

Audited Financial Statements



June 30, 2016 and 2015

Quigley & Miron

Heart of Los Angeles Youth, Inc.
Audited Financial Statements
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Independent Auditor's Report

Board of Directors

Heart of Los Angeles Youth, Inc.

Los Angeles, California

We have audited the accompanying financial statements of Heart of Los Angeles Youth, Inc. (HOLA), a nonprofit organization, which comprise the statements of financial position as of June 30, 2016 and 2015, and 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

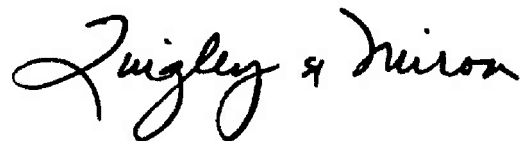
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heart of Los Angeles Youth, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



Los Angeles, California
March 29, 2017

Heart of Los Angeles Youth, Inc.
Statement of Financial Position
June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Assets			
Cash and cash equivalents	\$ 155,878	\$ 2,041,762	\$ 2,197,640
Investments—Note 2	767,387	194,364	961,751
Contributions receivable, net—Note 4	183,520	7,573,964	7,757,484
Prepaid expenses	123,955		123,955
Leaseholder's prepaid right to facilities —Note 5	570,435		570,435
Property and equipment, net—Note 6	104,201	239,598	343,799
Total Assets	\$ 1,905,376	\$ 10,049,688	\$ 11,955,064
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued liabilities	\$ 197,581	\$	\$ 197,581
City of Los Angeles gift payable—Note 5	61,310		61,310
Total Liabilities	258,891		258,891
Commitments and Contingencies—Note 7			
Net Assets			
Unrestricted	1,646,485		1,646,485
Temporarily restricted—Note 8		10,049,688	10,049,688
Total Net Assets	1,646,485	10,049,688	11,696,173
Total Liabilities and Net Assets	\$ 1,905,376	\$ 10,049,688	\$ 11,955,064

See notes to financial statements.

Heart of Los Angeles Youth, Inc.
Statement of Financial Position
June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Assets			
Cash and cash equivalents	\$ 224,026	\$ 1,322,012	\$ 1,546,038
Investments—Note 2	711,096	174,264	885,360
Contributions receivable, net—Note 4	89,366	1,547,700	1,637,066
Prepaid expenses	141,841		141,841
Leaseholder's prepaid right to facilities —Note 5	599,318		599,318
Property and equipment, net—Note 6	161,576	120,850	282,426
Total Assets	\$ 1,927,223	\$ 3,164,826	\$ 5,092,049
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued liabilities	\$ 223,195	\$	\$ 223,195
City of Los Angeles gift payable—Note 5	61,310		61,310
Total Liabilities	284,505		284,505
Commitments and Contingencies—Note 7			
Net Assets			
Unrestricted	1,642,718		1,642,718
Temporarily restricted—Note 8		3,164,826	3,164,826
Total Net Assets	1,642,718	3,164,826	4,807,544
Total Liabilities and Net Assets	\$ 1,927,223	\$ 3,164,826	\$ 5,092,049

See notes to financial statements.

Heart of Los Angeles Youth, Inc.
Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Support			
Contributions			
Corporate	\$ 314,633	\$ 32,500	\$ 347,133
Foundations	515,250	6,243,995	6,759,245
Individuals	485,299	2,099,733	2,585,032
Government		50,000	50,000
In-kind donations—Note 10	96,054		96,054
Fundraising events—Note 11	589,520		589,520
Total Support	2,000,756	8,426,228	10,426,984
Revenue			
Interest and dividends	30,516	7,459	37,975
Loss on investments	(27,323)	(6,948)	(34,271)
Total Revenue	3,193	511	3,704
Reclassifications			
Net assets released from restrictions	1,541,877	(1,541,877)	
Total Support and Revenue after Reclassifications	3,545,826	6,884,862	10,430,688
Expenses			
Program services			
Athletic programs	313,795		313,795
Arts programs	999,880		999,880
Education programs	1,584,739		1,584,739
Total Program Services	2,898,414		2,898,414
Supporting services			
Administrative	162,398		162,398
Fundraising	481,247		481,247
Total Supporting Services	643,645		643,645
Total Expenses	3,542,059		3,542,059
Change in Net Assets	3,767	6,884,862	6,888,629
Net Assets at Beginning of Year	1,642,718	3,164,826	4,807,544
Net Assets at End of Year	\$ 1,646,485	\$ 10,049,688	\$ 11,696,173

See notes to financial statements.

