

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
OF
BOYS & GIRLS CLUB OF SAN MARCOS
JUNE 30, 2017 AND 2016**

BOYS & GIRLS CLUB OF SAN MARCOS
TABLE OF CONTENTS
JUNE 30, 2017 AND 2016

Independent Auditor's Report.....	1
Statements of Financial Position.....	2
Statements of Activities	3
Statements of Cash Flows.....	4
Statements of Functional Expenses	5
Notes to Financial Statements.....	7



Independent Auditor's Report

To the Board of Directors of
Boys & Girls Club of San Marcos
San Marcos, California

We have audited the accompanying financial statements of Boys & Girls Club of San Marcos (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys & Girls Club of San Marcos as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Covell, Jani & Pasch LLP

Escondido, California
April 3, 2018

**BOYS & GIRLS CLUB OF SAN MARCOS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016**

ASSETS		
	2017	2016
Current Assets		
Cash and cash equivalents	\$ 84,273	\$ 136,448
Investments	849,873	737,095
Accounts receivable	401	22,483
Grants receivable	158,507	230,305
Prepaid expenses	1,068	-
Other current assets	1,138	200
TOTAL CURRENT ASSETS	1,095,260	1,126,531
Property and equipment, net	723,119	664,149
Investments, restricted	65,001	65,001
TOTAL ASSETS	<u>\$ 1,883,380</u>	<u>\$ 1,855,681</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 64,181	\$ 44,238
Accrued liabilities	1,680	2,718
Accrued payroll liabilities	18,139	10,014
Deferred revenue and deposits	74,961	89,420
TOTAL CURRENT LIABILITIES	<u>158,961</u>	<u>146,390</u>
Net Assets		
Unrestricted	1,659,071	1,641,943
Temporarily restricted	347	2,347
Permanently restricted	65,001	65,001
TOTAL NET ASSETS	<u>1,724,419</u>	<u>1,709,291</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,883,380</u>	<u>\$ 1,855,681</u>

See independent auditor's report and notes to financial statements

**BOYS & GIRLS CLUB OF SAN MARCOS
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS		
Support and Revenue		
General club revenue	\$ 437,642	\$ 356,354
Grants	987,319	861,267
Public support	173,514	96,926
United way	5,496	10,080
Special events (net of direct expenses \$92,908)	363,750	436,065
Net assets released from restrictions	8,000	2,190
Interest and dividends	42,904	25,092
Realized gain (loss) on investments	4,084	13,537
Unrealized gain (loss) on investments	34,583	(76,063)
TOTAL UNRESTRICTED SUPPORT AND REVENUE	<u>2,057,292</u>	<u>1,725,448</u>
Expenses		
Program services		
Jennifer Loscher branch	448,973	372,291
San Marcos Unified School District	1,004,482	839,012
Other programs	133,775	111,995
Total programs services	<u>1,587,230</u>	<u>1,323,298</u>
Supporting services		
Management and general expenses	302,322	252,208
Fund raising costs	150,612	132,258
Total supporting services	<u>452,934</u>	<u>384,466</u>
TOTAL EXPENSES	<u>2,040,164</u>	<u>1,707,764</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>17,128</u>	<u>17,684</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	6,000	1,310
Net assets released from restrictions, satisfaction of program restrictions	(8,000)	(2,190)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>(2,000)</u>	<u>(880)</u>
 INCREASE (DECREASE) IN NET ASSETS	 15,128	 16,804
NET ASSETS AT BEGINNING OF YEAR	<u>1,709,291</u>	<u>1,692,487</u>
 NET ASSETS AT END OF YEAR	 <u><u>\$ 1,724,419</u></u>	 <u><u>\$ 1,709,291</u></u>

