



**NOVOGRADAC
& COMPANY** LLP®

CERTIFIED PUBLIC ACCOUNTANTS

**GIRLS INCORPORATED OF ALAMEDA COUNTY
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)
WITH INDEPENDENT AUDITORS' REPORT**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Supplementary Information	
Consolidated Schedule of Expenditures of County of Alameda Grants	25
Additional Reports of Independent Auditors	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	26



Independent Auditors' Report

To the Board of Directors of
Girls Incorporated of Alameda County:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Girls Incorporated of Alameda County, a California nonprofit organization (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Girls Incorporated of Alameda County as of June 30, 2018 and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the 2017 consolidated financial statements of Girls Incorporated of Alameda County, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 8, 2017. 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 consolidated financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Norogradac & Company LLP

San Francisco, California
December 5, 2018

GIRLS INCORPORATED OF ALAMEDA COUNTY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2018
(with comparative totals for 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 1,686,480	\$ 2,119,950
Grants receivable	847,647	349,340
Accounts receivable	142,240	119,978
Deferred rent asset - Master Lease	71,559	56,915
Capital campaign pledges	55,692	118,192
Split-interest agreement	111,955	106,706
Employee and other receivables	71,800	209,317
Interest receivable	524,675	447,856
Prepaid expenses	75,607	76,917
Deposits	93,806	87,940
Investments	180,310	178,417
Loans receivable	10,449,735	10,449,735
Fixed assets, net	12,360,969	12,870,191
TOTAL ASSETS	\$ 26,672,475	\$ 27,191,454
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 79,412	\$ 46,402
Accrued expenses	522,186	502,380
Notes payable, net of unamortized debt issuance costs	17,262,751	17,231,606
Total liabilities	17,864,349	17,780,388
Net assets:		
Unrestricted		
Board designated for operating reserve	383,081	685,161
Undesignated	7,830,065	8,252,893
Total unrestricted	8,213,146	8,938,054
Temporarily restricted	460,980	339,012
Permanently restricted	134,000	134,000
Total net assets	8,808,126	9,411,066
TOTAL LIABILITIES AND NET ASSETS	\$ 26,672,475	\$ 27,191,454

see accompanying notes

GIRLS INCORPORATED OF ALAMEDA COUNTY
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the year ended June 30, 2018
(with comparative totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2018	2017
SUPPORT AND REVENUE					
Government grants	\$ 1,930,056	\$ -	\$ -	\$ 1,930,056	\$ 2,019,861
Foundation grants	1,210,654	650,877	-	1,861,531	537,634
Contributions	1,372,965	49,385	-	1,422,350	2,077,290
Special events	967,584	-	-	967,584	817,626
Program fees	241,602	-	-	241,602	438,580
Rental income	322,244	-	-	322,244	316,677
Miscellaneous income	5,295	-	-	5,295	13,698
Financing income	198,941	-	-	198,941	196,539
Interest and dividends	492	2,005	-	2,497	2,838
Net realized and unrealized income (loss) on investments	(1,577)	8,182	-	6,605	16,761
Change in value of split-interest agreement	-	5,249	-	5,249	9,233
Net asset released from restrictions:					
Purpose accomplished or restricted time expired	593,730	(593,730)	-	-	-
TOTAL SUPPORT AND REVENUE	6,841,986	121,968	-	6,963,954	6,446,737
EXPENSES					
Program services	6,639,298	-	-	6,639,298	6,381,744
Management and general	488,757	-	-	488,757	447,172
Fundraising	438,839	-	-	438,839	615,197
TOTAL EXPENSES	7,566,894	-	-	7,566,894	7,444,113
Change in net assets	(724,908)	121,968	-	(602,940)	(997,376)
Net assets, beginning of year	8,938,054	339,012	134,000	9,411,066	10,408,442
Net assets, end of year	\$ 8,213,146	\$ 460,980	\$ 134,000	\$ 8,808,126	\$ 9,411,066

see accompanying notes

GIRLS INCORPORATED OF ALAMEDA COUNTY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the year ended June 30, 2018
(with comparative totals for 2017)

	Program Services	Management and General	Fundraising	Totals	
				2018	2017
Salaries	\$ 3,472,102	\$ 242,282	\$ 310,434	\$ 4,024,818	\$ 4,282,080
Employee benefits	579,529	34,486	-	614,015	620,624
Depreciation	507,084	1,226	912	509,222	507,821
Program expenses	437,580	2,930	50,893	491,403	404,218
General office expenses	234,459	146,034	11,609	392,102	156,367
Professional fees	299,954	15,439	14,109	329,502	326,922
Facility lease	251,716	9,751	7,252	268,719	267,502
Interest expense	201,634	-	-	201,634	201,634
Repair and maintenance	141,832	8,250	8,567	158,649	115,282
Utilities	136,861	3,811	2,834	143,506	131,650
Insurance	128,179	7,986	5,940	142,105	147,803
Information technology support	73,401	4,573	3,401	81,375	76,488
Property tax	59,668	3,718	2,765	66,151	64,930
Stipends	57,333	-	-	57,333	58,700
Other expenses	21,888	6,295	318	28,501	7,659
Printing	8,472	95	19,004	27,571	22,285
Travel	19,306	595	787	20,688	26,852
Training	8,300	1,286	14	9,600	7,857
Amortization	-	-	-	-	17,439
TOTAL	\$ 6,639,298	\$ 488,757	\$ 438,839	\$ 7,566,894	\$ 7,444,113