Heart of Los Angeles Youth, Inc.
Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Support			
Contributions			
Corporate	\$ 271,546	\$	\$ 271,546
Foundations	188,666	1,243,500	1,432,166
Individuals	490,189	911,919	1,402,108
Government		70,000	70,000
In-kind donations—Note 10	133,656		133,656
Fundraising events—Note 11	972,350		972,350
Total Support	2,056,407	2,225,419	4,281,826
Revenue			
Interest and dividends	12,878	5,101	17,979
Loss on investments	(41,433)	(14,860)	(56,293)
Total Revenue	(28,555)	(9,759)	(38,314)
Reclassifications			
Net assets released from restrictions	1,544,963	(1,544,963)	
Total Support and Revenue after Reclassifications	3,572,815	670,697	4,243,512
Expenses			
Program services			
Athletic programs	304,125		304,125
Arts programs	1,024,739		1,024,739
Education programs	1,594,625		1,594,625
Total Program Services	2,923,489		2,923,489
Supporting services			
Administrative	105,925		105,925
Fundraising	527,638		527,638
Total Supporting Services	633,563		633,563
Total Expenses	3,557,052		3,557,052
Change in Net Assets	15,763	670,697	686,460
Net Assets at Beginning of Year	1,626,955	2,494,129	4,121,084
Net Assets at End of Year	\$ 1,642,718	\$ 3,164,826	\$ 4,807,544

See notes to financial statements.

Heart of Los Angeles Youth, Inc.
Statements of Functional Expenses
Years Ended June 30, 2016 and 2015

	Program Services				Supporting Services			
	Athletic Programs	Arts Programs	Education Programs	Total	Administrative	Fundraising	Total	Total
2016:								
Salaries and wages	\$ 177,359	\$ 656,736	\$ 879,076	\$ 1,713,171	\$ 101,324	\$ 188,328	\$ 289,652	\$ 2,002,823
Employee benefits	20,782	43,846	100,826	165,454	7,853	21,991	29,844	195,298
Payroll taxes	13,262	49,894	66,286	129,442	7,045	13,889	20,934	150,376
Activities and supplies	50,927	44,729	348,022	443,678	13,730	36,046	49,776	493,454
Rent	3,873	160,785	87,177	251,835	2,978		2,978	254,813
Fundraising event-related expenses						179,517	179,517	179,517
Professional fees	33,346	22,855	32,652	88,853	24,240	34,906	59,146	147,999
Depreciation	7,459	7,459	36,720	51,638	2,868	2,869	5,737	57,375
Insurance	5,181	10,363	25,949	41,493	1,802	1,802	3,604	45,097
Telephone	1,606	3,213	8,031	12,850	558	1,899	2,457	15,307
Totals	\$ 313,795	\$ 999,880	\$ 1,584,739	\$ 2,898,414	\$ 162,398	\$ 481,247	\$ 643,645	\$ 3,542,059
2015:								
Salaries and wages	\$ 164,838	\$ 612,126	\$ 835,243	\$ 1,612,207	\$ 70,572	\$ 184,250	\$ 254,822	\$ 1,867,029
Employee benefits	20,819	41,774	97,633	160,226	2,482	22,942	25,424	185,650
Payroll taxes	12,370	46,620	63,283	122,273	6,640	13,794	20,434	142,707
Activities and supplies	47,203	128,566	405,067	580,836	4,236	31,490	35,726	616,562
Rent	3,257	152,807	82,307	238,371	2,507		2,507	240,878
Fundraising event-related expenses						229,142	229,142	229,142
Professional fees	41,510	23,201	40,757	105,468	13,145	39,308	52,453	157,921
Depreciation	8,608	8,608	42,378	59,594	3,311	3,311	6,622	66,216
Insurance	3,978	7,955	20,250	32,183	2,531	1,447	3,978	36,161
Telephone	1,542	3,082	7,707	12,331	501	1,954	2,455	14,786
Totals	\$ 304,125	\$ 1,024,739	\$ 1,594,625	\$ 2,923,489	\$ 105,925	\$ 527,638	\$ 633,563	\$ 3,557,052

See notes to financial statements.

