

**girls
inc.**

of Carpinteria

FINANCIAL STATEMENTS
JUNE 30, 2018

DRAFT

GIRLS INCORPORATED OF CARPINTERIA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Girls Incorporated of Carpinteria

We have audited the accompanying financial statements of Girls Incorporated of Carpinteria (a California nonprofit organization), which comprise the statement of financial position as of June 30, 2018, the related statements of activities and change in net assets, functional expenses, and cash flows for the year 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 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 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 Organization'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 Organization'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 Girls Incorporated of Carpinteria as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Girls Incorporated of Carpinteria June 30, 2017, financial statements, and our report dated February 10, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Santa Barbara, California
September XX, 2018

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Girls Incorporated of Carpinteria
Statement of Financial Position
As of June 30, 2018
(with comparative totals as of June 30, 2017)

| | 2018 | 2017 |
|----------------------------------------------------------|---------------------|---------------------|
| ASSETS | | |
| Assets | | |
| Cash and cash equivalents | \$ 718,920 | \$ 846,145 |
| Accounts receivable | 19,381 | 51,647 |
| Grant receivable | 52,500 | - |
| Bequest receivable | 94,625 | - |
| Insurance claim receivable | 40,794 | - |
| Prepaid expenses | 18,879 | 9,975 |
| Unemployment reserve account | 13,541 | 19,711 |
| Beneficial interest in assets held by others (Note 3) | 75,823 | 72,873 |
| Cash in board designated funds (Note 6) | 268,667 | 229,241 |
| Property and equipment - net (Note 4) | 1,176,227 | 1,234,816 |
| Total Assets | \$ 2,479,357 | \$ 2,464,408 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and other accrued expenses | \$ 14,503 | \$ 16,536 |
| Accrued payroll and related | 66,974 | 66,319 |
| Deferred revenue | 10,514 | 7,704 |
| Note payable (Note 5) | 210,570 | 232,214 |
| Total Liabilities | 302,561 | 322,773 |
| Net Assets | | |
| Unrestricted net assets | 1,596,270 | 1,600,260 |
| Unrestricted - board designated (Note 6) | 270,191 | 230,765 |
| Total Unrestricted Net Assets | 1,866,461 | 1,831,025 |
| Temporarily restricted net assets (Note 6) | 246,859 | 247,134 |
| Permanently restricted net assets (Note 6) | 63,476 | 63,476 |
| Total Net Assets | 2,176,796 | 2,141,635 |
| Total Liabilities and Net Assets | \$ 2,479,357 | \$ 2,464,408 |

See accompanying notes to financial statements

Girls Incorporated of Carpinteria
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total 2018</u> | <u>Total 2017</u> |
|--------------------------------------------------------------------|---------------------|-----------------------------------|-----------------------------------|-----------------------|-----------------------|
| Public Support and Revenue | | | | | |
| Public Support | | | | | |
| Special events, gross | \$ 284,375 | \$ - | \$ - | \$ 284,375 | \$ 272,004 |
| Less: direct expenses | (74,399) | - | - | (74,399) | (81,859) |
| Special events, net of direct expenses | 209,976 | - | - | 209,976 | 190,145 |
| Contributions and grants | 99,131 | 86,922 | - | 186,053 | 174,210 |
| Bequest | - | 94,625 | - | 94,625 | - |
| Contracts | 86,770 | 5,500 | - | 92,270 | 112,266 |
| Foundations | 144,030 | 152,000 | - | 296,030 | 264,350 |
| Total Public Support | 539,907 | 339,047 | - | 878,954 | 740,971 |
| Revenue | | | | | |
| Program services, gross | 367,112 | - | - | 367,112 | 378,003 |
| Less: scholarships | (74,666) | - | - | (74,666) | (64,103) |
| Program services, net | 292,446 | - | - | 292,446 | 313,900 |
| Rental income | 119,303 | - | - | 119,303 | 108,591 |
| Investment income | 885 | - | - | 885 | 716 |
| Change in value of beneficial interest in assets held by others | - | 2,950 | - | 2,950 | 5,414 |
| Total Revenue | 412,634 | 2,950 | - | 415,584 | 428,621 |
| Total Public Support and Revenue | 952,541 | 341,997 | - | 1,294,538 | 1,169,592 |
| Net Assets Released from Restriction | 342,272 | (342,272) | - | - | - |
| Expenses | | | | | |
| Program services | 973,160 | - | - | 973,160 | 923,060 |
| Management and general | 167,609 | - | - | 167,609 | 154,817 |
| Fundraising | 118,608 | - | - | 118,608 | 67,689 |
| Total Expenses | 1,259,377 | - | - | 1,259,377 | 1,145,566 |
| Change in Net Assets | 35,436 | (275) | - | 35,161 | 24,026 |
| Net Assets at Beginning of Year | 1,831,025 | 247,134 | 63,476 | 2,141,635 | 2,117,609 |
| Net Assets at End of Year | \$ 1,866,461 | \$ 246,859 | \$ 63,476 | \$ 2,176,796 | \$ 2,141,635 |