see accompanying notes

GIRLS INCORPORATED OF ALAMEDA COUNTY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended June 30, 2018
(with comparative totals for 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (602,940)	\$ (997,376)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Interest expense - debt issuance costs amortization	31,145	31,145
Depreciation	509,222	507,821
Amortization	-	17,439
Net change in value of split-interest agreement	(5,249)	(9,233)
Net realized and unrealized income on investments	(6,605)	(16,761)
Changes in operating assets and liabilities:		
Grants receivable	(498,307)	230,150
Accounts receivable	(22,262)	(40,465)
Capital campaign pledges	62,500	125,000
Deferred rent asset - Master Lease	(14,644)	(16,644)
Employee and other receivables	137,517	(22,475)
Interest receivable	(76,819)	(88,608)
Prepaid expenses	1,310	2,215
Deposits	(5,866)	(1,798)
Accounts payable	33,010	21,046
Accrued expenses	19,806	9,429
Net cash used in operating activities	(438,182)	(249,115)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	4,712	4,299
Net cash provided by investing activities	4,712	4,299
Net decrease in cash and cash equivalents	(433,470)	(244,816)
Cash and cash equivalents at beginning of year	2,119,950	2,364,766
Cash and cash equivalents at end of year	\$ 1,686,480	\$ 2,119,950
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 170,488	\$ 170,489

see accompanying notes

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

1. Organization

Girls Incorporated of Alameda County (“Girls Inc.” or the “Organization”), a nonprofit organization dedicated to inspiring all girls to be strong, smart, and bold, is a local affiliate of the national Girls Inc. organization. Serving 10,000 girls, families, and community members, Girls Inc. provides vital year-round educational programs, enrichment, skill-building opportunities and clinical counseling services at 22 school and community sites in the East Bay.

The Organization’s proven programs cover every aspect of a girl’s development to help her grow into her best self, physically, mentally and emotionally. Girls Inc. constantly evaluates its offerings through continuous quality improvement practices to best fit the changing needs of today’s girls.

From early literacy to college prep, Girls Inc. equips girls with the skills and self-confidence to achieve academic success. Girls improve their study habits, sharpen their intellectual curiosity and learn to think and speak for themselves. Debunking the myth that girls cannot excel at math and science, the Organization inspires girls to take on these subjects with hands-on enthusiasm. The girls also enhance their technological fluency and computer skills.

As essential as academics are to a girl’s success in life, she also needs to stay physically and mentally healthy. Girls Inc. knows if a girl participates in athletics, she is less likely to drop out of school or abuse drugs and alcohol. Girls Inc.’s year-round fitness programs get girls involved in team sports, swimming and even surfing. The Organization promotes proper nutrition and discusses challenging issues like personal safety, health and sexuality in age-appropriate ways. If a girl needs help, the Girls Inc. Pathways Counseling Center is there for her and her family.

In nearly sixty years of serving girls in the East Bay, Girls Inc. has watched many of our girls graduate college and begin successful careers. Girls Inc. has been delighted that some of them are choosing to give back by volunteering with Girls Inc., showing the next generation just how far a girl can go if she is strong, smart and bold.

510 16th Street, Inc. (“510 16th Street”), a California corporation wholly-owned and controlled by Girls Inc., was created for the purpose of obtaining funding for the purchase and renovation of a building through the new markets tax credit program, a program of the Community Development Financial Institutions Fund, a division of the Department of Treasury. The accompanying consolidated financial statements include the operations of Girls Inc. and 510 16th Street.

2. Summary of significant accounting policies and nature of operations

Basis of accounting

The Organization prepares its consolidated financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Use of estimates

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

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

2. Summary of significant accounting policies and nature of operations (continued)

Basis of presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets: Net assets are unrestricted contributions, grants, program fees and interest from investments, less expenses incurred in providing program-related services and performing administrative and fundraising functions. Unrestricted net assets also include temporarily restricted resources that have become available for use by the Organization in accordance with the intentions of the donor.

Temporarily Restricted Net Assets: Net assets are subject to donor-imposed stipulations which can be fulfilled either by actions of those stipulations and/or expire with the passage of time and subject to the variance power of the Board of Directors. Temporarily restricted net assets consist primarily of temporarily restricted contributions, charitable gift annuities, and accumulated investment earnings of permanently restricted endowment funds that have not been appropriated by the Board in accordance with the California Uniform Prudent Management of Institutional Funds Act of 2008 (UPMIFA).

Permanently Restricted Net Assets: Net assets are subject to donor-imposed stipulations whereby the historic gift amount is to be preserved in perpetuity and are subject to the variance power of the Board of Directors. While the historic gift is to remain permanently maintained, the Organization may expend the accumulated investment earnings, which are temporarily restricted, in accordance with donor specifications.

Principles of consolidation

The accompanying consolidated financial statements include the assets, liabilities, net assets and financial activities of Girls Inc. and 510 16th Street. All material intercompany transactions and balances have been eliminated in consolidation.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less at the date of acquisition.

The carrying amounts of cash and cash equivalents approximate their fair values.

Concentrations of credit risk

Girls Inc. has identified its financial instruments which are potentially subject to risk as cash, investments and receivables.

The Organization invests in various investment instruments which are driven by a defined investment policy designed to mitigate concentrations of risk in specific investments and industries.

