

**BIG BROTHERS BIG SISTERS OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC. dba BIG BROTHERS
BIG SISTERS OF ORANGE COUNTY AND BIG BROTHERS
BIG SISTERS OF THE INLAND EMPIRE**

Consolidated Financial Statements

For the Year Ended June 30, 2019

with

Independent Auditors' Report

ALMICH & ASSOCIATES

Certified Public Accounting and Business Services

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Big Brothers Big Sisters of Orange County and the Inland Empire, Inc.:

We have audited the accompanying consolidated financial statements of Big Brothers Big Sisters of Orange County and the Inland Empire, Inc. dba Big Brothers Big Sisters of Orange County and Big Brothers Big Sisters of the Inland Empire (a California nonprofit public benefit corporation), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 above present fairly, in all material respects, the consolidated financial position of Big Brothers Big Sisters of Orange County and the Inland Empire, Inc. as of June 30, 2019, and the consolidated 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.



Lake Forest, California
September 17, 2019

**BIG BROTHERS BIG SISTERS OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC. dba BIG BROTHERS
BIG SISTERS OF ORANGE COUNTY AND BIG BROTHERS
BIG SISTERS OF THE INLAND EMPIRE
Consolidated Statement of Financial Position
June 30, 2019**

Assets

Current assets:	
Cash and cash equivalents	\$ 1,072,948
Gifts and grants receivable	699,579
Interest receivable on note receivable	24,092
Prepaid expenses and other	105,162
Total current assets	1,901,781
Restricted cash	142,030
Investments	12,261,026
Deferred rent receivable	63,097
Prepaid expenses and other, net of current portion	102,611
Property and equipment, net of accumulated depreciation and amortization of \$1,436,656	8,446,119
Note receivable	6,983,300
Total assets	\$ 29,899,964

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 148,452
Accrued liabilities	462,554
Deferred contribution revenue	91,730
Current portion of loans payable	131,342
Total current liabilities	834,078
Loans payable, net of current portion and unamortized debt issuance costs	13,683,949
Total liabilities	14,518,027
Net assets:	
Without donor restrictions	14,861,280
With donor restrictions	520,657
Total net assets	15,381,937
Total liabilities and net assets	\$ 29,899,964

See notes to consolidated financial statements

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BIG SISTERS OF ORANGE COUNTY AND BIG BROTHERS
BIG SISTERS OF THE INLAND EMPIRE
Consolidated Statement of Activities
For the Year Ended June 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Gifts and grants - foundations and governmental agencies	\$ 1,663,165	\$ 159,943	\$ 1,823,108
Gifts and grants - corporations and individuals	3,053,180	-	3,053,180
Special events revenue, net of costs of direct benefits to donors of \$672,566	2,279,621	-	2,279,621
Donated services	345,280	-	345,280
Total revenues, gains and other support	7,341,246	159,943	7,501,189
Net assets released from restrictions	9,206,326	(9,206,326)	-
	<u>16,547,572</u>	<u>(9,046,383)</u>	<u>7,501,189</u>
Expenses:			
Program	5,681,584	-	5,681,584
General and administrative	473,038	-	473,038
Fund-raising	706,483	-	706,483
Total expenses	<u>6,861,105</u>	<u>-</u>	<u>6,861,105</u>
Other income (expense):			
Interest income	104,014	-	104,014
Unrealized gain on investments	209,256	-	209,256
Interest expense	(317,924)	-	(317,924)
Rental income	436,005	-	436,005
Expenses related to management of property subleased to third parties	(783,823)	-	(783,823)
Gain on sale of property	723,625	-	723,625
Total other income	<u>371,153</u>	<u>-</u>	<u>371,153</u>
Change in net assets	10,057,620	(9,046,383)	1,011,237
Net assets, beginning of year	4,803,660	9,567,040	14,370,700
Net assets, end of year	<u>\$ 14,861,280</u>	<u>\$ 520,657</u>	<u>\$ 15,381,937</u>

See notes to consolidated financial statements

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BIG SISTERS OF ORANGE COUNTY AND BIG BROTHERS
BIG SISTERS OF THE INLAND EMPIRE
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2019**