Heart of Los Angeles Youth, Inc.
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 6,888,629	\$ 686,460
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	57,375	66,216
Loss on investments	34,271	56,293
Change in assets and liabilities:		
Contributions receivable, net	(6,120,418)	(404,592)
Prepaid expenses	17,886	(38,771)
Leaseholder's prepaid right to facilities	28,883	28,883
Accounts payable and accrued liabilities	(25,614)	52,016
Deferred revenue related to fundraising events		(1,000)
Net Cash Provided by Operating Activities	<u>881,012</u>	<u>445,505</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(118,748)	(189,440)
Purchase of investments	(787,375)	(434,140)
Proceeds from sales and maturities of investments	<u>676,713</u>	<u>477,362</u>
Net Cash Used in Investing Activities	<u>(229,410)</u>	<u>(146,218)</u>
Net Increase in Cash and Cash Equivalents	651,602	299,287
Cash and Cash Equivalents at Beginning of Year	<u>1,546,038</u>	<u>1,246,751</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 2,197,640</u></u>	<u><u>\$ 1,546,038</u></u>
Supplemental Disclosures		
Cash paid during the year for:		
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>

Note 1—Organization and Summary of Significant Accounting Policies

Organization—Heart of Los Angeles Youth, Inc. (HOLA) is a California nonprofit corporation. HOLA was founded in 1989 and incorporated in 1992. Each year, HOLA provides more than 2,300 underserved youth with free exceptional after-school programming in academics, visual and performing arts, and athletics within a nurturing environment, empowering them to develop their potential, pursue their education and strengthen their communities.

HOLA's primary objective is to ensure that at-risk youth living in the inner-city are eligible and prepared for post-secondary education. HOLA's academic programs focus on building strong foundations in reading, writing, math, arts and science, providing critical support to youth and their families throughout their primary and secondary school years. The academic needs for youth aged 6-19 years are addressed through HOLA's SmartStart Elementary School, Bridges Middle School, and Preparing Achievers for Tomorrow (PAT) High School Education Programs.

HOLA students receive individualized instruction from credentialed teachers and staff who collectively hold 1 Doctorate, 28 Masters, and 56 Bachelor degrees, as well as hundreds of highly-qualified volunteers. HOLA's academic programs are enhanced by a wide variety of enrichment activities and summer camps provided through HOLA's Visual Arts and Music, S.T.E.A.M. (Science, Technology, Engineering, Arts and Math), Leadership, and Athletics programs. Students also benefit from a vibrant College Success and Alumni program, Parent and Community resources and Counseling services. Over the last four years HOLA has maintained an accumulative 99% high school graduation rate, a 97% college persistence rate among its scholarship recipients and since 2009, has awarded over \$2.1 million in college scholarships to its youth.

Arts programming at HOLA annually includes more than 100 visual arts classes, private and group music lessons, a youth orchestra and chorus, ceramics, public art, and many other unique opportunities to experience art in the greater community.

HOLA offers extensive recreation and sports programming. Competitive league play is available through the Lakers Youth Foundation's Junior Jumpshot Leagues and the Central City Athletic Association which organizes soccer for boys and girls (ages 6-18) and basketball (ages 11-18). Elementary and middle school youth participate in exercise, fitness and dance class, nutrition/healthy cooking, and play a variety of sports including flag football, tennis, soccer, basketball, and volleyball.

HOLA's four-building and 32,000 square-foot campus includes multiple classrooms, an art studio and gallery, multiple education and fine art libraries, music and orchestra rooms, a dance studio, a science and technology center, digital media center, and wireless computer lab.