The Organization invests its cash with various financial institutions. These deposits include amounts over federally insured limits. Investments are diversified in order to limit market risk. Accounts receivables represent primarily unsecured amounts due from federal agencies, other government agencies, foundations, and various organizations and individuals. Girls Inc. maintains an allowance for doubtful accounts at a level considered adequate to cover anticipated credit losses on outstanding receivable balances. The Organization has not previously experienced significant credit losses.

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

2. Summary of significant accounting policies and nature of operations (continued)

Economic concentrations

Girls Inc. is dependent upon government grants, donations, bequests, and other support from individuals, foundations, and other entities in addition to program fees and contracts. If the level of this support varies, there may be a resulting effect upon the level and types of activities and program services offered by Girls Inc. For the year ended June 30, 2018, government grants, consisting of Federal and Alameda County grants and program revenue represented 31% of Girls Inc.'s revenue; foundation grants represented 27% of Girls Inc.'s revenue; and individual giving represented 20% of Girls Inc.'s revenue. Girls Inc. receives most of its revenue from the San Francisco Bay Area that consists of the following counties: Alameda, Contra Costa, Marin, San Francisco, and San Mateo and from government agencies at the local, county, state, and federal level.

For the year ended June 30, 2018, consolidated change in net assets of \$602,940 is shown on the accompanying consolidated statement of activities, which includes a decrease in net assets of \$571,326 from the operations of 510 16th Street.

Accounts receivable

Accounts receivable, employee, and other receivables are stated at unpaid balances. Girls Inc. provides for losses on accounts receivable using the allowance method. The allowance is based on historical experience and management evaluation of outstanding receivables. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to ensure that all available means of collecting accounts receivable have been exhausted before write-off procedures are initiated. There was no allowance for uncollectible accounts as of June 30, 2018.

Capital campaign pledges

Capital campaign pledges that are made in one year but are not expected to be collected until after the end of the year are discounted at an appropriate discount rate commensurate with the risks involved and the period of time over which the pledges are expected to be collected. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful capital campaign pledges is provided based upon management's judgment including such factors as prior collection history, type of contribution, and current aging of capital campaign pledges. There was no allowance for doubtful capital campaign pledges as of June 30, 2018.

Split-interest agreement

The Organization is a beneficiary of a split-interest agreement that includes a charitable remainder trust. Irrevocable split-interest agreements for the benefit of the Organization are recognized as contributions when the Organization is notified of the existence of the agreement. When the Organization is not named as the trustee, the Organization's share of the remainder interest in the trust's assets are recognized at their fair values, net of the present value of an estimated investment return and any expected payments to the beneficiaries. Any expected payments to beneficiaries are discounted using an instrument with a similar maturity at the date of recognition. Changes in the estimated remainder interest value during the term of the agreement are reported on the consolidated statement of activities.

When the Organization is the trustee, the trust's assets are recognized at their fair values. A liability is also reflected which represents the present value of any expected payments to the beneficiaries

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

2. Summary of significant accounting policies and nature of operations (continued)

Split-interest agreement (continued)

which is calculated in the same manner as described in the preceding paragraph. The net changes in the estimated remained interest value and the liability are reported on the consolidated statement of activities.

Upon maturity of a split-interest agreement, valuation differences in asset and liability accounts related to the agreement are recognized as changes in permanently restricted, temporarily restricted, or unrestricted net assets, as determined by the donor.

Investments

Investments in equity and debt securities are reported at their fair values in the statement of financial position as determined primarily by quoted market prices. Investments without quoted market prices are valued based upon management's estimates. Investments received by donation are recorded at fair value at the date of donation. Net realized and unrealized gains or losses are classified as increases or decreases in unrestricted net assets, unless their use is temporarily restricted or permanently restricted by the donor.

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

Fair value measurements

The Organization establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities. Valuations for assets and liabilities traded in less active dealer or broker markets are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Inputs that are both significant to the fair value measurement and unobservable. Valuations for assets and liabilities are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

2. Summary of significant accounting policies and nature of operations (continued)

Fair value measurements (continued)

The following methods and assumptions were used to estimate the fair value of financial instruments:

- (a) Investments (Level 1). Investment securities traded on security exchanges are valued at closing market prices on the date closest to June 30. Government obligations are valued based upon the most recent bid quotation for identical or similar obligations provided by independent pricing services and from broker quotations.
- (b) Capital campaign pledges (Level 3). Capital campaign pledges are valued based on unobservable inputs that are developed based on the best information available in the circumstances. Capital campaign pledges are not measured at fair value on a recurring basis subsequent to initial recognition.
- (c) Contributions receivable – split-interest agreement (Level 3). The split-interest agreement is valued based on factors which include the current fair value of the investments, future expected investment returns and the present value discount rate.

Fixed assets

Girls Inc. capitalizes all acquisitions of property and equipment with a cost or value in excess of \$1,000 and with an estimated useful life in excess of one year. When property or equipment is retired or sold, the cost and accumulated depreciation of dispositions are removed from the accounts, and gain or loss is reflected as a change in unrestricted net assets. Contributed property and equipment is recorded at fair value of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Property and equipment is depreciated using the straight-line method over estimated useful lives as follows:

Buildings and improvements	15 – 39 years
Furniture and fixtures	5 – 7 years
Computers	5 years
Vehicles	5 years

Routine repairs and maintenance are expensed as incurred. Construction in progress is not depreciated until such assets are placed in service.

