Audited Financial Statements and Supplementary Information

826LA

A NON-PROFIT WRITING & TUTORING CENTER

June 30, 2015 and 2014

Quigley & Miron

826LA
Audited Financial Statements and Supplementary Information
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June 30, 2015 and 2014

Quigley & Miron

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Independent Auditor's Report

Board of Directors
826LA
Los Angeles, California

We have audited the accompanying financial statements of 826LA, a nonprofit organization, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 826LA as of June 30, 2015 and 2014, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Quigley & Miron

Los Angeles, California
January 15, 2016

826LA
Statement of Financial Position
June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Assets			
Current Assets			
Cash and cash equivalents	$ 1,816,375	$ 132,800	$ 1,949,175
Contributions receivable—Note 4	10,000	110,400	120,400
Inventory	43,540		43,540
Prepaid expenses	28,122		28,122
Total Current Assets	**1,898,037**	**243,200**	**2,141,237**
Non-Current Assets			
Property and equipment, net—Note 5	39,644		39,644
Deposits	28,936		28,936
Total Non-Current Assets	**68,580**		**68,580**
Total Assets	**$ 1,966,617**	**$ 243,200**	**$ 2,209,817**
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued expenses	$ 53,921	$	$ 53,921
Accrued paid time off	36,624		36,624
Deferred lease incentive—Note 6	17,732		17,732
Total Liabilities	**108,277**		**108,277**
Commitments—Note 6			
Net Assets			
Unrestricted	1,858,340		1,858,340
Temporarily restricted—Note 8		243,200	243,200
Total Net Assets	**1,858,340**	**243,200**	**2,101,540**
Total Liabilities and Net Assets	**$ 1,966,617**	**$ 243,200**	**$ 2,209,817**

See notes to financial statements.

826LA
Statement of Financial Position
June 30, 2014

	Unrestricted	Temporarily Restricted	Total
Assets			
Current Assets			
Cash and cash equivalents	$ 1,263,667	$ 25,300	$ 1,288,967
Investments—Note 2	410,000		410,000
Contributions receivable—Note 4	2,800	258,690	261,490
Inventory	45,231		45,231
Prepaid expenses	16,141		16,141
Total Current Assets	**1,737,839**	**283,990**	**2,021,829**
Non-Current Assets			
Property and equipment, net—Note 5	71,071		71,071
Deposits	28,936		28,936
Total Non-Current Assets	**100,007**		**100,007**
Total Assets	**$ 1,837,846**	**$ 283,990**	**$ 2,121,836**
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued expenses	$ 35,556	$	$ 35,556
Accrued paid time off	38,829		38,829
Deferred lease incentive—Note 6	23,086		23,086
Total Liabilities	**97,471**		**97,471**
Commitments—Note 6			
Net Assets			
Unrestricted	1,740,375		1,740,375
Temporarily restricted—Note 8		283,990	283,990
Total Net Assets	**1,740,375**	**283,990**	**2,024,365**
Total Liabilities and Net Assets	**$ 1,837,846**	**$ 283,990**	**$ 2,121,836**

See notes to financial statements.

826LA
Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue			
Contributions			
Individuals, corporations, and government agencies	$ 321,864	$ 77,000	$ 398,864
Foundations	247,887	190,650	438,537
Fundraising events—Note 10	402,388		402,388
Store sales, net—Note 11	48,299		48,299
Interest and dividends	937		937
Other income	20,154		20,154
Total Public Support and Revenue	**1,041,529**	**267,650**	**1,309,179**
Net assets released from restrictions	**308,440**	**(308,440)**	
Total Public Support, Revenue, and Net Assets Released from Restrictions	**1,349,969**	**(40,790)**	**1,309,179**
Expenses			
Program services	950,925		950,925
Management and general	74,523		74,523
Fundraising	206,556		206,556
Total Expenses	**1,232,004**		**1,232,004**
Change in Net Assets	**117,965**	**(40,790)**	**77,175**
Net Assets at Beginning of Year	**1,740,375**	**283,990**	**2,024,365**
Net Assets at End of Year	**$ 1,858,340**	**$ 243,200**	**$ 2,101,540**

See notes to financial statements.