See independent auditor's report and notes to financial statements

BOYS & GIRLS CLUB OF SAN MARCOS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 15,128	\$ 16,804
Adjustments to reconcile change in net assets provided by operating activities		
Realized (gain) loss on investments	(4,084)	(13,537)
Unrealized (gain) loss on investments	(34,583)	76,063
Depreciation	82,005	73,661
(Increase) decrease in operating assets:		
Accounts receivable	22,082	(15,078)
Grants receivable	71,798	(95,034)
Prepaid expenses	(1,068)	9,510
Other current assets	(938)	104
Increase (decrease) in operating liabilities:		
Accounts payable	19,944	23,539
Accrued expenses	(1,038)	(4,855)
Accrued payroll expenses	8,125	(32,629)
Deferred revenue and deposits	(14,459)	51,474
Total adjustments	<u>147,784</u>	<u>73,218</u>
Net cash provided by operating activities	<u>162,912</u>	<u>90,022</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(140,976)	(109,347)
Proceeds from sale of investments	154,978	250,000
Purchase of investments	<u>(229,089)</u>	<u>(251,200)</u>
Net cash used in investing activities	<u>(215,087)</u>	<u>(110,547)</u>
NET INCREASE (DECREASE) IN CASH	<u>(52,175)</u>	<u>(20,525)</u>
CASH, BEGINNING OF YEAR	<u>136,448</u>	<u>156,973</u>
CASH, END OF YEAR	<u>\$ 84,273</u>	<u>\$ 136,448</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION
CASH PAID DURING THE YEAR FOR:

Interest expense	\$ 1,528	\$ -
Income tax	<u>\$ -</u>	<u>\$ -</u>

**BOYS & GIRLS CLUB OF SAN MARCOS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017**

	Program Services				Support Services			Total Expenses
	Jennifer Loscher Branch	San Marcos Unified School District	Other Programs	Total Program Services	Management and General	Fund Raising Costs	Total Support Services	2017
Expenses								
Advertising, promotions, and awards	\$ 1,490	\$ 3,004	\$ 425	\$ 4,919	\$ 1,455	\$ 487	\$ 1,942	\$ 6,861
Bank and merchant fees	3,658	7,386	1,045	12,089	3,574	1,198	4,772	16,861
Depreciation	17,795	35,918	5,084	58,797	17,386	5,822	23,208	82,005
Dues and licenses	3,528	7,121	1,009	11,658	3,448	1,154	4,602	16,260
Employee wages and salaries	285,216	690,068	89,288	1,064,572	164,265	85,523	249,788	1,314,360
Employee benefits	15,878	32,047	4,536	52,461	15,511	5,195	20,706	73,167
Employer payroll taxes, WC insurance and fees	37,066	74,814	10,590	122,470	36,213	12,128	48,341	170,811
Insurance	3,855	7,782	1,101	12,738	3,765	1,261	5,026	17,764
Outside Services	4,201	8,480	1,200	13,881	4,104	1,374	5,478	19,359
Postage	550	1,108	156	1,814	536	180	716	2,530
Professional fees	2,579	5,205	737	8,521	2,520	844	3,364	11,885
Program field trips	4,737	9,600	1,342	15,679	4,654	1,551	6,205	21,884
Repairs and maintenance	12,574	25,379	3,592	41,545	12,283	4,113	16,396	57,941
Scholarships	8,000	-	-	8,000	-	-	-	8,000
Supplies and equipment	16,067	32,428	4,590	53,085	1,570	19,381	20,951	74,036
Telephone and utilities	8,339	16,833	2,382	27,554	8,147	2,728	10,875	38,429
Training and conference	9,215	18,603	2,633	30,451	9,003	3,017	12,020	42,471
Travel	14,225	28,706	4,065	46,996	13,888	4,656	18,544	65,540
Total Expenses	\$ 448,973	\$ 1,004,482	\$ 133,775	\$ 1,587,230	\$ 302,322	\$ 150,612	\$ 452,934	\$ 2,040,164

