Audited Financial Statements and Supplementary Information

826LA

A NON-PROFIT WRITING & TUTORING CENTER

June 30, 2017 and 2016

Quigley & Miron

826LA
Audited Financial Statements and Supplementary Information
Table of Contents
June 30, 2017 and 2016

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, 2017 and 2016, 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 preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017 and 2016, 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
February 28, 2018

826LA
Statement of Financial Position
June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Assets			
Current Assets			
Cash and cash equivalents	$ 2,268,857	$	$ 2,268,857
Contributions and grants receivable —Note 2	82,481	294,430	376,911
Inventory	34,645		34,645
Prepaid expenses	26,911		26,911
Total Current Assets	**2,412,894**	**294,430**	**2,707,324**
Non-Current Assets			
Property and equipment, net—Note 3	12,053		12,053
Deposits	30,284		30,284
Total Non-Current Assets	**42,337**		**42,337**
Total Assets	**$ 2,455,231**	**$ 294,430**	**$ 2,749,661**
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued expenses	$ 43,656	$	$ 43,656
Accrued paid time off	35,877		35,877
Deferred lease incentive—Note 4	1,555		1,555
Total Liabilities	**81,088**		**81,088**
Net Assets			
Unrestricted	2,374,143		2,374,143
Temporarily restricted—Note 6		294,430	294,430
Total Net Assets	**2,374,143**	**294,430**	**2,668,573**
Total Liabilities and Net Assets	**$ 2,455,231**	**$ 294,430**	**$ 2,749,661**

See notes to financial statements.

826LA
Statement of Financial Position
June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Assets			
Current Assets			
Cash and cash equivalents	$ 1,997,998	$ 103,780	$ 2,101,778
Contributions and grants receivable —Note 2	39,847	210,880	250,727
Inventory	35,079		35,079
Prepaid expenses	16,166		16,166
Total Current Assets	**2,089,090**	**314,660**	**2,403,750**
Non-Current Assets			
Property and equipment, net—Note 3	22,627		22,627
Deposits	29,598		29,598
Total Non-Current Assets	**52,225**		**52,225**
Total Assets	**$ 2,141,315**	**$ 314,660**	**$ 2,455,975**
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued expenses	$ 42,511	$	$ 42,511
Accrued paid time off	26,333		26,333
Deferred lease incentive—Note 4	10,573		10,573
Total Liabilities	**79,417**		**79,417**
Net Assets			
Unrestricted	2,061,898		2,061,898
Temporarily restricted—Note 6		314,660	314,660
Total Net Assets	**2,061,898**	**314,660**	**2,376,558**
Total Liabilities and Net Assets	**$ 2,141,315**	**$ 314,660**	**$ 2,455,975**

See notes to financial statements.

826LA
Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue			
Contributions and grants			
Foundations	$ 342,521	$ 321,000	$ 663,521
Individuals, corporations, and government agencies	418,492	111,814	530,306
Fundraising events—Note 8	478,950		478,950
Contracted services	73,600		73,600
Store sales, net—Note 9	54,381		54,381
Interest and dividends	4,710		4,710
Total Public Support and Revenue	**1,372,654**	**432,814**	**1,805,468**
Net assets released from restrictions	453,044	(453,044)	
Total Public Support, Revenue, and Net Assets Released from Restrictions	**1,825,698**	**(20,230)**	**1,805,468**
Expenses			
Program services	1,111,767		1,111,767
Management and general	111,926		111,926
Fundraising	289,760		289,760
Total Expenses	**1,513,453**		**1,513,453**
Change in Net Assets	**312,245**	**(20,230)**	**292,015**
Net Assets at Beginning of Year	**2,061,898**	**314,660**	**2,376,558**
Net Assets at End of Year	**$ 2,374,143**	**$ 294,430**	**$ 2,668,573**

See notes to financial statements.

826LA
Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue			
Contributions and grants			
Foundations	$ 285,554	$ 255,000	$ 540,554
Individuals, corporations, and government agencies	440,875	139,168	580,043
Fundraising events—Note 8	483,416		483,416
Contracted services	54,100		54,100
Store sales, net—Note 9	43,436		43,436
Interest and dividends	1,161		1,161
Total Public Support and Revenue	**1,308,542**	**394,168**	**1,702,710**
Net assets released from restrictions	322,708	(322,708)	
Total Public Support, Revenue, and Net Assets Released from Restrictions	**1,631,250**	**71,460**	**1,702,710**
Expenses			
Program services	1,051,767		1,051,767
Management and general	100,557		100,557
Fundraising	275,368		275,368
Total Expenses	**1,427,692**		**1,427,692**
Change in Net Assets	**203,558**	**71,460**	**275,018**
Net Assets at Beginning of Year	**1,858,340**	**243,200**	**2,101,540**
Net Assets at End of Year	**$ 2,061,898**	**$ 314,660**	**$ 2,376,558**

See notes to financial statements.