826LA
Statement of Activities
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue			
Contributions			
Individuals, corporations, and government agencies	$ 268,200	$ 135,830	$ 404,030
Foundations	346,396	281,100	627,496
Fundraising events—Note 10	376,710		376,710
Store sales, net—Note 11	46,167		46,167
Interest and dividends	11,703		11,703
Gains on investments	3,337		3,337
Other income	15,643		15,643
Total Public Support and Revenue	**1,068,156**	**416,930**	**1,485,086**
Net assets released from restrictions	**357,626**	**(357,626)**	
Total Public Support, Revenue, and Net Assets Released from Restrictions	**1,425,782**	**59,304**	**1,485,086**
Expenses			
Program services	840,286		840,286
Management and general	69,538		69,538
Fundraising	158,094		158,094
Total Expenses	**1,067,918**		**1,067,918**
Change in Net Assets	**357,864**	**59,304**	**417,168**
Net Assets at Beginning of Year	**1,382,511**	**224,686**	**1,607,197**
Net Assets at End of Year	**$ 1,740,375**	**$ 283,990**	**$ 2,024,365**

See notes to financial statements.

826LA
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	$ 77,175	$ 417,168
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	31,427	29,948
Gains on investments		(3,337)
Changes in operating assets and liabilities:		
Contributions receivable	141,090	(217,290)
Inventory	1,691	(268)
Prepaid expenses	(11,981)	(10,893)
Accounts payable and accrued expenses	18,365	10,615
Accrued paid time off	(2,205)	9,852
Deferred lease incentive	(5,354)	(3,601)
Net Cash Provided by Operating Activities	**250,208**	**232,194**
Cash Flows from Investing Activities		
Purchases of investments		(801,618)
Sales and maturities of investments	410,000	1,361,792
Purchases of property and equipment		(7,397)
Net Cash Provided by Investing Activities	**410,000**	**552,777**
Net Increase in Cash and Cash Equivalents	**660,208**	**784,971**
Cash and Cash Equivalents at Beginning of Year	**1,288,967**	**503,996**
Cash and Cash Equivalents at End of Year	**$ 1,949,175**	**$ 1,288,967**
Supplementary Disclosures		
Income taxes paid	$ -	$ -
Interest paid	$ -	$ -

See notes to financial statements.

Note 1—Nature of Activities and Significant Accounting Policies

Nature of Activities—826LA is a California nonprofit corporation, established in 2005 for the purpose of supporting students ages 6 to 18 and their teachers in the development of the students' creative and expository writing skills. 826LA's services are structured based on a recognition that great leaps in learning through one-on-one attention foster the development of strong writing skills that are fundamental to the student's future success. Through 826LA's two Los Angeles-based locations in Echo Park and Mar Vista and its in-service programs located at schools throughout the county, 826LA provides after-school tutoring, evening and weekend workshops, in-school tutoring, field trips, help for English language learners, and assistance with student publications. 826LA's programs are designed to be challenging and enjoyable for students and teachers, and seek to strengthen each student's ability to express ideas effectively, creatively, confidently, and in his or her individual voice.

Financial Statement Presentation—The financial statements are prepared on the accrual basis of accounting. 826LA recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions and net assets are classified on the existence or absence of donor-imposed restrictions. The net assets of 826LA and changes therein are classified and reported as follows:

Unrestricted net assets—Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of 826LA.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met either by actions of 826LA and/or passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.

Permanently restricted net assets—Net assets that are restricted by the donors for investment in perpetuity. The investment income generated from these funds is available for general support of 826LA's programs and operations. 826LA had no permanently restricted net assets at June 30, 2015 and 2014.

Income Taxes—826LA is a California nonprofit public benefit corporation that serves charitable and educational purposes and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) and from California franchise tax under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for federal or state income taxes is included in the financial statements. In addition, 826LA has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered *'more likely than not'* to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for tax liability is not necessary at June 30, 2015 and 2014. Generally, 826LA's information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Note 1—Nature of Activities and Significant Accounting Policies—*Continued*

Cash and Cash Equivalents—826LA considers highly liquid investments with a maturity of less than three months when purchased to be cash equivalents.

Investments—Investments in securities are initially recorded at cost, if purchased, or fair market value, if received as a contribution. Subsequent to acquisition, investments in securities are reported at fair value. Investment income, gains, and losses are reported as unrestricted income unless use of the earnings is restricted by the donor.

Inventory—Inventory is carried at cost and consists of goods ready for resale at 826LA's Time Travel Mart locations in Echo Park (on Sunset Boulevard) and Mar Vista (on Venice Boulevard). Inventory includes books, publications, posters, shirts, and other time travel related merchandise designed to promote the education and creative process of students served by 826LA. Revenue from store sales is recognized upon receipt of payment for products sold.

Property and Equipment—Property and equipment is stated at cost when purchased, or at estimated fair market value at the date of bequest or gift. Depreciation is provided using the straight-line method over the estimated useful life of the related asset, principally 5 years. Amortization of equipment purchased under capital lease obligations is included in depreciation expense. It is 826LA's policy to expense items purchased or donated with values less than $5,000. As of June 30, 2015 and 2014, 826LA did not have any property or equipment obtained pursuant to gifts or capital leases.