See independent auditor's report and notes to financial statements

**BOYS & GIRLS CLUB OF SAN MARCOS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016**

	Program Services				Support Services			Total Expenses
	Jennifer Loscher Branch	San Marcos Unified School District	Other Programs	Total Program Services	Management and General	Fund Raising Costs	Total Support Services	2016
Expenses								
Advertising, promotions, and awards	\$ 1,442	\$ 2,907	\$ 411	\$ 4,760	\$ 1,408	\$ 472	\$ 1,880	\$ 6,640
Bank and merchant fees	3,224	6,509	921	10,654	3,150	1,056	4,206	14,860
Depreciation	15,985	32,263	4,567	52,815	15,616	5,230	20,846	73,661
Dues and licenses	3,506	7,077	1,002	11,585	3,426	1,147	4,573	16,158
Employee wages and salaries	229,293	554,764	71,781	855,838	132,057	68,754	200,811	1,056,649
Employee benefits	12,283	24,791	3,509	40,583	11,999	4,019	16,018	56,601
Employer payroll taxes, WC insurance and fees	33,244	67,100	9,498	109,842	32,478	10,878	43,356	153,198
Insurance	3,815	7,702	1,090	12,607	3,726	1,248	4,974	17,581
Outside Services	3,796	7,661	1,084	12,541	3,708	1,242	4,950	17,491
Postage	147	297	42	486	144	48	192	678
Professional fees	2,539	5,124	726	8,389	2,480	831	3,311	11,700
Program field trips	5,688	11,526	1,611	18,825	5,587	1,862	7,449	26,274
Repairs and maintenance	10,835	21,869	3,095	35,799	10,584	3,545	14,129	49,928
Scholarships	2,190	-	-	2,190	-	-	-	2,190
Supplies and equipment	19,826	40,015	5,664	65,505	1,939	23,915	25,854	91,359
Telephone and utilities	9,181	18,533	2,623	30,337	8,969	3,004	11,973	42,310
Training and conference	6,227	12,570	1,779	20,576	6,084	2,038	8,122	28,698
Travel	9,070	18,304	2,592	29,966	8,853	2,969	11,822	41,788
Total Expenses	\$ 372,291	\$ 839,012	\$ 111,995	\$ 1,323,298	\$ 252,208	\$ 132,258	\$ 384,466	\$ 1,707,764

See independent auditor's report and notes to financial statements

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

A. ORGANIZATION

The Boys & Girls Club of San Marcos (the “Club”) was incorporated January 23, 1979 pursuant to the general nonprofit corporation law of the State of California. The specific purpose of the Club is to promote the social, educational, health, leadership, and character development of boys and girls during critical periods of their growth. The Club maintains one primary facility and various sub-sites in the San Marcos area. “Club”

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Club’s accounting records and the accompanying financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles (GAAP) whereby all revenue is recognized when earned rather than received and expenses are recognized when incurred rather than when paid.

Income Taxes

The Club is a private not-for-profit corporation organized under the laws of the State of California. As a Section 501(c)(3) organization, it is exempt from income taxes under the U.S. Internal Revenue Code and Section 23701(d) of the California State Revenue and Taxation Code. Accordingly, no provision for income taxes is included in the accompanying financial statements.

Contributions

Generally accepted accounting principles require that the Club reports information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Unrestricted contributions are recognized as an increase in unrestricted net assets when received. Donor restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the donor-imposed restriction. When restrictions are satisfied, either by the passage of time or by accomplishing the purpose, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When restrictions are satisfied in the same accounting period that the contribution is received, both the revenue and the related expense are reported in the unrestricted net asset class.

Donated Services

Donated services from volunteers have not been reflected in the financial statements because the criteria for recognition under generally accepted accounting principles has not been satisfied. Nevertheless, a substantial number of volunteers donated many hours of their time to the Club.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expense Allocations

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated on an estimated basis between programs, management and general supporting services, and fund raising.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents consist primarily of certificate of deposit accounts and other securities with original maturities of three months or less.

Accounts Receivable

The Club believes that accounts receivable are fully collectible and that no allowance for uncollectible accounts is needed.

Advertising

The Club expenses advertising costs as they are incurred. The total advertising expense for the years ended June 30, 2017 and 2016 was \$6,861 and \$6,640, respectively.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at the fair value at the date of donation. Expenditures for maintenance, repairs, and improvements which do not materially extend the useful lives of the assets are charged to operations in the periods incurred. Depreciation is provided on the straight-line and double declining methods over the estimated useful lives of the assets as follows:

<u>Asset</u>	<u>Life</u>
Building	30 years
Computers and peripherals	5-7 years
Furniture and fixtures	7 years
Leasehold improvements	10-30 years
Office equipment	5-7 years
Software	3 years
Vehicles	5 years

C. CASH AND CASH EQUIVALENTS

Cash consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
California Bank & Trust	\$ 78,278	\$ 94,469
Petty Cash	591	566
SagePoint Financial, Inc.	<u>5,404</u>	<u>41,413</u>
	<u>\$ 84,273</u>	<u>\$ 136,448</u>

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

D. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Club to concentrations of credit risk consist principally of cash deposits and investment securities in bank and financial institutions. The Club maintains cash and cash equivalents and short and long-term investments with major banks and financial institutions. Accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. The Club did not have a balance in excess of the FDIC coverage for the years ended June 30, 2017 and 2016, respectively.

The Club also maintains accounts with a brokerage company. These accounts contain cash and securities and balances are insured up to \$500,000 (with a limit of \$250,000 for cash) by the Securities Investor Protection Company (SIPC). For the years ended June 30, 2017 and 2016, the Club had a balance in excess of coverage of \$157,108 and \$117,558, respectively.