Cash flows from operating activities:	
Change in net assets	\$ 1,011,237
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Gain on sale of property	(727,429)
Depreciation and amortization	379,833
Unrealized gain on investments	(209,256)
Amortization of debt issuance costs	67,102
Changes in assets and liabilities:	
Gifts and grants receivable	105,345
Prepaid expenses and other	38,468
Deferred rent receivable	18,031
Accounts payable	46,700
Accrued liabilities	100,353
Deferred contribution revenue	44,250
Net cash provided by operating activities	<u>874,634</u>
Cash flows from investing activities:	
Proceeds from sale of property	9,727,429
Purchases of investments	(10,106,153)
Purchases of property and equipment	<u>(52,533)</u>
Net cash used in investing activities	<u>(431,257)</u>
Cash flows from financing activities:	
Decrease in restricted cash	298,260
Repayments of loans payable	<u>(124,069)</u>
Net cash provided by financing activities	<u>174,191</u>
Increase in cash and cash equivalents	617,568
Cash and cash equivalents, beginning of year	<u>455,380</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,072,948</u></u>
Supplemental cash flows information:	
Cash paid for interest	<u><u>\$ 250,822</u></u>

See notes to consolidated financial statements

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BIG SISTERS OF ORANGE COUNTY AND BIG BROTHERS
BIG SISTERS OF THE INLAND EMPIRE
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2019**

	<u>Program</u>	<u>General and Administrative</u>	<u>Fund-raising</u>	<u>Total</u>
Salaries and related	\$ 4,354,700	\$ 359,694	\$ 555,904	\$ 5,270,298
Professional services	4,969	22,796	4,969	32,734
Insurance	34,912	2,351	4,806	42,069
Public relations	73,197	-	63,076	136,273
Donated services	15,000	60,000	-	75,000
Program activities	739,916	-	-	739,916
Dues and publications	50,107	2,781	613	53,501
Office	70,436	4,956	9,557	84,949
Utilities and telephone	23,299	1,674	3,138	28,111
Information technology support	87,654	6,192	11,876	105,722
Miscellaneous	45,742	2,377	26,217	74,336
Rent	107,140	4,062	16,815	128,017
	<u>5,607,072</u>	<u>466,883</u>	<u>696,971</u>	<u>6,770,926</u>
Depreciation and amortization	74,512	6,155	9,512	90,179
	<u>\$ 5,681,584</u>	<u>\$ 473,038</u>	<u>\$ 706,483</u>	<u>6,861,105</u>
Costs of direct benefits to donors at special events				<u>672,566</u>
				<u>\$ 7,533,671</u>

See notes to consolidated financial statements

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BIG SISTERS OF THE INLAND EMPIRE
Notes to Consolidated Financial Statements
June 30, 2019**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Organization

Big Brothers Big Sisters of Orange County and the Inland Empire, Inc. dba Big Brothers Big Sisters of Orange County and Big Brothers Big Sisters of the Inland Empire (BBBSOCIE) is a California nonprofit public benefit corporation which was originally incorporated in 1958 as Big Brothers of Orange County. The purpose of BBBSOCIE is to provide one-to-one mentors for children in great need to strengthen self-esteem, improve academic success and pursue a purposeful future. The operation of BBBSOCIE is primarily dependent upon contributions, grants and fundraising events.

To facilitate the acquisition of the new operating facility of BBBSOCIE as described in Note 2, BBBSOCIE formed a new California nonprofit public benefit corporation, BBBSOC QALICB, Inc. (QALICB), in which BBBSOCIE is the sole member.

At June 30, 2019, BBBSOCIE had an auxiliary, Angelitos de Oro (ADO), which performed fund-raising activities on its behalf.

The accompanying consolidated financial statements include the accounts of BBBSOCIE, ADO, and QALICB (collectively, the Organization). All intercompany amounts and transactions have been eliminated in consolidation.

Basis of Presentation

The Organization reports amounts in the accompanying consolidated financial statements classified for accounting and reporting purposes into net asset categories according to externally donor-imposed restrictions. A description of the net asset categories is as follows:

Net assets without donor restrictions – net assets not subject to donor-imposed stipulations.

Net assets with donor restrictions – net assets subject to donor-imposed stipulations.

The Organization reports donations of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated asset. In the case of support with donor restrictions, when a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of changes in net assets as net assets released from restrictions. It is the Organization's policy to classify as without donor restrictions support with donor restrictions whose stipulations are fully satisfied within the fiscal year received.