In-kind contributions and contributed services

In-kind contributions are reflected as contributions at their fair value at date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. Girls Inc. recognizes the fair value of contributed services received if such services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Girls Inc. receives services from a large number of volunteers who give significant amounts of their time to the Organization's programs and fund-raising campaigns but which do not meet the criteria for financial statement recognition.

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

2. Summary of significant accounting policies and nature of operations (continued)

Revenue recognition

All contributions are considered available for Girls Inc.'s general operations unless specifically restricted by the donor. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. All amounts received that are designated for future periods or restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collections history, type of contribution and current aging of contributions receivable. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized.

The Organization recognizes revenue from interest income on the loans receivable. Interest on the loans receivable is based on the principal balances outstanding and is recognized when earned.

The Organization leases a certain property known as the Simpson Center for Girls located in Oakland, California (the "Property"). The master lease qualifies as an operating lease. The term of the lease is eighteen years, with rent payments due quarterly. Rental revenue is recognized on a straight-line basis over the term of the Sublease Agreement (see footnote 17). The Organization records rent receivable when the lease payments become contractually due from Simpson Center for Girls Master Tenant, LLC ("Simpson Center") and any difference between amounts recorded as rent received and receivable and rent recognized is recorded on the balance sheet as deferred rent revenue or deferred rent asset.

Government grant revenue

Government grant revenue is recognized as services are performed. There was no unearned government grant revenue at June 30, 2018.

Functional allocation of expenses

The costs of providing the programs and other activities have been summarized on a functional basis in the statements of activity and changes in net assets. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by the Organization's management.

Income taxes

Girls Inc. is exempt from paying federal income taxes under Section 501(c)(3) of the Internal Revenue Code and by the California Revenue and Taxation Code under Section 2370 1 (d). 510 16th Street is incorporated in the state of California as a domestic for-profit corporation and files its income tax returns on the accrual basis of accounting.

The Organization has evaluated its current tax positions and has concluded that as of June 30, 2018, the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2018

2. Summary of significant accounting policies and nature of operations (continued)

Comparative financial information

The consolidated 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with Girls Inc.'s financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Subsequent events

Subsequent events have been evaluated through December 5, 2018, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Investments

The investments balance, including current and noncurrent portions as of June 30, 2018 consisted of the following:

	<u>Endowment</u>	<u>Investments</u>	<u>Total</u>
Mutual Funds	\$ 179,780	\$ -	\$ 179,780
Other	288	242	530
Total	\$ 180,068	\$ 242	\$ 180,310

4. Loans receivable

USB Loans

On July 31, 2012, the Organization entered into a loan agreement (the "Fund Loan Agreement") with 510 16th Street Investment Fund, LLC ("510 16th Street IF") in the amounts of \$4,833,927 ("Loan A") and \$2,152,228 ("Loan B") (collectively, the "USB Loans"). Pursuant to the Fund Loan Agreement, interest accrues on Loan A at a rate of 2.7% per annum (the "Loan A Interest Rate"). 510 16th Street IF is required to make quarterly interest only payments at a rate of 1% per annum, in arrears, on the 10th day of each January, April, July, and October of each year ("Quarterly Payment Date") from October 10, 2012 to September 30, 2020 ("Interest Only Period"). Thereafter, 510 16th Street IF is required to make quarterly interest and principal payments at the Loan A Interest Rate, in arrears, on each Quarterly Payment Date, so that the sum of (i) the outstanding principal balance of the Loan A as of the end of the Interest Only Period plus (ii) all accrued but unpaid interest as of the end of the Interest Only Period can be fully amortized over 540 months. A final payment of any outstanding principal, accrued and unpaid interest, and relevant fees pursuant to the Fund Loan Agreement shall be due on October 1, 2035, the maturity date of Loan A.

Pursuant to the Fund Loan Agreement, interest accrues on Loan B at a rate of 2% per annum. Commencing on October 10, 2012 until maturity, 510 16th Street IF made quarterly interest only payments at a rate of 2.0% per annum on each Quarterly Payment Date. A final payment of any outstanding principal, accrued and unpaid interest, and relevant fees pursuant to the Fund Loan

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

4. Loans receivable (continued)

Agreement was due on August 1, 2014, the maturity date of Loan B. As of June 30, 2018, Loan B was matured and was fully repaid.

As of June 30, 2018, the outstanding principal on Loan A was \$4,833,927.

BOA Loan

On July 31, 2012, the Organization entered into a loan agreement (the “Leverage Loan Agreement”) with BOA Investment Fund III, LLC (“BOA IF”) in the amount of \$5,615,808 (the “BOA Loan”). Pursuant to the BOA IF promissory note, BOA IF is required to make an interest payment of \$9,359.68 on October 10, 2012. Thereafter, quarterly interest only payments of \$14,039.50 shall be made in arrears on the 10th day of each calendar quarter from October 10, 2012 to October 10, 2020. Commencing on January 10, 2021, BOA IF is required to make quarterly interest and principal payment of \$44,455 on the 10th day of each calendar quarter so that the BOA Loan can be fully amortized over 456 months. The BOA Loan matures on October 1, 2035.

As of June 30, 2018, the outstanding principal on the BOA Loan was \$5,615,808.

As of June 30, 2018, aggregate interest receivable on the loans receivable totaled \$524,675.