E. CASH FLOW INFORMATION

The company did not have any non-cash financing transactions relating to the purchase of fixed assets at June 30, 2017 and 2016.

F. MAJOR GRANT CONTRACTS

After School Education and Safety (ASES) Program: There are contract agreements between San Marcos Unified School District and the Club (contractor) to operate an ASES program to improve academic achievement and provide safe and healthy recreation and prevention activities for students at qualified school sites. Initial grant contract terms covered a three year period with extensions. Although this period has expired, the contract terms are eligible for renewal on an annual basis, and were renewed for the years ended June 30, 2017 and 2016. Award amounts totaled \$735,226 and \$558,564 for the years ended June 30, 2017 and 2016, respectively. Total payments received for the years ended June 30, 2017 and 2016 were \$589,252 and \$558,530, respectively.

Boys & Girls Club National Youth Mentoring Program (OJP): There are contract agreements between Boys & Girls Clubs of America and the Club (contractor) to create and/or preserve full-time equivalent paid staff positions and to implement or expand an evidence-based mentoring program. Grant contract terms cover a one year period. Any remaining amounts may carry forward to the next fiscal year. Award amounts totaled \$30,000 and \$30,000 for the years ended June 30, 2017 and 2016. Total payments received for the years ended June 30, 2017 and 2016 were \$27,673 and \$29,310, respectively.

Hope through Housing After School Program: There are contract agreements between the Hope Through Housing Foundation and the Club (contractor) to operate after school programs at satellite sites located in four different affordable housing sites to provide academic readiness and decreased tolerance for bullying and violence programs to youth members. The first grant contract terms covered a nine month period from September 2015 through May 2016 and was renewed for the year June 2016 through June 2017. Award amounts totaled \$12,000 per month for the years ended June 30, 2017 and 2016. Total payments received for the years ended June 30, 2017 and 2016 were \$144,000 and \$120,000, respectively.

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

G. GRANTS RECEIVABLE

Grants receivable are deemed to be fully collectable by management and are composed of the following amounts due at June 30:

	<u>2017</u>	<u>2016</u>
Boys & Girls Clubs of America	\$ 14,752	\$ 5,494
Copper Creek Housing Associates	3,166	1,583
Hope through Housing	24,000	36,000
San Marcos Unified School District – ADE	23,675	49,702
San Marcos Unified School District – JAE	14,980	-
San Marcos Unified School District – SME	15,458	20,993
San Marcos Unified School District – SMMS	43,442	70,524
San Marcos Unified School District – WPMS	<u>19,034</u>	<u>46,009</u>
	<u>\$ 158,507</u>	<u>\$ 230,305</u>

H. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30:

	<u>2017</u>	<u>2016</u>
Building	\$ 1,318,013	\$ 1,318,013
Computers and peripherals	92,702	92,702
Furniture and fixtures	104,151	104,151
Leasehold improvements	365,906	224,931
Office equipment	20,127	20,127
Software	13,198	13,198
Vehicles	<u>71,344</u>	<u>71,344</u>
	1,985,441	1,844,466
Less accumulated depreciation	<u>(1,262,322)</u>	<u>(1,180,317)</u>
	<u>\$ 723,119</u>	<u>\$ 664,149</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$82,005 and \$73,661, respectively.

I. INVESTMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring the fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques 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 under FASB ASC 820 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the organization has the ability to access.

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

I. INVESTMENTS (CONTINUED)

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets
- quoted prices for identical or similar assets or liabilities in inactive markets
- inputs other than quoted prices that are observable for the asset or liability
- inputs that are derived principally from or corroborated by observable market data by correlation or other means
- If the asset or liability has specified (contractual) terms, the level 2 input must be observable for substantially the full term of the assets or liability

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The following table sets forth by level, within the fair value hierarchy, the Club's investments, other than money market funds, included in cash at fair value as of June 30, 2017.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Bond funds	\$ 141,311	-	-	\$ 141,311
Fixed income funds	257,767	-	-	257,767
Large blend funds	35,838	-	-	35,838
World stock funds	92,889	-	-	92,889
Large value funds	22,739	-	-	22,739
Moderate allocation fund	32,208	-	-	32,208
Equities & Exchange-Traded				
Consumer goods	82,418	-	-	82,418
Financial services	9,187	-	-	9,187
Technology	24,536	-	-	24,536
Utilities	10,392	-	-	10,392
Industrial goods	79,859	-	-	79,859
Energy	3,246	-	-	3,246
Real estate/construction	9,689	-	-	9,689
Services	9,563	-	-	9,563
Large value	24,739	-	-	24,739
Health	44,600	-	-	44,600
Preferred stock (ETF)	33,882	-	-	33,882
Oil & gas drilling exploration	11	-	-	11
Total asset fair value	<u>\$ 914,874</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 914,874</u>