See accompanying notes to financial statements

Girls Incorporated of Carpinteria
Statement of Functional Expenses
For the year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

| | Program Services | | | | Support Services | | | Total 2018 | Total 2017 |
|-----------------------------------------|------------------|-------------------|-------------------|-------------------|-------------------------|-------------------|---------------------------|---------------------|---------------------|
| | STRONG | SMART | BOLD | Total Program | Management & General | Fundraising | Total Support Services | | |
| Salaries | \$ 1,843 | \$ 382,120 | \$ 135,375 | \$ 519,338 | \$ 22,986 | \$ 57,464 | \$ 80,450 | \$ 599,788 | \$ 572,379 |
| Payroll taxes and related costs | 159 | 33,032 | 11,702 | 44,893 | 1,987 | 4,967 | 6,954 | 51,847 | 40,969 |
| Employee health and retirement benefits | 190 | 39,336 | 13,936 | 53,462 | 2,366 | 5,916 | 8,282 | 61,744 | 39,712 |
| Total Salaries and Related Expenses | 2,192 | 454,488 | 161,013 | 617,693 | 27,339 | 68,347 | 95,686 | 713,379 | 653,060 |
| Advertising | 99 | 20,549 | 7,280 | 27,928 | 2,831 | 13,964 | 16,795 | 44,723 | 27,687 |
| Conferences, conventions and meetings | - | 1,450 | 2,626 | 4,076 | 6,870 | 280 | 7,150 | 11,226 | 3,859 |
| Professional fees | - | 425 | - | 425 | 84,025 | 12,240 | 96,265 | 96,690 | 72,258 |
| Information technology | 99 | 20,454 | 7,246 | 27,799 | 1,230 | 3,076 | 4,306 | 32,105 | 27,321 |
| Insurance | - | 737 | - | 737 | 31,358 | 35 | 31,393 | 32,130 | 23,244 |
| Occupancy | 313 | 64,844 | 22,973 | 88,130 | 3,901 | 9,751 | 13,652 | 101,782 | 90,162 |
| Office expense and supplies | 114 | 23,649 | 8,378 | 32,141 | 1,422 | 3,556 | 4,978 | 37,119 | 55,642 |
| Payments to affiliates | - | - | - | - | 1,000 | - | 1,000 | 1,000 | 10,199 |
| Program expenses and supplies | 1,221 | 87,504 | 13,115 | 101,840 | - | - | - | 101,840 | 90,451 |
| Travel and auto | - | 8,244 | 1,596 | 9,840 | 3,954 | - | 3,954 | 13,794 | 20,435 |
| Total Expenses Before Depreciation | 4,038 | 682,344 | 224,227 | 910,609 | 163,930 | 111,249 | 275,179 | 1,185,788 | 1,074,318 |
| Depreciation Expense | 736 | 47,097 | 14,718 | 62,551 | 3,679 | 7,359 | 11,038 | 73,589 | 71,248 |
| Total Expenses - June 30, 2018 | \$ 4,774 | \$ 729,441 | \$ 238,945 | \$ 973,160 | \$ 167,609 | \$ 118,608 | \$ 286,217 | \$ 1,259,377 | |
| Total Expenses - June 30, 2017 | \$ 10,567 | \$ 690,897 | \$ 221,596 | \$ 923,060 | \$ 154,817 | \$ 67,689 | \$ 222,506 | | \$ 1,145,566 |