As of June 30, 2019, \$390,371 of the Organization's net assets with donor restrictions are to be used to service the loans payable associated with the purchase of the Organization's new operating facility and \$130,286 are to be used for specific programs of the Organization.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents. Cash equivalents are held in deposit accounts.

Restricted Cash

The Organization has a loan payable that requires a reserve account be held at a bank. The account may only be drawn upon to pay reimbursements to the lender for audit, tax, and asset management expenses, in accordance with the loan agreement. As of June 30, 2019, this reserve account amounted to \$142,030.

The Organization's revolving line of credit described in Note 7 with a bank required a \$250,000 certificate of deposit be pledged as collateral. The line of credit was amended during the year ended June 30, 2019 to remove this collateral requirement.

Property and Equipment

Purchased property and equipment are recorded at cost and donated assets are recorded at estimated fair value at date of donation. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 5 years for furniture and equipment, and range from 10 to 30 years for the building and improvements. When property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed from the accounts, with any resulting gain or loss being reflected in operations for the period. Maintenance, repairs, and minor renewals and betterments are expensed as incurred.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such factors indicate that assets should be evaluated for possible impairment, management would prepare an analysis comparing the carrying value of the assets to future undiscounted cash flows of the underlying assets. The net book value of the underlying assets is adjusted to fair value if the sum of the expected undiscounted future cash flows is less than book value. To date, management has not identified any such factors pertaining to the Organization's long-lived assets.

Debt Issuance Costs

Debt issuance costs represent costs associated with the Organization obtaining its loans payable to a bank. Such costs are being amortized to interest expense over the life of the loans payable. Amortization expense for the year ended June 30, 2019, was \$67,102. Debt issuance costs are reported in the consolidated statement of financial position as a direct deduction from the face amount of the related loans payable.

Deferred Contribution Revenue

Deferred contribution revenue represents contributions received from donors to underwrite the costs of program and fundraising events to be held during the year ending June 30, 2020. The balance will be recognized as contribution revenue upon completion of the event.

Gifts and Contributions

Unrestricted gifts and other revenue are classified as unrestricted. Unconditional promises to give cash and other assets are recognized in the period the promise is made. Conditional promises are recognized when they become unconditional. Restricted gifts, contributions, and other restricted resources are classified as either temporarily or permanently restricted.

Donated Services

Members of the Board of Directors, a substantial number of volunteers, and corporations have donated their time and services to the Organization. Contributed services are recognized if the services received either create or enhance long-lived assets, or require specialized skills and would typically need to be purchased if not provided by donation; \$345,280 has been reflected in the consolidated financial statements for donated services which meet this criteria.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from California franchise taxes.

QALICB incurs unrelated business income tax related to a portion of its rental income. There was no provision for unrelated business income tax for the year ended June 30, 2019 due to net operating loss carryforwards of approximately \$219,000, which can be carried forward indefinitely under the Tax Cuts and Jobs Acts.

Investments

The Organization invests in various securities. Securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Organization's account balances and the amounts reported in the consolidated statement of financial position.

The Organization's investment securities are carried at estimated fair market value based on quoted market prices. Investments received as gifts are recorded at estimated fair value at the date of the donation. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses are calculated on an adjusted cost basis. Dividend and interest income are accrued when earned.

Expense Allocation

Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with the program and supporting service are allocated based on evaluation by the Organization's management.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 was effective and has been implemented by the Organization for its fiscal year ended June 30, 2019. There were no changes in the classes of the Organization's net assets resulting from the implementation of ASU 2016-14.

In May 2014, FASB issued *ASU 2014-09, Revenue from Contracts with Customers*, which establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. This *ASU* will become effective for the Organization for the year ending June 30, 2020. The Organization is currently evaluating the effect the provisions of *ASU 2014-09* will have on the consolidated financial statements.

In November 2016, FASB issued *ASU 2016-18, Statement of Cash Flows – Restricted Cash*, which requires that a statement of cash flows explains the change during the period in the total cash, cash equivalents, and amount generally described as restricted cash or restricted cash equivalents. This *ASU* will be effective for the Organization for the year ending June 30, 2020.