The amortized cost of securities and their approximate fair values at June 30, 2017 are as follows:

Gross amortized cost	\$ 942,962
Unrealized loss on investments	<u>(28,088)</u>
Fair market value	<u>\$ 914,874</u>

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

I. INVESTMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Club's investments, other than money market funds, included in cash at fair value as of June 30, 2016.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Bond funds	\$ 133,433	-	-	\$ 133,433
Fixed income funds	225,951	-	-	225,951
Large blend funds	14,521	-	-	14,521
World stock funds	50,126	-	-	50,126
Large value funds	20,231	-	-	20,231
Moderate allocation fund	56,177	-	-	56,177
Equities & Exchange-Traded				
Consumer goods	83,849	-	-	83,849
Financial services	8,763	-	-	8,763
Technology	18,687	-	-	18,687
Utilities	47,882	-	-	47,882
Industrial goods	23,734	-	-	23,734
Energy	3,412	-	-	3,412
Real estate/construction	9,851	-	-	9,851
Services	7,358	-	-	7,358
Large value	23,972	-	-	23,972
Health	39,628	-	-	39,628
Preferred stock (ETF)	34,505	-	-	34,505
Oil & gas drilling exploration	16	-	-	16
Total asset fair value	<u>\$ 802,096</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 802,096</u>

The amortized cost of securities and their approximate fair values at June 30, 2016 are as follows:

Gross amortized cost	\$ 876,134
Unrealized loss on investments	(74,038)
Fair market value	<u>\$ 802,096</u>

Endowment Funds: The Club's endowment consists of approximately 10 individual funds established for a variety of purposes. Its endowment includes only donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Club has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, the Club 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 Club in a manner consistent with the standard of prudence prescribed by UPMIFA.

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

I. INVESTMENTS (CONTINUED)

In accordance with UPMIFA, the Club considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Club and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Club, and (7) the Club investment policies.

Investment Return Objectives, Risk Parameters and Strategies: The investment goal is to achieve a total return that provides incremental value when benchmarked or compared to the relevant indexes. The Endowment Committee adheres to a total return policy in measuring investment performance. Total return is the sum of interest, dividends, and realized and unrealized gains and losses. The objective is for the portfolio to yield a total return (after fees and before distributions to current operations) of 3% over inflation, over a market cycle of usually 3-5 years, as measured by the Consumer Price Index (all urban CPI) annually. The Endowment Committee has the responsibility of determining the asset allocation guidelines that are the highest probability of achieving superior investment performance. The Committee believes that the ultimate achievement of its investment mission statement is impacted most by the asset allocation decision. It is also the primary determinant of volatility of returns. The endowment asset allocation guidelines are designed to portray the investment structure of the fund over a long time horizon. The advisors shall recommend an appropriate asset allocation mix for the portfolio within the following guidelines:

1. The equity portion of the portfolio will be managed within a range of 40% to 70%
2. The fixed income portion will be managed within a range of 30% to 60%

If the manager deems it necessary to vary from these ranges, such variance shall be discussed with the Club's Endowment Committee and approved by the Board of Directors if a change is to be made.

The following categories of securities transactions are not permissible within the Club's portfolio:

1. Short sales.
2. Put and call options (except that calls may be written against securities owned).
3. Margin purchases or lending or borrowing money, except for publicly traded corporate debt.
4. Letter stock, private placement, or direct placements.
5. Equity securities of any company which has a record of less than three years continuous operation, including the operation of any predecessor.
6. Purchase for purposes of exercising control of management.
7. Derivatives of any other type.
8. Stock loans.
9. Commodities.
10. Oil or gas real property, without prior consultation with the Endowment Committee.

The Endowment Committee is responsible for monitoring the investment management of the Endowment Funds' assets. The Committee will hold formal meetings with the investment advisors periodically, at least semiannually. These meetings will include:

- A. A summary of investment performance for the period measured against established performance benchmarks.
- B. A report of the portfolio's holdings showing individual security positions, at cost and market value.
- C. A review of all transactions, including a report of all capital gains and losses.