See accompanying notes to financial statements

Girls Incorporated of Carpinteria
Statement of Cash Flows
For the year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

| | 2018 | 2017 |
|-----------------------------------------------------------------------------------------|------------|------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 35,161 | \$ 24,026 |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | | |
| Depreciation | 73,589 | 71,248 |
| Change in value of beneficial interest in assets held by others | (2,950) | (5,414) |
| Changes in: | | |
| Accounts receivable | 32,266 | (5,666) |
| Grant receivable | (52,500) | 100,000 |
| Bequest receivable | (94,625) | - |
| Insurance claim receivable | (40,794) | - |
| Prepaid expenses | (8,904) | (4,601) |
| Unemployment reserve account | 6,170 | 8,993 |
| Cash in board designated funds | (39,426) | (229,241) |
| Accounts payable and other accrued expenses | (2,033) | 5,019 |
| Accrued payroll, vacation, and other related items | 655 | 4,020 |
| Deferred revenue | 2,810 | 2,391 |
| Net cash used by operating activities | (90,581) | (29,225) |
| Cash Flows from Investing Activities | | |
| Acquisition of property and equipment | (15,000) | (13,862) |
| Net cash used by investing activities | (15,000) | (13,862) |
| Cash Flows from Financing Activities | | |
| Proceeds from issuance on note payable | - | 250,000 |
| Payments on note payable | (21,644) | (269,775) |
| Net cash used by financing activities | (21,644) | (19,775) |
| Net Decrease in Cash | (127,225) | (62,862) |
| Cash and Cash Equivalents at Beginning of the Year | 846,145 | 909,007 |
| Cash and Cash Equivalents at End of the Year | \$ 718,920 | \$ 846,145 |
| Supplementary Disclosure of Cash Flow Information | | |
| Cash paid for interest | \$ 8,584 | \$ 10,802 |

See accompanying notes to financial statements

GIRLS INCORPORATED OF CARPINTERIA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION

Girls Incorporated of Carpinteria (the "Organization") is a charitable and educational corporation, organized under the general nonprofit corporation law of the State of California on November 8, 1974.

The Organization inspires all girls to be strong, smart and bold. Each year, over 700 girls and young women participate in the Organization's engaging, research-based programs.

Girls Inc. of Carpinteria is proud to be among the top producers of National Scholars compared to the 82 total Girls Incorporated affiliates nationwide. For the year-ended June 30, 2018, the Organization ranked #7 in affiliates with the highest number of National Scholars, with 21 award recipients to date.

For the year-ended June 30, 2018, the Organization reports its participation as follows:

| <u>Age</u> | <u>Ethnicity</u> |
|------------------|--------------------|
| 5-6 years, 37% | Latina- 72% |
| 7-11 years, 26% | Caucasian- 13% |
| 12-18 years, 37% | Multi- 9% |
| | Filipina- 1% |
| | Asian American- 1% |

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The accompanying financial statements of the Organization have been prepared on the accrual basis. To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the accounts of the Organization are maintained in accordance with the principles of fund accounting. The accounting and reporting method classifies resources by their nature and purpose, based on the presence or absence of donor-imposed restrictions, into three classes of net assets:

Unrestricted Net Assets

Unrestricted net assets consist of funds free of any legally enforceable donor-imposed restrictions. This net asset class includes board designated net assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions and other inflows of funds temporarily subject to donor-imposed restrictions. The restrictions are temporary in that they are expected to expire with the passage of time or be satisfied and removed by actions of the Organization that fulfill donor stipulations.

Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions and other inflows of funds subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

GIRLS INCORPORATED OF CARPINTERIA

NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Public Support and Revenue

Public and private contracts, grants and contributions are generally available for unrestricted use in the related fiscal year awarded unless specifically restricted by the funding source. The Organization records contributions or similar inflows subject to donor-imposed restrictions as an increase in temporarily or permanently restricted net assets depending upon the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted or permanently restricted net assets. Unconditional promises to give are recorded as received.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand, cash in demand deposit accounts at banks and cash in money market accounts that is highly liquid, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase. Cash held for endowment and board designated reserve are not included as cash and cash equivalents for purposes of the statement of cash flows.

Land, Buildings, Equipment, and Depreciation

Land, buildings and equipment are recorded at cost or, if donated, at fair value at the time of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation of buildings, improvements, equipment and vehicles is provided over the estimated useful lives, ranging from 3 to 39 years, of the respective assets on a straight-line basis. The Organization capitalizes all assets that are considered tangible personal or real property acquired through purchase or donation with a cost or fair value of greater than or equal to \$1,000 and an expected useful life of over one year. Maintenance and repairs are charged to operations when incurred.

Accounts, Grants, Bequest, and Insurance Claim Receivables

Accounts receivable consist of amounts earned by the Organization but not yet received at year-end. Grant receivable consists of a promise to give a cash contribution. Bequest receivable is recorded at the time an unassignable right to the gift has been established and the proceeds are measurable in amount. The insurance claim receivable is for reimbursable expenses due to a natural disaster that occurred during the year ended June 30, 2018. Management considers these receivables to be fully collectible within one year; therefore, no allowance for uncollectible accounts or grant receivable has been recorded.

Income Tax Status

On July 24, 1989, the Internal Revenue Service determined the corporation was exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). The California Franchise Tax Board also granted tax-exempt status to the Organization. As a tax-exempt corporation, the Organization has no provision for income taxes. The Organization is not considered a private foundation. The Organization is unaware of any uncertain tax positions at June 30, 2018, or for any period for which the statute of limitations remains open.

GIRLS INCORPORATED OF CARPINTERIA

NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include:

- Depreciable lives and estimated residual value of fixed assets
- Valuation of beneficial interest held by others
- Allocation of expenses among functions
- Collectability of accounts receivable

It is at least reasonably possible that the significant estimates used will change within the next year.

Fair Value of Financial Instruments

The carrying value of cash in banks, accounts and grant receivables, accounts payable and accrued expenses approximate fair value due to the relatively short maturity of these instruments. The amount shown for the note payable approximates fair value since the interest rate is at current market rates.

Donated Services

The Organization relies heavily on a substantial number of volunteers to perform certain services for some of its programs and fundraising campaigns. Because these services do not meet specified criteria for recognition as income and expense, the value of these services has not been included in the statement of activities.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Direct costs are charged directly to the appropriate program. Other costs, common to several functions, have been allocated by various statistical bases.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year-ended June 30, 2017 from which the summarized information was derived.

Certain reclassifications have been made to the June 30, 2017 balances, as reported in the prior year financial statements, to make them comparable to the balances reported for the year-ended June 30, 2018.

GIRLS INCORPORATED OF CARPINTERIA

NOTES TO FINANCIAL STATEMENTS

NOTE 3 BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In 2014, the Organization placed \$65,000 with the Santa Barbara Foundation (SBF) in the Santa Barbara Foundation Endowment Fund (the Fund) for an endowment. The Organization's beneficial interest operates under an Agency Fund Agreement (Fund Agreement). The Fund attempts to provide stable capital appreciation on a total return basis. Assets of the Fund are fully exposed to market risks and may experience market volatility and principal loss. The beneficial interest in the Fund is reported by the Organization at the estimated fair market value which is based on the reported net asset value of the fund as reported by SBF. At June 30, 2018 and 2017, the estimated fair market value of the Organization's interest in the Fund is \$75,823 and \$72,873.