Concentrations of Credit Risk—Financial instruments which potentially subject 826LA to concentrations of credit risk consist of cash and cash equivalents, certificates of deposit, investments, and grants receivable.

826LA places its cash and cash equivalents and certificates of deposit with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per institution. At times, such balances of cash and cash equivalents are in excess of the FDIC coverage limits. Management regularly reviews the financial stability of its cash depositories and its allocation of investments and deems the risk of loss due to these concentrations to be minimal.

Grants receivable are due from a variety of foundations, corporations, and government agencies well-known to 826LA, with favorable past payment histories. 826LA's management has assessed the credit risk associated with these grants receivable and has determined that an allowance for potentially uncollectible amounts is not necessary.

Note 1—Nature of Activities and Significant Accounting Policies—*Continued*

Donated Services—Donated services are not reflected in the accompanying financial statements as they do not meet the criteria for recognition under current accounting standards. In order to expand the reach of its programs, 826LA utilizes the services of a substantial number of volunteers who have donated a significant number of hours to 826LA's program services, management, and fundraising activities. During the years ended June 30, 2015 and 2014, 826LA's volunteer network donated 27,304 service hours valued at $733,658, and 23,249 service hours valued at $612,379, respectively. These valuations are based on an estimated rate of volunteer time of $26.87 per hour in 2015, and $26.34 per hour in 2014, as computed by Independent Sector, a leading resource and research organization for the nonprofit industry.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2—Investments

During the year ended June 30, 2015, the certificates of deposit comprising the investment accounts matured and were converted to cash equivalents. As a result there is no investment balance at June 30, 2015.

Investments at June 30, 2014 consisted of the following:

	Cost Basis	Market Value
Certificates of deposit	$ 410,000	$ 410,000
Totals	**$ 410,000**	**$ 410,000**

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2015 and 2014:

	2015	2014
Investment gains	$	$ 3,337
Interest and dividends	645	11,418
Total Investment Returns	**$ 645**	**$ 14,755**

Note 3—Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy is categorized into three levels based on the inputs as follows:

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

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

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

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

Fair values of assets measured on a recurring basis at June 30, 2014 consist of certificates of deposit, which are considered Level 2 assets.

Note 4—Contributions Receivable

Contributions receivable at June 30, 2015 and 2014 consist of the following:

	2015	2014
Foundations	$ 90,000	$ 200,000
Government agencies	10,400	58,690
Individuals and corporations	20,000	2,800
Totals	**$ 120,400**	**$ 261,490**

Note 5—Property and Equipment, Net

Net property and equipment at June 30, 2015 and 2014 consist of the following:

	2015	2014
Furniture and equipment	$ 78,653	$ 78,653
Leasehold improvements	227,904	227,904
	306,557	306,557
Less accumulated depreciation	(266,913)	(235,486)
Property and Equipment, Net	**$ 39,644**	**$ 71,071**

Note 6—Commitments

826LA leases space in Echo Park under a non-cancelable operating lease, expiring August 2022, and in Mar Vista under a non-cancelable operating lease, expiring September 2017. Future minimum rental payments due on these operating leases are as follows:

Year Ended June 30,	
2016	$ 139,935
2017	144,523
2018	94,196
2019	86,426
2020	89,451
Thereafter	204,466
Total	**$ 758,997**

Rent expense for the Mar Vista location is recognized on a straight-line basis over the lease terms based on the total payments required under the lease. The deferred lease incentive amount of $17,732 at June 30, 2015 and $23,086 at June 30, 2014 represents the cumulative difference between the amounts paid and amounts expensed under the lease.

Rent expense related to the Echo Park lease for each of the years ended June 30, 2015 and 2014 was approximately $76,000. Rent expense related to the Mar Vista lease for each of the years ended June 30, 2015 and 2014 was approximately $55,000.

Note 7—Contingencies

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

Note 8—Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 and 2014 consist of the following:

	2015	2014
Program and operations support	$ 132,800	$ 25,300
Grants restricted to future periods	110,400	258,690
Totals	**$ 243,200**	**$ 283,990**

Note 9—Employee Benefit Plan

Effective January 1, 2014, and commencing July 1, 2014, 826LA established a 401(k) defined contribution retirement program (the Plan) for its employees over the age of 21 with one year of service. 826LA matches 100% of employee contributions, up to 2% of annual salary. Employees are vested immediately with 100% non-forfeitability of all employer matched contributions. Expenses related to the Plan's administration and 826LA's employer matching contributions for the year ended June 30, 2015 were $2,282 and $7,973, respectively.