In February 2016, FASB issued *ASU No. 2016-02, Leases*. The guidance in this *ASU* supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. This *ASU* will become effective for the Organization for the year ending June 30, 2022. The Organization is currently evaluating the effect the provisions of *ASU 2016-02* will have on the consolidated financial statements.

Subsequent Events

The Organization has evaluated subsequent events through the date of the auditors' report, September 17, 2019, which is the date the accompanying consolidated financial statements were available to be issued.

NOTE 2 – PURCHASE OF NEW OPERATING FACILITY

On September 30, 2014, the Organization purchased a building for \$7 million to be used as its new operating facility. To finance the purchase, the Organization borrowed \$4.4 million from Farmers & Merchants Bank (the Bank) for a term of 10 years, pledging the new building as collateral (see Note 7).

In order to finance relocation to the new building and its required refurbishment, the Organization initiated a \$3 million capital campaign and received support from the U.S. Department of the Treasury's New Market Tax Credit Program (NMTCTC). For the former, approximately \$2.7 million had been pledged and collected. For the latter, the Organization was required to enter into the following series of transactions:

- a) A new community development entity, CSCDC 5 LLC (CSCDC 5), was formed by Twain Investment Fund 19, LLC (Twain), a new entity formed by U.S. Bancorp Community Development Corporation (USBCDC), and California Statewide Communities Development Corporation (CSCDC). CSCDC funded CSCDC 5 with \$4.095 million of awarded NMTCTC tax credits. For 99.99% ownership of CSCDC 5 and the rights to all of CSCDC 5's NMTCTC tax credits, Twain funded CSCDC 5 with \$10.5 million.
- b) QALICB was formed.
- c) One day after BBBSOCIE took title to the new building, BBBSOCIE entered into a 99 year lease with QALICB for a lump sum payment of \$7 million, of which \$4 million was allocated to the building and recorded as a capital lease, and \$3 million was allocated to the land and recorded as an operating lease. As part of the lease, QALICB acquired the rights to all tenant revenue from the new building and took financial responsibility for building improvements.

- d) Contemporaneously with the receipt of the \$7 million payment from QALICB, BBBSOCIE entered into an agreement to lease just over half of the new building from QALICB through December 2044. As part of that lease, QALICB agreed to cover furniture and relocation expenses.
- e) To finance the capital lease payment, immediate building improvements, the Organization's furniture and relocation expenses, and transaction costs, QALICB borrowed \$10,185,000 from CSCDC 5 for a term of 35 years at a 1% fixed rate (see Note 7). In order to secure this loan, QALICB has to maintain the loan and all associated entities for a minimum of seven years and has to pay transaction costs totaling \$0.9 million over seven years. Also as a requirement for the loan, the Organization was required to lend Twain \$6.983 million at a 1.38% fixed rate and maturing April 1, 2041. The note receivable from Twain requires quarterly payments of interest only through October 1, 2022, at which time quarterly payments of principal and interest will commence in equal installments through the maturity date. As of June 30, 2019, the balance of the note receivable from Twain amounted to \$6,983,300 and the related interest receivable amounted to \$24,092. Building improvements, furniture, and relocation costs were estimated to total approximately \$2.3 million, which had been fully utilized as of June 30, 2019.
- f) Contractually, after seven years USBCDC can put its interest in Twain to the Organization for \$1,000 plus any related transfer taxes and other closing costs associated with the exercise of the put option (Put Price), or the Organization can call USBCDC's interest in Twain for the greater of the fair market value of Twain (which is estimated to be \$400,000) or the Put Price. Management believes USBCDC will put its interest in Twain to the Organization for the Put Price. After seven years with the exercise of the Put Price, it is planned that the Organization will own Twain and CSCDC, and ultimately be both the lender and borrower of each of the \$10.2 million and \$6.983 million loans, with both loans forgiven, with the only debt remaining the loan to the Bank.

Management estimates the value after seven years of the NMTC transaction to be worth \$3 million to the Organization. This is comprised of \$0.7 million in lower interest charges over seven years and \$2.3 million in the debt forgiveness as a result of the Put Price.

NOTE 3 – GIFTS AND GRANTS RECEIVABLE

Gifts and grants receivable consist of unconditional promises to give cash to the Organization. Unconditional promises to give that are expected to be collected in future years would be recorded at the present value of estimated future cash flows. All gifts and grants receivable as of June 30, 2019 are expected to be collected in less than one year.