The Fund Agreement provides for the distribution of funds to be in accordance with the Santa Barbara Foundation's spending policy for its endowed funds and consistent with the applicable provisions of the California Uniform Prudent Management of Institutional Funds Act (UPMIFA). In accordance with California State law, Santa Barbara Foundation (SBF) retains sole and absolute discretion over distributions from the Fund. However, the Fund Agreement allows SBF to seek the Organization's advice concerning the timing and amounts of distributions from the Fund to the Organization. The Organization also may request an extraordinary distribution from the Fund. The funding of any extraordinary distribution is at the SBF's sole discretion.

NOTE 4 PROPERTY AND EQUIPMENT

Depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 3-39 years. As of June 30, 2018 and 2017, the historical costs and useful lives of such assets are as follows:

| | Estimated Life in Years | 2018 | 2017 |
|-------------------------------|-------------------------------|---------------------|---------------------|
| Land | | \$ 132,456 | \$ 132,456 |
| Building | 39 | 2,331,973 | 2,331,973 |
| Equipment | 3-7 | 209,734 | 209,734 |
| Furniture and fixtures | 5-10 | 72,918 | 72,918 |
| Vehicles | 5 | <u>76,306</u> | <u>61,306</u> |
| Total Cost | | 2,823,387 | 2,808,387 |
| Less accumulated depreciation | | <u>(1,647,160)</u> | <u>(1,573,571)</u> |
| Property and Equipment, net | | <u>\$ 1,176,227</u> | <u>\$ 1,234,816</u> |

NOTE 5 NOTE PAYABLE

In August 2016, the Organization refinanced its note payable with a new lender, Montecito Bank & Trust, in the amount of \$250,000 with a fixed interest rate of 3.75% and a term of 10 years. The Foothill Road Complex secures the note. Future minimum principal payments are as follows for the year-ended June 30:

| | |
|------------|-------------------|
| 2019 | \$ 22,466 |
| 2020 | 23,318 |
| 2021 | 24,238 |
| 2022 | 25,176 |
| 2023 | 26,149 |
| Thereafter | <u>89,223</u> |
| Total | <u>\$ 210,570</u> |

GIRLS INCORPORATED OF CARPINTERIA

NOTES TO FINANCIAL STATEMENTS

NOTE 6 RESTRICTED NET ASSETS AND ENDOWMENT

Board Designated Unrestricted Net Assets

Included in total unrestricted net assets on the statement of financial position are \$270,191 of net assets designated by the Board of Trustees for the following purposes:

During the year-ended June 30, 2017, the Board of Trustees established an operating reserve equal to approximately three months of operating expenses, based on the amount of expenses incurred in the prior year. At June 30, 2018 and 2017, the operating reserve consists of cash in the amount of \$268,667 and \$229,241, respectively.

During the year-ended June 30, 2014, the Board of Trustees designated \$1,524 for an endowment. The designated funds consist of a beneficiary interest in assets held by others (see Note 3) at the Santa Barbara Foundation and are subject to the Santa Barbara Foundation's spending policy for its endowed funds. These net assets are unavailable for operations without specific Board approval.

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------------|-------------------|-------------------|
| Programs | \$ 86,410 | \$ 234,261 |
| Future periods | 144,625 | - |
| Facilities and equipment | 5,000 | 5,000 |
| Unappropriated endowment earnings | <u>10,823</u> | <u>7,873</u> |
| Total Temporarily Restricted Net Assets | <u>\$ 246,859</u> | <u>\$ 247,134</u> |

Permanently Restricted Net Assets and Endowment

Permanently restricted net assets are restricted in perpetuity for investment purposes, whereas the income is expendable as support for the following activities:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------------|------------------|------------------|
| Scholarships | \$ 13,000 | \$ 13,000 |
| General operations | <u>50,476</u> | <u>50,476</u> |
| Total Permanently Restricted Net Assets | <u>\$ 63,476</u> | <u>\$ 63,476</u> |

During the year-ended June 30, 2014, the Organization established an endowment, which consists of Board designated and donor-restricted endowment funds with a third party, and which now consists of a beneficiary interest in assets held by SBF (see Note 3). The underlying investments in which the Organization has a beneficiary interest are determined by the Fund. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

