temporarily restricted net assets as of June 30, 2022 consists of the following:

	Balance at June 30, 2021	Donor- Restricted Contributions	Released From Restriction	Balance at June 30, 2022
Capital Campaign	\$ -	\$ 565,000	\$ (565,000)	\$ -
Purpose Restricted	5,064,029	5,758,820	(2,846,959)	7,975,890
Time Restricted	596,667	-	(346,667)	250,000
	<u>\$ 5,660,696</u>	<u>\$ 6,323,820</u>	<u>\$ (3,758,626)</u>	<u>\$ 8,225,890</u>

Permanently restricted net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, HOLA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the organization considers the following factors in deciding to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies

Permanently restricted net assets consist of the following:

Scholarship Fund	\$ 108,375
Music Endowment	156,930
Visual Arts Endowment	<u>500,000</u>
Total Endowments	<u><u>\$ 765,305</u></u>

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NOTE 12 – NET ASSETS WITH DONOR RESTRICTION – (CONTINUED)

During the year-ended June 30, 2022, HOLA had the following endowment related activities:

Endowment Assets Investments, at fair value	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	\$ 58,608	\$ 265,305	\$ 323,913
Contributions	-	500,000	500,000
Investment loss, net	(31,486)	-	(31,486)
Distributions	-	-	-
Releases	(13,717)	-	(13,717)
End of year	<u>\$ 13,405</u>	<u>\$ 765,305</u>	<u>\$ 778,710</u>

Each endowment is tracked and invested in its own separate brokerage account. Investment balances consist of the following:

Cash and cash equivalents	\$ 542,321
Equity mutual funds	98,388
Fixed income mutual funds	70,882
Balanced mutual funds	<u>67,119</u>
	<u>\$ 778,710</u>

NOTE 13 – 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 14 – 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 2027. Payments related to this lease agreement totaled approximately \$86,724 during the year ended June 30, 2022.

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NOTE 14 – COMMITMENTS – (CONTINUED)

The minimum lease commitments for the next five fiscal years and thereafter are as follows:

Years Ending June 30,		
2023	\$	89,624
2024		92,312
2025		95,082
2026		97,934
2027		92,235
		<hr/>
	\$	<u>467,187</u>

NOTE 15 – 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. Additional rounds of mediation were held in June 2022 and September 2022. The parties reached a settlement to resolve this dispute in December 2022, with a global settlement payment to HOLA-CP for the amount of \$1,250,000. This amount was received on February 15, 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.