As of June 30, 2019, the two largest gifts and grants receivable accounted for 86% of the total, and the largest receivable accounted for 69% of the total. Management continually monitors the collectability of the Organization's gifts and grants receivable and, when necessary, would record an allowance for doubtful accounts and a corresponding charge to bad debt expense. Management does not believe that there are any collectability issues associated with the Organization's gifts and grants receivable as of June 30, 2019.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2019:

Land	\$ 3,000,000
Building and improvements	6,182,450
Furniture and equipment	<u>700,325</u>
	9,882,775
Less: accumulated depreciation and amortization	<u>(1,436,656)</u>
	<u>\$ 8,446,119</u>

Depreciation and amortization expense related to property and equipment was \$379,833 for the year ended June 30, 2019. BBBSOCIE's depreciation and amortization expense of \$90,179 has been allocated to the various expense categories as shown on the consolidated statement of functional expenses. QALICB's depreciation and amortization expense of \$289,654 is included within expenses related to management of property subleased to third parties on the accompanying consolidated statement of activities.

NOTE 5 – FAIR VALUE MEASUREMENTS

The Organization uses a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either observable directly or indirectly through market corroboration, for substantially the full term of the financial instrument; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Following is a description of the valuation methodologies used for investments measured at fair value at June 30, 2019:

Mutual funds and U.S. Treasury notes: Valued at the closing price reported on the active market on which the individual securities are traded.

Municipal and corporate bonds and mortgage backed securities: Valued based on recently executed transactions and market price quotations (where observable).

Investment pool: The balance of \$56,414 as of June 30, 2019 represents the Organization's allocation of a pooled investment account held by a third-party foundation which consists of various investments valued using Level 1, Level 2, and Level 3 inputs as determined by the third-party foundation. As such, the investments are considered to be measured using Level 3 inputs.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments in marketable and other securities as of June 30, 2019. Classification within the fair value hierarchy table is based on the lowest level of any input that is significant to the fair value measurement.

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds			
U.S. Large & All Cap Value Equity	\$ 384,770	\$ -	\$ -
U.S. Small & Mid Cap Equity	164,010	-	-
International & Global Equity	114,716	-	-
Cash Investments	10,143,095	-	-
Municipal bonds	-	866,161	-
Corporate bonds	-	531,860	-
Investment pool	-	-	56,414
	<u>\$ 10,806,591</u>	<u>\$ 1,398,021</u>	<u>\$ 56,414</u>

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 investments for the year ended June 30, 2019:

Balance, beginning of year	\$ 54,164
Net unrealized gain	<u>2,250</u>
Balance, end of year	<u>\$ 56,414</u>

The investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the Organization's investment balances and the amounts reported in the consolidated statement of financial position.

NOTE 6 – BENEFICIAL INTEREST IN REMAINDER TRUST

During the year ended June 30, 2018, the Organization received a contribution of a remainder interest in a real estate property under the terms of a Life Estate Agreement which was to terminate upon death of the donor. The appraised value of the real property as of the date of contribution was \$9,000,000. During the year ended June 30, 2019, the Life Estate Agreement was terminated, and the property was transferred to the Organization. The Organization then sold the property for \$10,375,000 in cash, recognizing a gain of \$723,625 after giving consideration to transaction related costs of \$651,375, of which \$270,280 represented donated services.

NOTE 7 – LOANS PAYABLE

The Organization's loan payable to the Bank of \$4,400,000 bears interest at 3.75%, matures September 28, 2024, and requires monthly principal and interest payments of \$22,753 through September 2021, at which time the monthly payments will be adjusted to reflect the prevailing variable interest rate, as defined in the loan agreement. As of June 30, 2019, the outstanding principal balance of the loan payable was \$3,850,541.

The Organization's loan payable to CDCDC 5 of \$10,185,000 bears interest at 1.00%, matures October 1, 2049, and requires quarterly payments of interest only through October 1, 2022, at which time quarterly principal and interest payments of \$107,726 will commence until maturity. As of June 30, 2019, \$10,185,000 was outstanding.