GIRLS INCORPORATED OF CARPINTERIA

NOTES TO FINANCIAL STATEMENTS

NOTE 6 RESTRICTED NET ASSETS AND ENDOWMENT (Continued)

The Board has interpreted the California adopted 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 Organization classifies any assets for which (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 as permanently restricted net assets.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters, and Strategies

The Board approved and adopted investment and spending policies for the endowment assets. The objective of the investment policy is to provide adequate returns to meet the spending needs of the Organization while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return which exceeds the annual distribution with acceptable levels of risk. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to avoid exposing the fund to unacceptable levels of risk. Endowment assets are invested with the Santa Barbara Foundation which has a well-diversified asset mix, which includes equity and debt securities.

Spending Policy

The Organization has established a spending policy that includes the annual distributions, as well as the cost of managing the funds. The Organization has a policy of appropriating for distribution each year, if needed, the net income generated from the beneficiary interest in assets held by others, which will be measured per the terms of the Fund Agreement. Net income is defined as the total receipts allocated to income, including dividends and interest income, during an accounting period minus any fees during the accounting period.

In establishing this policy, the Organization considered the funding needs of the Organization as well as the goal of protecting the purchasing power of endowment assets over the long-term. Exceptions to this policy are by board resolution to appropriate the earnings or a portion of the earnings designated by the Board based on annual budget needs. Earnings is defined as all net income and appreciation, including realized and unrealized, over the previous year's ending value.

GIRLS INCORPORATED OF CARPINTERIA

NOTES TO FINANCIAL STATEMENTS

NOTE 6 RESTRICTED NET ASSETS AND ENDOWMENT (Continued)

The Organization expects the current spending policy to allow its endowment funds to grow at a rate that is at least at the rate of inflation, even with the Organization's objective to maintain the original value of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets for the year-ended June 30, 2018, are as follows:

| | <u>Board Designated</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Endowment Trust</u> |
|-----------------------------------------|-----------------------------|-----------------------------------|-----------------------------------|--------------------------------------|
| Endowment net assets, June 30, 2017 | \$ 1,524 | \$ 7,873 | \$ 63,476 | \$ 72,873 |
| Contributions | - | - | - | - |
| Net investment return | - | 2,950 | - | 2,950 |
| Amounts appropriated for expenditure | - | - | - | - |
| Endowment net assets, June 20, 2018 | <u>\$ 1,524</u> | <u>\$ 10,823</u> | <u>\$ 63,476</u> | <u>\$ 75,823</u> |

Changes in endowment net assets for the year-ended June 30, 2017, are as follows:

| | <u>Board Designated</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Endowment Trust</u> |
|-----------------------------------------|-----------------------------|-----------------------------------|-----------------------------------|--------------------------------------|
| Endowment net assets, June 30, 2016 | \$ 1,524 | \$ 2,459 | \$ 63,476 | \$ 68,902 |
| Contributions | - | - | - | - |
| Net investment return | - | 5,414 | - | 5,414 |
| Amounts appropriated for expenditure | - | - | - | - |
| Endowment net assets, June 20, 2017 | <u>\$ 1,524</u> | <u>\$ 7,873</u> | <u>\$ 63,476</u> | <u>\$ 72,873</u> |

NOTE 7 OPERATING LEASE

On July 1, 2013, the Organization renegotiated a long-term operating lease with its tenant. The initial term was through June 30, 2018, with an option to extend an additional five years. During the year ended June 30, 2018, the tenant exercised the option to extend the lease through June 30, 2023. The annual base rate will be adjusted annually based on the increase, if any, in the United States Consumer Price Index. As of June 30, 2018 the minimum annual lease payment is \$94,080, payable in 10 equal payments of \$9,408. Future minimum lease income under this lease are as follows for the year-ended June 30:

| | |
|-------|-------------------|
| 2019 | \$ 94,080 |
| 2020 | 94,080 |
| 2021 | 94,080 |
| 2022 | 94,080 |
| 2023 | <u>94,080</u> |
| Total | <u>\$ 470,400</u> |

GIRLS INCORPORATED OF CARPINTERIA

NOTES TO FINANCIAL STATEMENTS

NOTE 8 CONCENTRATIONS OF RISK AND CONTINGENCIES

The Organization has more than \$250,000 on deposit with two financial institutions as a part of its cash management system. The FDIC only insures the first \$250,000 of certain interest bearing funds on deposit at each institution. At year-end, the Organization had approximately \$288,000 in funds that were uninsured.