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

I. INVESTMENTS (CONTINUED)

D. Discussion on portfolio structure in light of current and anticipated market conditions and investment objectives of the Funds.

The investment advisors will furnish the Endowment Committee a quarterly report on a timely basis which summarizes investment performance and shows individual security positions at cost and market. The report should also include a review of all transactions, including all capital gains and losses.

The investment advisors are expected to notify the Endowment Committee whenever significant developments occur that may affect the portfolio. These developments include, but are not limited to, major changes in investment outlook, investment strategy, or any other matters affecting investing policy.

The portfolio's custodian will issue a monthly report of the portfolio's holdings showing individual security positions, at cost and market value, on a timely basis. Such report will also show all transactions, including a report of all capital gains and losses.

From time to time, the fair value of assets associated with individual or donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Club to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, a deficiency of this nature is reported as unrestricted net assets. There was no such deficiency as of June 30, 2017 and 2016.

Spending Policy: This concept calls for a specific dollar amount based on a percentage of endowed assets to be used for the annual operating budget of the Club regardless of interim market fluctuations, income and dividend levels or capital gains/losses. The Board will designate which funds will be considered endowed for purposes of this policy. Any funds not a part of the Club's endowment may be subject to other donor or Board spending restrictions.

The percentage of total endowed fund assets used annually by the Club is the spending policy. The Board of Directors will set this percentage. The spending policy percentage will be multiplied by the "adjusted asset base" to determine the dollar value available for Club operations. The "adjusted asset base" figure will be a moving aggregate of the previous 12-quarter end market values of eligible assets.

For the purposes of this policy, the Club will use 5% of the eligible assets on an annual basis to support Club operations. This spending policy will go into effect once the Fund's total "eligible asset base" reaches \$5 million. However, this may be reviewed and/or changed by the Board of Directors.

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

Fund Type	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor Restricted	\$ -	\$ -	\$ 65,001	\$ 65,001
Board Designated	-	-	-	-
Total Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,001</u>	<u>\$ 65,001</u>

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

I. INVESTMENTS (CONTINUED)

Endowment net asset composition by type of fund as of June 30, 2016 is as follows:

Fund Type	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor Restricted	\$ -	\$ -	\$ 65,001	\$ 65,001
Board Designated	-	-	-	-
Total Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,001</u>	<u>\$ 65,001</u>

Changes in endowment net assets as of June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 65,001	\$ 65,001
Contributions	-	-	-	-
Investment income	-	-	-	-
Net appreciation (depreciation)	-	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,001</u>	<u>\$ 65,001</u>

Changes in endowment net assets as of June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 65,001	\$ 65,001
Contributions	-	-	-	-
Investment income	-	-	-	-
Net appreciation (depreciation)	-	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,001</u>	<u>\$ 65,001</u>

J. NET ASSETS

Net assets are as follows as of June 30:

	<u>2017</u>	<u>2016</u>
Unrestricted net assets	<u>\$ 1,659,071</u>	<u>\$ 1,641,943</u>
Temporarily restricted net assets		
Restricted for:		
Scholarship fund	<u>347</u>	<u>2,347</u>
Total temporarily restricted net assets	<u>347</u>	<u>2,347</u>

BOYS AND GIRLS CLUB OF SAN MARCOS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

J. NET ASSETS (CONTINUED)

Permanently restricted net assets

Restricted for:

Permanent endowment

65,001 65,001

Total permanently restricted net assets

65,001 65,001

Total Net Assets

\$ 1,724,419 \$ 1,709,291

K. OPERATING LEASE OBLIGATION

The Club leases land for \$1 per year from the City of San Marcos under an agreement expiring in September 2043. No amounts have been reflected in the financial statements for donated rent or a promise to give because there is no clear measureable and objective basis for determining its value.

L. PENSION PLAN

On July 1, 2014, the Club adopted a defined 401(k) profit sharing plan. The plan is open to all eligible employees. The Club makes a mandatory three percent (3%) contribution per the requirements of Boys and Girls Club of America. In addition to that, the Club matches 100% up to 4% of employees' compensation. Employees become vested in the plan based on a two-to-six year graded vesting scale.

The total pension expense for the years ended June 30, 2017 and 2016 was \$36,398 and \$34,802, respectively.

M. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 3, 2018, the date the financial statements were available to be issued.