HOLA's precedent-setting partnership with the City of Los Angeles, Department of Recreation and Parks offers combined programming at the expanded Lafayette Park Community Center's state-of-the-art facilities, complete with a field-turf playing field and skate plaza, multipurpose classroom spaces, a technology lab, and a full-court gymnasium and indoor athletic facility built to LEED certification standards.

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

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

HOLA is able to bring more free services to the community through collective efforts with the Los Angeles Philharmonic Orchestra, Bard College, University of Southern California, Loyola Marymount University, Ghetto Film School, Los Angeles County Museum of Art, and City of Los Angeles Department of Recreation and Parks to provide quality instruction, counseling, academic, arts and recreational opportunities. Through these partnerships, HOLA is able to create transformative opportunities for neighborhood youth who otherwise have little or no access to these resources.

Income Taxes—HOLA is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). Accordingly, no provision for income taxes is included in the financial statements. In addition, HOLA has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered ‘*more likely than not*’ to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2016 and 2015. Generally, HOLA’s information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Financial Statement Presentation—The financial statements are prepared on the accrual basis of accounting. HOLA recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions and net assets are classified on the existence or absence of donor-imposed restrictions. The net assets of HOLA and changes therein are classified and reported as follows:

Unrestricted net assets—Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of HOLA. Unrestricted net assets include amounts available to be used at the discretion of the Board of Directors in HOLA’s programs and operations and those resources invested in equipment. All donations are considered available for unrestricted use unless specifically restricted by the donor.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met either by actions of HOLA and/or passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. It is HOLA’s policy to reclassify temporarily restricted contributions made to major capital projects to unrestricted net assets over the depreciable life of the capital project.

Permanently restricted net assets—Net assets that are restricted by the donors for investment in perpetuity. The investment income generated from these funds is available for general support of HOLA’s programs and operations. There were no permanently restricted net assets as of June 30, 2016 or 2015.

Cash and Cash Equivalents—HOLA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Heart of Los Angeles Youth, Inc.

Notes to Financial Statements—Continued

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

Investments—Investments are initially recorded at cost, if purchased, or at fair market value if received as a contribution. Subsequent to acquisition, investments in securities are reported at fair value. Investment transactions are recorded on the trade date. Investment income and realized and unrealized gains and losses, net of investment management fees, are reported as increases or decreases in the appropriate net asset category.

Property and Equipment—Certain items of property and equipment have been donated to HOLA. To the extent a fair market value could be determined for these items as of the date of donation, the fair market value has been recorded for financial statement purposes. Purchased property and equipment have been recorded at cost. It is HOLA's policy to expense purchased or donated items with values less than \$2,500. Property and equipment are depreciated on a straight-line basis over their estimated useful lives, ranging from 5 to 31.5 years.

Concentrations of Credit Risk—Financial instruments which potentially subject HOLA to concentrations of credit risk consist of cash and cash equivalents, investments, and contributions receivable. HOLA maintains cash balances at various high quality financial institutions, where accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, in the normal course of business, such cash and cash equivalent balances are in excess of the FDIC insurance limits. Management regularly reviews the financial stability of its cash depositories and deems the risk of loss due to these concentrations to be minimal.

Management of HOLA has assessed the credit risk associated with the investments held at June 30, 2016 and 2015 and has determined that an allowance for potential losses due to credit risk in the investment portfolio is not necessary.

Contributions receivable at June 30, 2016 and 2015 are due from nonprofit organizations, businesses, government agencies, and individuals well-known to HOLA, with favorable past payment histories. At June 30, 2016 and 2015, the largest contribution receivable from a single entity represented 70% and 25%, respectively, of HOLA's gross contributions receivable. Management of HOLA has assessed the credit risk associated with these contributions receivable and has determined that an allowance for potential uncollectible amounts is not necessary.

Government Grants—Revenues from government grants are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred. The amounts expended in excess of reimbursements are reported as grants receivable. Amounts received in excess of amounts expended are recorded as deferred revenue.