Note 10—Fundraising Events

Fundraising event activity for the years ended June 30, 2015 and 2014 consists of the following:

	Gross Receipts	Expenses	Net
2015:			
Tell Me a Story: 826LA 10th Anniversary Celebration	$ 348,405	$ (66,769)	$ 281,636
Let's Do the Time Warp Dance-a-thon	53,983	(10,044)	43,939
Totals	**$ 402,388**	**$ (76,813)**	**$ 325,575**
2014:			
Anchorman Live!	**$ 376,710**	**$ (43,437)**	**$ 333,273**

Note 11—Store Sales, Net

Net store sales for the years ended June 30, 2015 and 2014 consist of the following:

		2015		2014
Store sales	$	93,427	$	91,540
Less:				
Cost of goods sold		(34,428)		(35,655)
Other direct expenses		(10,700)		(9,718)
Store Sales, Net	**$**	**48,299**	**$**	**46,167**

Note 12—Subsequent Events

Subsequent events were evaluated through January 15, 2016, which is the date the financial statements were available to be issued, and it was concluded that no material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.

Quigley & Miron

Certified Public Accountants

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Independent Auditor's Report on Supplementary Information

Board of Directors
826LA
Los Angeles, California

We have audited the financial statements of 826LA as of and for the years ended June 30, 2015 and 2014, and have issued our report thereon dated January 15, 2016, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The accompanying statements of functional expenses are presented for the purpose of additional analysis and are not a required part of the 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 financial statements. The information has not been subjected to the auditing procedures applied in the audits of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on this information.

Quigley & Miron

Los Angeles, California
January 15, 2016

826LA
Schedule A
Statement of Functional Expenses
Year Ended June 30, 2015

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 488,290	$ 44,214	$ 72,339	$ 604,843
Payroll taxes	43,304	3,922	6,415	53,641
Employee benefits	54,263	4,914	8,039	67,216
Total Personnel	**585,857**	**53,050**	**86,793**	**725,700**
Accounting fees	24,822	1,461	2,920	29,203
Americorp Vista	12,693	746	1,493	14,932
Depreciation	26,713	1,571	3,143	31,427
Fundraising events expenses—Note 10			76,813	76,813
Insurance	10,530	619	1,239	12,388
Miscellaneous	30,305	1,783	3,565	35,653
National affiliate fees	36,625	2,154	4,309	43,088
Occupancy	129,954	7,642	15,289	152,885
Outside services	21,493	1,263	2,529	25,285
Postage and shipping	1,732	101	204	2,037
Printing and publications	20,595	1,211	2,423	24,229
Small equipment purchases	13,861	816	1,631	16,308
Supplies	21,386	1,260	2,516	25,162
Telephone	3,273	193	385	3,851
Travel	11,086	653	1,304	13,043
Total Non-Personnel	**365,068**	**21,473**	**119,763**	**506,304**
Totals	**$ 950,925**	**$ 74,523**	**$ 206,556**	**$ 1,232,004**
	77%	**6%**	**17%**	**100%**

See accompanying independent auditor's report on supplementary information.

826LA
Schedule A
Statement of Functional Expenses
Year Ended June 30, 2014

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 416,618	$ 41,662	$ 62,493	$ 520,773
Payroll taxes	35,249	3,525	5,287	44,061
Employee benefits	36,498	3,649	5,475	45,622
Total Personnel	**488,365**	**48,836**	**73,255**	**610,456**
Accounting fees	24,390	1,435	2,869	28,694
Americorp Vista	4,471	263	526	5,260
Depreciation	25,455	1,498	2,995	29,948
Fundraising events expenses—Note 10			43,437	43,437
Insurance	10,708	630	1,260	12,598
Miscellaneous	22,476	1,322	2,644	26,442
National affiliate fees	34,282	2,017	4,033	40,332
Occupancy	126,431	7,437	14,874	148,742
Outside services	32,545	1,914	3,829	38,288
Postage and shipping	1,692	100	199	1,991
Printing and publications	18,077	1,063	2,127	21,267
Small equipment purchases	6,522	384	767	7,673
Supplies	28,576	1,680	3,362	33,618
Telephone	5,553	327	653	6,533
Travel	10,743	632	1,264	12,639
Total Non-Personnel	**351,921**	**20,702**	**84,839**	**457,462**
Totals	**$ 840,286**	**$ 69,538**	**$ 158,094**	**$ 1,067,918**
	79%	**6%**	**15%**	**100%**

See accompanying independent auditor's report on supplementary information.