5. Split-interest agreement

Girls Inc. has been named a remainder beneficiary of a charitable remainder unitrust. Income beneficiaries are to receive an annuity each year payable on December 31 equal to a percentage of the net fair market value of the unitrust assets as of the first business day each year. Upon the twentieth anniversary of the unitrust settler’s death, which is in 2027, twenty-percent of the remaining principal is to be distributed to Girls Inc. An independent trustee administers the trust assets.

An asset for the charitable remainder trust has been recognized at the present value of the expected future cash flow payments discounted using a 20-year Treasury bond rate of 4.81%. The fair value of the charitable remainder trust as of June 30, 2018 is \$2,024,340. The discounted expected future cash flows of \$111,955 represents Girls Inc.’s twenty percent share of the fair market value of the unitrust principal at 2027.

6. Capital campaign pledges

Unconditional pledges to give to the capital campaign, which are not expected to be collected until after the year promised, are reflected in the accompanying consolidated financial statements as capital campaign pledges and revenue in the appropriate net asset category.

Capital campaign pledges as of June 30, 2018 consisted of the following:

Due in less than one year	\$	62,500
Due in one to five years		-
Total capital campaign pledges		62,500
Less: discounts to present value		(6,808)
Capital campaign pledges, net	\$	<u>55,692</u>

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

7. Fixed assets

Fixed assets of the Organization as of June 30, 2018 consisted of the following:

Land	\$ 630,000
Building and building improvements	13,449,058
Furniture and fixtures	905,176
Computers	197,192
Vehicles	<u>19,541</u>
Total fixed assets	15,200,967
Less: accumulated depreciation	<u>(2,839,998)</u>
Fixed assets, net	<u>\$ 12,360,969</u>

Depreciation expense for the year ended June 30, 2018 was \$509,222.

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

8. Fair value measurements

The following are the major categories of assets and liabilities measured at fair value on a recurring basis for the year ended June 30, 2018, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

Items	Level 1: Quoted Prices in Active Markets For Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	2018 Total
Investment				
Stocks				
Common stock	\$ -	\$ -	\$ -	\$ -
Fixed income securities				
Corporate bonds	-	-	-	-
Government bonds	-	-	-	-
Mutual funds				
Trust fund	-	-	-	-
Equity fund	-	-	-	-
Treasury fund	-	-	-	-
International fund	-	-	-	-
Low duration fund	-	-	-	-
Growth fund	-	-	-	-
Total return fund	104,571	-	-	104,571
Bond fund	-	-	-	-
Income fund	75,209	-	-	75,209
Other	<u>288</u>	<u>-</u>	<u>242</u>	<u>530</u>
Total investments	180,068	-	-	180,310
Split-interest agreement	-	-	111,955	111,955
Capital campaign pledges	-	-	55,692	55,692
Other pledges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 180,068</u>	<u>\$ -</u>	<u>\$ 167,889</u>	<u>\$ 347,957</u>

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

8. Fair value measurements (continued)

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2018:

	<u>Split-interest agreement</u>	<u>Capital campaign pledges</u>	<u>Other pledges</u>
Beginning balance	\$ 106,706	\$ 118,192	\$ 2,438
Change in value/net account activity	<u>5,249</u>	<u>(62,500)</u>	<u>(2,438)</u>
Ending balance	<u>\$ 111,955</u>	<u>\$ 55,692</u>	<u>\$ -</u>

9. Notes payable

Clearinghouse and BOACDE

On July 31, 2012, 510 16th Street entered into a construction loan agreement (the “Construction Loan Agreement”) with Bank of America CDE III, LLC (“BOACDE”) and Clearinghouse NMTC (Sub 27), LLC (“Clearinghouse”) (collectively known as, the “Lenders”) as evidenced by four promissory notes in the amounts of \$4,833,927 (“Clearinghouse Note A”), \$4,966,073 (“Clearinghouse Note B”) (together, the “Clearinghouse Notes”), \$5,615,808 (“BOACDE Note A”) and \$2,384,192 (“BOACDE Note B”) (together, the “BOACDE Notes”). The Clearinghouse Notes and the BOACDE Notes are each secured by a construction term deed of trust, assignment, security agreement and fixture filing.

Interest on the Clearinghouse Notes shall accrue at a rate of 1.045% per annum and interest shall be computed assuming a 30 day month based on a 360 day year. Accrued and unpaid interest on the Clearinghouse Notes shall be due and payable in arrears through the last day of each calendar quarter commencing on October 5, 2012. Beginning on October 1, 2020, the outstanding principal and interest on the Clearinghouse Notes shall amortize based on a period of 38 years. Quarterly payments shall be due through the last day of the prior calendar quarter commencing on January 5, 2021, and continuing on the fifth day of each calendar quarter thereafter (the “Clearinghouse Payments Dates”). Two additional payments shall be made on Clearinghouse Note B during the amortization period: [1] a principal payment of \$25,000 on July 31, 2019, and [2] a principal payment in the amount of \$1,861,118 on October 1, 2031. On October 31, 2031, the amortization of Clearinghouse Note B shall be recalculated based on a period of 27 years. A final balloon payment consisting of the entire unpaid principal balance of the Clearinghouse Notes shall be payable in full on October 1, 2035 (the “Maturity Date”). As of June 30, 2018, the outstanding principal on the Clearinghouse Notes was \$9,800,000.