Functional Expenses—The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program services and supporting services benefitted.

Use of 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 and disclosures. Accordingly, actual results could differ from those estimates.

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

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

Reclassifications—Certain amounts in 2015 have been reclassified to conform with the 2016 financial statement presentation.

Note 2—Investments

HOLA's investments carried at quoted market values at June 30, 2016 and 2015 are summarized as follows:

	Fixed Income	Equities	Total
June 30, 2016:			
Cost basis	\$ 612,781	\$ 336,711	\$ 949,492
Accumulated unrealized gains (losses)	(63)	12,322	12,259
Fair Market Value	\$ 612,718	\$ 349,033	\$ 961,751
June 30, 2015:			
Cost basis	\$ 550,140	\$ 317,659	\$ 867,799
Accumulated unrealized gains (losses)	(8,901)	26,462	17,561
Fair Market Value	\$ 541,239	\$ 344,121	\$ 885,360

It is HOLA's investment policy to invest in both equity and fixed-income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. The allocation between equity and fixed-income securities is rebalanced annually according to the percentage guidelines set forth by HOLA's Investment Committee's Annual Investment Plan.

Note 3—Fair Value Measurements

Fair value is defined 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. Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy is categorized into three levels based on the inputs as follows:

Level 1—Quoted market prices in active markets for identical assets or liabilities. Level 1 assets include equity securities and mutual funds valued at the closing price reported on the active market on which the individual securities are traded.

Level 2—Observable market-based inputs, either directly or indirectly, but are other than quoted prices in actively traded markets. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable inputs that can be corroborated by observable market data.

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

Note 3—Fair Value Measurements—Continued

Level 3—Unobservable inputs that are supported by little or no market activity which are significant to the fair value of the asset or liability. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination for which category within the fair value hierarchy is appropriate is based on the lowest level input that is significant to the fair value measurement in its entirety.

The balances of assets measured at fair value on a recurring basis by hierarchy level at June 30, 2016 and 2015 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2016:				
Fixed income	\$ 612,717	\$ 296,895	\$ 315,822	\$
Equities	349,034	349,034		
Totals	\$ 961,751	\$ 645,929	\$ 315,822	\$
June 30, 2015:				
Fixed income	\$ 541,239	\$ 351,592	\$ 189,647	\$
Equities	344,121	344,121		
Totals	\$ 885,360	\$ 695,713	\$ 189,647	\$

Note 4—Contributions Receivable, Net

Net contributions receivable at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,722,378	\$ 1,637,066
One year to five years	3,607,083	
Over five years	3,080,000	
Gross Contributions Receivable	8,409,461	1,637,066
Less 2.00% discount to present value	(651,977)	
Contributions Receivable, Net	\$ 7,757,484	\$ 1,637,066

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

Note 4—Contributions Receivable, Net—Continued

Gross contributions receivable at June 30, 2016 and 2015 by funder category consist of the following:

	<u>2016</u>	<u>2015</u>
Foundations	\$ 6,786,000	\$ 836,000
Corporate and individuals	1,573,461	731,066
Government agencies	50,000	70,000
Totals	<u>\$ 8,409,461</u>	<u>\$ 1,637,066</u>

Note 5—Lafayette Park Community Center Project

In 2006, HOLA, together with the City of Los Angeles, Department of Recreation and Parks (City) launched the "Building for the Future" project. Funds raised through this public/private partnership secured working capital for several short- and long-term needs, programmatic expansion, and the renovation and expansion of the Lafayette Park Community Center (Community Center).

In November 2006, HOLA received a grant of \$1 million (Grant) from The Everychild Foundation (Foundation). The Grant was restricted to certain capital renovations that were made by the City to the Community Center, and to increase and expand the programs offered by HOLA to children at the Community Center. Through this support, HOLA was able to leverage additional funds for program expansion from other private sources.