A significant portion of the Organization's revenue is from public support from individuals and foundations. Revenue generated from this source is approximately 37% of total operating revenue.

The Organization also receives grants from various governmental agencies. These grants are earned by the Organization based on its services to clients in Santa Barbara and Ventura counties. These grants are subject to audit by the corresponding oversight agency as to allowable costs paid with governmental funds. The Organization could be liable for up to the full amount of government funds expended, should costs charged to grants be disallowed. During fiscal year-ended June 30, 2018, the Organization received \$92,270 in governmental funds. Management believes it is unlikely that the various agencies would disallow a significant portion of the costs.

NOTE 9 FAIR VALUE MEASUREMENT

The Financial Accounting Standard Board's authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities, for which the fair value measurement is based on significant unobservable inputs, are classified as Level 3.

Assets carried at fair value as of June 30, 2018, include a beneficial interest in assets held by others. As described in Note 3, the Organization placed \$65,000 with the Santa Barbara Foundation as an endowment fund. The fair value assessment of the fund is based upon estimated value of underlying investments derived from reports provided by the Santa Barbara Foundation. The Santa Barbara Foundation invested the endowment fund in a variety of investments including:

| <u>Nature of Investment</u> | <u>Approximate Portfolio Allocation</u> |
|-----------------------------|---------------------------------------------|
| Cash | 2.0% |
| Global equity | 31.0% |
| Private equity | 12.0% |
| Fixed income | 33.0% |
| Hedge funds | 22.0% |

GIRLS INCORPORATED OF CARPINTERIA

NOTES TO FINANCIAL STATEMENTS

NOTE 9 FAIR VALUE MEASUREMENT (Continued)

The value of assets in the unemployment reserve account is based upon market values for similar investments.

Financial instruments carried at fair value as of June 30, 2018, are classified in the table below in one of the three categories described above:

| | Quoted prices in active markets for identical assets <u>Level 1</u> | Significant other observable inputs <u>Level 2</u> | Significant unobservable inputs <u>Level 3</u> |
|-------------------------------------------------------|---------------------------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------|
| SBF Endowment Fund Unemployment reserve account | \$ - | \$ 75,823 | \$ - |
| | <u>-</u> | <u>13,541</u> | <u>-</u> |
| Total | <u>\$ -</u> | <u>\$ 89,364</u> | <u>\$ -</u> |

Financial instruments carried at fair value as of June 30, 2017, are classified in the table below in one of the three categories described above:

| | Quoted prices in active markets for identical assets <u>Level 1</u> | Significant other observable inputs <u>Level 2</u> | Significant unobservable inputs <u>Level 3</u> |
|-------------------------------------------------------|---------------------------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------|
| SBF Endowment Fund Unemployment reserve account | \$ - | \$ 72,873 | \$ - |
| | <u>-</u> | <u>19,711</u> | <u>-</u> |
| Total | <u>\$ -</u> | <u>\$ 92,584</u> | <u>\$ -</u> |

There were no transfers between Level 1, 2, and 3 of the fair value hierarchy for the years ended June 30, 2018 and 2017.

NOTE 10 RELATED PARTY

A senior vice president at Montecito Bank & Trust, where the Organization conducts business, was a committee member during the year ended June 30, 2018 and a Board Trustee during the year ended June 30, 2017.

NOTE 11 SUBSEQUENT EVENTS

The Organization's management has evaluated subsequent events through **September XX, 2018**, which is the date the financial statements were available to be issued. Management has determined no subsequent events that require recognition or disclosure in the financial statements as of and for the year ended June 30, 2018.