Interest on BOACDE Note A and BOACDE Note B shall accrue at the rate of 1.00% per annum and 0.50% per annum, respectively. Interest on the BOACDE Notes shall be computed assuming a 30 day month based on a 360 day year. Accrued and unpaid interest on the BOACDE Notes shall be due and payable in arrears through the last day of the prior calendar quarter on the fifth day of each calendar quarter commencing on October 5, 2012. Beginning on October 1, 2020, the outstanding principal and interest on the BOACDE Notes shall amortize based on a period of 38 years. Quarterly payments shall be due through the last day of the prior calendar quarter commencing on January 5, 2021, and continuing on the fifth day of each calendar quarter thereafter (the “BOACDE Payments Dates”). A final balloon payment consisting of the entire unpaid principal balance of the BOACDE Notes shall be

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

9. Notes payable (continued)

Clearinghouse and BOACDE (continued)

payable in full on the Maturity Date. Pursuant to the Construction Loan Agreement, BOACDE shall alternatively be entitled to accelerate the Maturity Date of the BOACDE Notes and require that all outstanding principal, interest, and other amounts due under the loan be repaid on July 31, 2019 (the "Early Repayment Date"). As of June 30, 2018, the outstanding principal on the BOACDE Notes was \$8,000,000.

Notes payable consists of the following as of June 30, 2018:

Principal balance	\$ 17,800,000
Less: unamortized debt issuance costs	<u>(537,249)</u>
Notes payable, net of unamortized debt issuance costs	<u>\$ 17,262,751</u>

Debt issuance costs are being amortized over the life of the notes payable using the straight-line method. For the year ended June 30, 2018, the effective interest rate was 1.13%. For the year ended June 30, 2018, amortization expense for debt issuance costs was \$31,145.

Estimated future minimum principal payments over each of the next five years and thereafter are due as follows:

Year ending December 31,		
	2019	\$ 25,000
	2020	-
	2021	390,725
	2022	394,456
	2023	398,224
	Thereafter	<u>16,591,595</u>
	Total	<u>\$ 17,800,000</u>

10. Board designated funds

The Board has designated funds for cash needs of the Organization. As of June 30, 2018, the balance of Board designated funds was \$383,081. Earnings from the funds are available for general operations. The funds are included in the consolidated statement of financial position.

11. Temporarily restricted net assets

Temporarily restricted net assets as of June 30, 2018 were available for the following purposes:

Girls programming	\$ 190,000
Scholarships	77,958
Pathways	35,000
Time restrictions	111,954
Accumulated endowment earnings	<u>46,068</u>
Total	<u>\$ 460,980</u>

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2018

11. Temporarily restricted net assets (continued)

Temporarily restricted net assets which were released from donor restrictions for the year ended June 30, 2018 are as follows:

Girls programming	\$	503,650
Scholarships		42,237
Endowment earnings		29,249
Capital Campaign		8,594
Pathways		<u>10,000</u>
Total		<u><u>\$ 593,730</u></u>

12. Endowment fund

The Organization’s endowment fund consists of two individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds; currently there are no funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board of Directors of Girls Inc. has interpreted the California enacted version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as allowing the Organization to appropriate for expenditure or accumulate so much of an endowment fund as the Organization determines is prudent by the Board of Directors. 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 in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization 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 Organization
- (7) The investment policies of the Organization.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2018.

Return objectives and risk parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that maintain purchasing

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

12. Endowment fund (continued)

Return objectives and risk parameters (continued)

power and the ability to make gifts in perpetuity while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate-of-return that exceeds the cost of spending plus inflation plus expenses. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

The Organization has a policy of appropriating for distributions up to 5 percent annually of the prior calendar year end market value. It is the intention of the fund that distributions not invade original endowment capital in establishing this policy and the Organization considered the long-term expected return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

As of June 30, 2018, permanently restricted net assets consisted of endowment fund assets totaling \$134,000 to be held indefinitely. Income from the principal totaling \$100,000 is restricted to fund a scholarship. Income from the principal of \$34,000 can be used to support Girls Inc.'s general activities.

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2017	\$ -	\$ 44,181	\$ 134,000	\$ 178,181
Contributions	-	-	-	-
Investment return (loss)				
Investment income	-	2,767	-	2,767
Net appreciation (realized and unrealized)	-	(880)	-	(880)
Total investment return	-	1,887	-	1,887
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, June 30, 2018	<u>\$ -</u>	<u>\$ 46,068</u>	<u>\$ 134,000</u>	<u>\$ 180,068</u>

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

13. Contributed goods and services

Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying consolidated financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

For the year ended June 30, 2018, contributed goods and services were received and consisted of the following:

Program services	\$ 69,439
Program supplies	<u>5,750</u>
Total contributed goods and services	<u>\$ 75,189</u>

Girls Inc. receives services from a large number of volunteers who give significant amounts of their time to the Organization's programs and fund-raising campaigns but do not meet the criteria for financial statement recognition. For the year ended June 30, 2018, total volunteer hours were approximately 8,559.

14. Pension plan

Girls Inc. maintains a defined contribution pension plan under IRS Code Section 403(b). For each plan year, the Board of Directors will determine the amount of the matching contribution (if any) that they will make for all eligible participants who are actively employed with Girls Inc. on the last day of the plan year. For the year ended June 30, 2018, Girls Inc. made \$5,000 employer contributions. Elective deferrals were made by employees.