In December 2007, HOLA entered into a Gift Agreement (Gift) with the City to provide \$722,070 of the Foundation's Grant to the City for the Community Center construction project. The remaining balance owed to the City under this Gift at June 30, 2016 and 2015 was \$61,310, as no payments were made during the years ended June 30, 2016 and 2015. In exchange for the Gift, the City entered into a Memorandum of Agreement (Agreement) with HOLA to provide nontransferable use of a portion of the Community Center facilities, including utilities and general maintenance, for a term of 25 years, commencing March 2011. The Agreement requires HOLA to provide youth development programming at the Community Center, at its own cost, including programs such as Athletics, HOLA Bridges Middle School and PAT High School Education, and S.T.E.A.M. (Science, Technology, Engineering, Arts and Math) classes.

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

Note 5—Lafayette Park Community Center Project—Continued

HOLA recorded the Grant as a restricted gift with the amount committed to the City recorded as a leaseholder's prepaid right to facilities. As of June 30, 2016, the amounts remaining to be amortized into rent expense are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 28,883
2018	28,883
2019	28,883
2020	28,883
2021	28,883
Thereafter	<u>426,020</u>
Total	\$ <u>570,435</u>

During each of the years ended June 30, 2016 and 2015, HOLA recorded \$28,883 in rent expense related to the amortization of the leaseholder's prepaid right to facilities.

The completion of the Lafayette Park Community Center project enables HOLA to provide an expanded range of educational and recreational programs to over 2,300 youth. As of June 30, 2016, the projected annual budget for program services provided at the Community Center by HOLA is approximately \$1 million.

Note 6—Property and Equipment, Net

Property and equipment, net at June 30, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 370,569	\$ 411,240
Construction-in-progress	239,598	120,850
Equipment	44,881	116,200
Vehicles	<u>78,008</u>	<u>78,008</u>
	733,056	726,298
Less accumulated depreciation	<u>(389,257)</u>	<u>(443,872)</u>
Net	\$ <u>343,799</u>	\$ <u>282,426</u>

Heart of Los Angeles Youth, Inc.**Notes to Financial Statements—Continued****Note 7—Commitments and Contingencies**

In addition to the facility space provided for one dollar per year to HOLA by the Bryson Apartments complex (see Note 10), HOLA leases program space in an adjacent building under a noncancellable operating lease agreement, expiring in May 2020. Future minimum annual rental payments under this lease agreement are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 40,425
2018	40,425
2019	40,425
2020	<u>37,056</u>
Total	<u>\$ 158,331</u>

Payments related to the above lease agreement totaled approximately \$40,000 and \$38,000, respectively, during the years ended June 30, 2016 and 2015.

Additionally, HOLA rents program space on a month-to-month basis in another adjacent building.

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. While that is a possibility, the Board deems the contingency remote since, by accepting a grant and its terms, the Board is acknowledging the requirements of the grantor at the time of receipt of the grant.

Note 8—Temporarily Restricted Net Assets

Temporarily restricted net assets activity during the years ended June 30, 2016 and 2015 consist of amounts restricted by donor-imposed stipulations to fund expenses in the following areas:

Year Ended	<u>Beginning</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending</u>
June 30, 2016:				
Education programs	\$ 1,270,820	\$ 5,908,773	\$ (834,721)	\$ 6,344,872
Arts programs	921,741	230,630	(578,294)	574,077
Athletic programs	40,714	91,500	(92,860)	39,354
General and supporting services	68,183	125,000	(25,000)	168,183
Capital Campaign	863,368	2,070,836	(11,002)	2,923,202
Totals	<u>\$ 3,164,826</u>	<u>\$ 8,426,739</u>	<u>\$ (1,541,877)</u>	<u>\$ 10,049,688</u>

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

Note 8—Temporarily Restricted Net Assets—Continued

Year Ended		<u>Beginning</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending</u>
June 30, 2015:					
Education programs	\$	1,507,815	\$ 594,241	\$ (831,236)	\$ 1,270,820
Arts programs		693,217	712,000	(483,476)	921,741
Athletic programs		114,107	27,500	(100,893)	40,714
General and supporting services		178,990		(110,807)	68,183
Capital Campaign			881,919	(18,551)	863,368
Totals	\$	<u>2,494,129</u>	<u>2,215,660</u>	<u>(1,544,963)</u>	<u>3,164,826</u>