Future maturities of the loans payable as of June 30, 2019 were as follows:

<u>Year Ending</u> <u>June 30,</u>	
2020	\$ 131,342
2021	136,353
2022	195,443
2023	385,227
2024	560,851
Thereafter	<u>12,626,325</u>
	14,035,541
Less: unamortized debt issuance costs	<u>(220,250)</u>
	13,815,291
Less: current portion	<u>(131,342)</u>
	<u><u>\$ 13,683,949</u></u>

The Organization also has a \$500,000 revolving line of credit with a bank that matures in February 2021. The line of credit bears interest at the prime rate plus 1.5%, with a minimum interest rate of 5.0%. The line of credit is secured by substantially all of the Organization's assets. As of June 30, 2019, no amounts had been borrowed against the line of credit. The line of credit includes a 30 day out of debt clause which requires that for each twelve month period during the term of the line of credit, there will be a 30 day consecutive out of debt period, during which the outstanding principal balance of the loan must be zero.

The line of credit agreement includes certain defined financial covenants with which the Organization must comply. As of June 30, 2019, the Organization was in compliance with the covenants.

NOTE 8 – COMMITMENTS

The Organization leases its Inland Empire operating facility under the terms of a non-cancelable lease agreement that expires in March 2021. Future minimum payments under the lease were as follows as of June 30, 2019:

Year Ending June 30,	
2020	\$ 131,127
2021	100,542
	<u>\$ 231,669</u>

Facility rent expense under the above described agreement for the year ended June 30, 2019 was \$128,017, and is reflected as rent expense in the accompanying consolidated statement of functional expenses.

NOTE 9 – RENTAL INCOME

The Organization leases portions of its operating facility to unrelated third parties under the terms of non-cancelable lease agreements that expire at various times through October 2022. Certain of the leases provide for tenant improvement allowances to the lessee. The tenant improvement allowance is recorded by the Organization as a deferred rent receivable and will be amortized to rental income over the remaining lease term.

Future minimum receipts of rental payments under these leases were as follows as of June 30, 2019:

Year Ending June 30,	
2020	\$ 455,515
2021	204,631
2022	88,173
2023	29,633
	<u>\$ 777,952</u>

Rental income recognized related to these leases during the year ended June 30, 2019, amounted to approximately \$622,000, and is included within rental income on the accompanying consolidated statement of activities.

NOTE 10 – RETIREMENT PLAN

The Organization has a defined contribution 403(b) plan available to all employees. Employer contributions are at the discretion of the Organization's board of directors. The Organization matches 30% of the first 10% of employee contributions to the plan. Organization matching contributions during the year ended June 30, 2019 were approximately \$35,000. Organization matching contributions vest over a three year period.

NOTE 11 – AUXILIARY ACTIVITIES

Auxiliary activities, which are consolidated with the Organization's operating results, were as follows for the year ended June 30, 2019:

	<u>Angelitos de Oro</u>
Revenues	\$ 261,361
Expenses	<u>(313,401)</u>
Excess of expenses over revenues	<u>\$ (52,040)</u>

Included within the expense figure above is \$265,051 contributed to BBBSOCIE, which has been eliminated in consolidation.

NOTE 12 – OPERATING RESULTS OF CORE OPERATIONS

The operating results of the Organization's core operations were as follows for the year ended June 30, 2019:

Total revenues, gains and other support per statement of activities	<u>\$ 7,501,189</u>
Total expenses per statement of activities	6,861,105
Plus: rent paid to QALICB eliminated in consolidation	<u>181,780</u>
Total expenses from core operations	<u>7,042,885</u>
Excess of revenues over expenses from core operations	<u>\$ 458,304</u>

NOTE 13 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization has \$1,796,619 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures, consisting of cash and cash equivalents of \$1,072,948, as well as gifts, grants and interest receivable of \$723,671. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. The Organization has a goal to maintain financial assets to meet current liabilities, which are \$830,274 as of June 30, 2019. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as part of its liquidity management and as more fully described in Note 5, the Organization invests cash in excess of daily requirements in various investments, including mutual funds and bonds. As described in Note 7, the Organization also has a line of credit in the amount of \$500,000, which it could draw upon in the event of an unanticipated liquidity need.

NOTE 14 – CONCENTRATION OF CREDIT RISK

At June 30, 2019, the Organization maintained cash balances with a bank in excess of the federally insured amount.