15. Conditional promises to give

Conditional contributions are those which depend upon the occurrence of a specified future and uncertain event. The Organization recognizes conditional promises to give when the conditions on which they depend are substantially met, or become unconditional. The outstanding pledges were received as part of Girls Inc.'s capital campaign to purchase and renovate a building. As of June 30, 2018, management expects to collect conditional pledges totaling \$55,692 within one year.

16. Master Lease

On July 31, 2012, 510 16th Street entered into a master lease Agreement (the "Master Lease Agreement") with Simpson Center, for leasing of the Property. Simpson Center agreed to operate the Property as a commercial rental property and Permitted Use (as further defined in the Master Lease Agreement). Commencing on October 3, 2013, Simpson Center paid to 510 16th Street an amount equal to \$51,000 for 2013. Thereafter, Simpson Center shall pay to 510 16th Street annual fixed rent in the amounts set forth in the Master Lease Agreement, payable in equal quarterly installments on January 3, April 3, July 3, and October 3 of each lease year, pro-rated for any partial quarters. Pursuant to the Master Lease Agreement, lease payments not paid within 10 days from the date when due shall accrue

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

16. Master Lease (continued)

interest at the lower of the annual rate of 5% or the maximum rate allowed by law until paid by Simpson Center. The lease term commenced on July 31, 2012 and terminates on October 3, 2031.

Pursuant to the Master Lease Agreement, future minimum rental payments payable to 510 16th Street for the next five years and thereafter are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 196,000
2020	246,000
2021	599,000
2022	604,000
2023	640,000
Thereafter	<u>5,906,000</u>
Total	<u>\$ 8,191,000</u>

Pursuant to the Master Lease Agreement, Simpson Center agrees to pay or to cause the subtenants to pay as additional rent: (i) any premiums and deductibles for insurance, (ii) any and all Impositions (as further defined in the Master Lease Agreement), and (iii) any and all Operating Costs (as further defined in the Master Lease Agreement).

For the year ended June 30, 2018, 510 16th Street has earned rental income of \$238,795. As of June 30, 2018, 510 16th Street had a deferred rent asset of \$71,559.

17. 433 Callan Lease

On May 7, 2018, the Organization entered into a lease agreement (the “433 Callan Lease Agreement”) with 433 Callan, LLC (“433 Callan”) to lease the property at 433 Callan Avenue, Suite 101, San Leandro, CA 94577. Pursuant to the 433 Callan Lease Agreement, the Organization will lease approximately 2,332 square feet from 433 Callan. Commencing on July 1, 2018, the Organization is required to make rental payments according to the schedule set forth in the 433 Callan Lease Agreement. The lease term commences on July 1, 2018 and terminates on August 31, 2023.

Pursuant to the 433 Callan Lease Agreement, future minimum rental payments payable to 433 Callan for the next five years and thereafter are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 55,665
2020	62,547
2021	64,423
2022	66,356
2023	68,347
Thereafter	<u>11,733</u>
Total	<u>\$ 329,071</u>

For the year ended June 30, 2018, the Organization has not incurred any rental expense.

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

18. Subleases

Simpson Center

On July 31, 2012, the Organization entered into a sublease agreement (the “Sublease Agreement”) with Simpson Center for sub-leasing of the Property. Pursuant to the Sublease Agreement, the Organization agreed to operate the Property as a center to provide academic enrichment programs and counseling services for low-income girls subject to terms of the Sublease Agreement. Commencing on October 1, 2013, the Organization paid Simpson Center an amount equal to \$74,000 for 2013. Thereafter, the Organization shall pay Simpson Center the annual fixed rent set forth in the Sublease Agreement, payable in arrears and in equal quarterly installments on January 1, April 1, July 1, and October 1 of each lease year. The lease term commenced on July 31, 2012 and terminates on October 1, 2020.

Pursuant to the Sublease Agreement, future minimum rental payments due from the Organization for the next five years and thereafter are as follows:

Year	Amount
2019	\$ 215,000
2020	278,000
Total	\$ 493,000

For the year ended June 30, 2018, the Organization incurred rental expense of \$202,572 which is included in program services, management and general, and fundraising on the consolidated statement of activities. As of June 30, 2018, the Organization had an accrued rent liability of \$125,047, which is included in accrued expenses in the consolidated statement of financial position.

Pursuant to the Sublease Agreement, if and to the extent that the Organization is obligated to pay additional amounts under the Master Lease Agreement, for maintenance and/or other expenses attributable to the Property, then the Organization is obligated to pay for such maintenance and/or other expenses. The Organization is required to pay Simpson Center such additional amounts as additional sublease rent within ten days after Simpson Center has billed the Organization. For the year ended June 30, 2018, the Organization incurred and paid additional sublease rent of \$66,147 which is included in program services, management and general, and fundraising on the consolidated statement of activities.

IGNITE

In June 2015, the Organization entered into a sublease agreement (the “IGNITE Sublease Agreement”) with IGNITE for sub-leasing of a portion of the Property. Pursuant to the IGNITE Sublease Agreement, IGNITE will lease approximately 435 square feet from the Organization. Commencing on July 1, 2015, IGNITE is required to make rental payments on the first day of each month in an amount of \$1,200. IGNITE is required to make an initial rental payment of \$600 upon execution of the IGNITE Sublease Agreement. The lease term commenced on June 15, 2015 and terminated on June 14, 2017. The Organization exercised the option to extend the lease term for the period commencing June 15, 2017 and terminating on June 30, 2018.