Note 9—Irmis Scholarship Fund

On July 1, 2015, The Audrey Irmis Foundation for Social Justice (AIFSJ) awarded HOLA \$5.88 million to establish the Irmis Scholarship Fund (ISF), the purpose of which is to provide long-term college scholarship support for the youth at HOLA. Beginning on July 1, 2016, HOLA will communicate to the AIFSJ annually in July what the remaining unmet need/financial aid gap is for that year and then the AIFSJ will respond by disbursing a pre-determined amount to HOLA by the following August 1st. The amounts distributed will be in alignment with the structure of the award agreement.

With these funds, HOLA will seek to cover, for the Classes of 2016-2022, the remaining unmet need/financial aid gap that is not covered by HOLA's other institutional scholarships. It is anticipated that two hundred plus students from the Classes of 2016-2022 will be impacted by this award during the period of June 2016 through April 2027. A trustee of AIFSJ will be a member of the HOLA scholarship committee established to create and implement the ISF and the annual giving of scholarships. It is expected that HOLA will grow its scholarship fund, by both leveraging the ISF and utilizing it as a foundation on which to build sustainable resources and seek additional scholarship support for its youth.

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

Note 10—In-Kind Donations

In-kind donations consist of the following for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Activities and supplies	\$ 31,054	\$ 68,656
Rent	65,000	65,000
Totals	<u>\$ 96,054</u>	<u>\$ 133,656</u>

In-kind rent represents the fair value of facility space utilized by HOLA at the Bryson Apartments complex for the years ended June 30, 2016 and 2015. All other in-kind donations are valued at their estimated fair market value at the date of gift.

The above in-kind contributions are included under the captions “activities and supplies” and “rent” in the statement of functional expenses.

Note 11—Fundraising Events

Net fundraising events income for the years ended June 30, 2016 and 2015:

	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
2016:			
Holiday of the Heart Dinner	\$ 511,150	\$ (154,630)	\$ 356,520
HOLA in One Golf Event	78,370	(24,887)	53,483
Totals	<u>\$ 589,520</u>	<u>\$ (179,517)</u>	<u>\$ 410,003</u>
2015:			
Holiday of the Heart Dinner	\$ 906,879	\$ (207,140)	\$ 699,739
HOLA in One Golf Event	65,471	(22,002)	43,469
Totals	<u>\$ 972,350</u>	<u>\$ (229,142)</u>	<u>\$ 743,208</u>

Note 12—Capital Campaign

In response to increased programmatic facility needs, and to ensure future program sustainability, HOLA began a capital campaign (Campaign) during the year ended June 30, 2015, with the goal of raising \$10 million by June 2017. The initial \$8 million raised from the Campaign is to be used to build and furnish a new Arts, Enrichment and Recreation Center (Center) to be located in Lafayette Park. The Center’s building site is being provided through HOLA’s public/private partnership with the City of Los Angeles (City) Department of Recreation and Parks (see Note 5). During the year ended June 30, 2015, HOLA began negotiations with the City for a nominal cost long-term land lease of fifty years, essentially gifting the building site to HOLA. The HOLA-City land lease agreement, which was fully executed in February 2017, includes an option to further extend the lease beyond this initial fifty-year period.

Heart of Los Angeles Youth, Inc.

Notes to Financial Statements—*Continued*

Note 12—Capital Campaign—*Continued*

The Center's building design and permit expenditures during the years ended June 30, 2016 and 2015, totaled \$118,748 and \$120,850, respectively, and are included in the statement of financial position as "property and equipment," under the sub-category of "construction-in-progress" (see Note 6). The remaining Campaign-related expenditures during the years ended June 30, 2016 and 2015, totaled \$11,002 and \$18,551, respectively, and were recorded as "professional fees" expense in the statement of functional expenses.

Note 13—Subsequent Events

Management has evaluated all activities of Heart of Los Angeles Youth, Inc. through March 29, 2017, which is the date the financial statements were available to be issued. It was concluded that no material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.