Pursuant to the IGNITE Sublease Agreement, future minimum rental payments due from IGNITE are \$14,400 for 2019.

For the year ended June 30, 2018, the Organization has earned rental income of \$14,400.

GIRLS INCORPORATED OF ALAMEDA COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

18. Subleases (continued)

VR Research

On September 8, 2015, the Organization entered into a sublease agreement (the “VR Research Sublease Agreement”) with VR Research, Inc. (“VR Research”) for sub-leasing of a portion of the Property. Pursuant to the VR Research Sublease Agreement, VR Research will lease approximately 1,929 square feet from the Organization. Commencing on November 1, 2015, VR Research is required to make rental payments according to the schedule set forth in the VR Research Sublease Agreement. The lease term commenced on November 1, 2015 and terminates on October 31, 2020.

Pursuant to the VR Research Sublease Agreement, future minimum rental payments due from VR Research are as follows:

Year	Amount
2019	\$ 68,884
2020	70,951
2021	23,882
Total	\$ 163,717

For the year ended June 30, 2018, the Organization has earned rental income of \$69,049.

19. Put and call agreement

On July 31, 2012, the Organization entered into an investment fund put and call agreement (the “Put and Call Agreement”) with U.S. Bancorp Community Development Corporation (“USBCDC”). Pursuant to the Put and Call Agreement, USBCDC has the right and option to require the Organization to purchase all of USBCDC’s interest in 510 16th Street IF (the “510 16th Street IF Put”) upon each and every occurrence of the following events: (i) the later of (A) the first day following the end of the Tax Credit Investment Period (as further defined in the Amended and Rested Operating Agreement of 510 16th Street IF) or (B) the seventh anniversary of the date of the Put and Call Agreement; or (ii) the occurrence of a Recapture Event (as further defined in the Unconditional Guaranty of New Markets Tax Credits, Put Price and Environmental Indemnification). USBCDC has the right to exercise the 510 16th Street IF Put at any time during the 120-day period following receipt by USBCDC of a Put Availability Notice (as further defined in the Put and Call Agreement) from the Organization (the “Put Exercise Period”). The purchase price shall be an amount equal to the sum of: (i) \$1,000; plus (ii) any transfer taxes and other closing costs attributable to the exercise of the 510 16th Street IF Put and the USBCDC’s interest in 510 16th Street IF; plus (iii) any amounts due and owing from the Organization, or any of its respective affiliates to 510 16th Street IF; plus (iv) any amounts owing from the Organization or 510 16th Street or any of their respective affiliates, to USBCDC in connection with the Unconditional Guaranty of New Markets Tax Credits, Put Price and Environmental Indemnification, including but not limited to any accrued and unpaid Tax Equivalency Payments (as further defined in the Unconditional Guaranty of New Markets Tax Credits, Put Price and Environmental Indemnification).

In the event that USBCDC has not exercised the 510 16th Street IF Put, the Organization shall have the right and option to purchase all of USBCDC’s interest in 510 16th Street IF for a 180-day period following the expiration of the Put Exercise Period for an amount equal to the fair market value of USBCDC’s interest in 510 16th Street IF.

SUPPLEMENTARY INFORMATION

GIRLS INCORPORATED OF ALAMEDA COUNTY
CONSOLIDATED SCHEDULE OF EXPENDITURES OF COUNTY OF ALAMEDA GRANTS
For the year ended June 30, 2018

<u>Program Name</u>	<u>Delinquency Prevention Network Service Program</u>	<u>Early and Periodic Screening Diagnostic and Treatment</u>	<u>Teen Pregnancy Prevention Program</u>	<u>Medi-Cal Administrative Activities</u>	<u>Child Abuse Prevention Intervention and Treatment</u>
Contract Number	900129	00008	PHG1JFH31100		
Contract Period	7/1/17 - 6/30/18	7/1/17 - 6/30/18	7/1/17 - 6/30/18	7/1/17 - 6/30/18	7/1/17 - 6/30/18
Current Contract Amount	\$ 155,449	\$ 348,368	\$ -	\$ -	\$ 69,384
Amount Invoiced	\$ 155,449	\$ 348,368	\$ -	\$ 70,000	\$ 69,301
Expenses:					
Salaries	108,844	-	-	-	-
Employee Benefits	18,503	-	-	-	-
Travel & Training	2,449	-	-	-	-
Concrete Services	10,000	-	-	-	-
Supplies & Equipment	-	-	-	-	-
Recruiting	930	-	-	-	-
General Office Expense	591	-	-	-	-
Office Space	-	-	-	-	-
Units of Service	-	348,368	-	-	69,301
Non-itemized Expenses	-	-	-	-	-
Indirect	14,132	-	-	-	-
Total Expenses	<u>155,449</u>	<u>348,368</u>	<u>-</u>	<u>-</u>	<u>69,301</u>
Amount Reimbursed	\$ 129,114	\$ 270,987	\$ -	\$ -	\$ 69,301
Accounts Receivable	\$ 26,336	\$ 77,381	\$ -	\$ 70,000	\$ -



Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

To the Board of Directors of
Girls Incorporated of Alameda County:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Girls Incorporated of Alameda County (the “Organization”), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of Organization’s internal control.

A deficiency in *internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Novograde & Company LLP". The signature is written in a cursive, flowing style.

San Francisco, California
December 5, 2018