826LA
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 292,015	$ 275,018
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,574	17,017
Changes in operating assets and liabilities:		
Contributions and grants receivable	(126,184)	(130,327)
Inventory	434	8,461
Prepaid expenses	(10,745)	11,956
Deposits	(686)	(662)
Accounts payable and accrued expenses	1,145	(11,410)
Accrued paid time off	9,544	(10,291)
Deferred lease incentive	(9,018)	(7,159)
Net Cash Provided by Operating Activities	**167,079**	**152,603**
Net Increase in Cash and Cash Equivalents	**167,079**	**152,603**
Cash and Cash Equivalents at Beginning of Year	**2,101,778**	**1,949,175**
Cash and Cash Equivalents at End of Year	**$ 2,268,857**	**$ 2,101,778**
Supplementary Disclosures		
Cash paid during the year for:		
Income taxes	$ -	$ -
Interest	$ -	$ -

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, a newly opened Writers' Room on the campus of Manual Arts High School, and its in-service programs located at schools throughout the county, 826LA provides tutoring, evening and weekend workshops, in-school writing support, field trips, 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, 2017 and 2016.

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, 2017 and 2016. 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, 2017 and 2016, 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, and contributions and grants receivable.

826LA places its cash and cash equivalents 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 deems the risk of loss due to these concentrations to be minimal.

Contributions and grants receivable are due from a variety of foundations, corporations, government agencies, and individuals well-known to 826LA, with favorable past payment histories. 826LA's management has assessed the credit risk associated with these contributions and 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

Contracted Services—Contracted services revenue is recognized at the rendering of services.

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, 2017 and 2016, 826LA's volunteer network donated 22,035 service hours valued at $627,116, and 21,688 service hours valued at $598,372, respectively. These valuations are based on an estimated rate of volunteer time of $28.46 per hour in 2017, and $27.59 per hour in 2016, 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—Contributions and Grants Receivable

Contributions and grants receivable at June 30, 2017 and 2016 consist of the following:

	2017	2016
Foundations	$ 221,400	$ 147,500
Government agencies	42,253	65,880
Individuals and corporations	113,258	37,347
Totals	**$ 376,911**	**$ 250,727**

Note 3—Property and Equipment, Net

Net property and equipment at June 30, 2017 and 2016 consist of the following:

	2017	2016
Furniture and equipment	$ 78,653	$ 78,653
Leasehold improvements	227,904	227,904
	306,557	306,557
Less accumulated depreciation	(294,504)	(283,930)
Property and Equipment, Net	**$ 12,053**	**$ 22,627**

Note 4—Leases

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 2022. Future minimum rental payments due on these operating leases are as follows:

Year Ended June 30,		
2018	$	149,262
2019		154,157
2020		159,214
2021		164,437
2022		169,834
Thereafter		28,456
Total	**$**	**825,360**

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 $1,555 at June 30, 2017 and $10,573 at June 30, 2016 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, 2017 and 2016 was approximately $80,000 and $77,000, respectively. Rent expense related to the Mar Vista lease for each of the years ended June 30, 2017 and 2016 was approximately $55,000.

Note 5—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 6—Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 consist of the following:

	2017	2016
Program and operations support	$	$ 103,780
Grants restricted to future periods	294,430	210,880
Totals	**$ 294,430**	**$ 314,660**

Note 7—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, 2017 were $2,602 and $9,685, respectively, and for the year ended June 30, 2016 were $2,799 and $8,754 respectively.

Note 8—Fundraising Events

Fundraising event activity for the years ended June 30, 2017 and 2016 consists of the following:

	Gross Receipts	Expenses	Net
2017:			
Tell Me a Story: 826LA Celebration	$ 453,300	$ (78,486)	$ 374,814
Let's Do the Time Warp	25,650	(4,366)	21,284
Totals	**$ 478,950**	**$ (82,852)**	**$ 396,098**
2016:			
Tell Me a Story: 826LA Celebration	**$ 483,416**	**$ (120,835)**	**$ 362,581**

Note 9—Store Sales, Net

Net store sales for the years ended June 30, 2017 and 2016 consist of the following:

	2017	2016
Store sales	$ 107,799	$ 107,231
Less:		
Cost of goods sold	(39,820)	(50,461)
Other direct expenses	(13,598)	(13,334)
Net	**$ 54,381**	**$ 43,436**

Note 10—Recent Accounting Pronouncements

Leases—In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases* (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for 826LA in 2020; early adoption is permitted. 826LA is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

Net Assets Presentation—In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires all not-for-profit entities to present expenses by both their natural and functional classification in a single location in the financial statements. ASU No. 2016-14 is effective for 826LA in 2018. Early adoption is permitted. 826LA is currently evaluating the impact that the adoption of ASU 2016-14 will have on its financial statements.

Inventory—In July 2015, FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. ASU 2015-11 simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. ASU 2015-11 applies only to inventories for which cost is determined by methods other than last-in first-out and the retail inventory method. ASU 2015-11 is effective on a prospective basis for public companies for annual reporting periods beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the ASU 2015-11 is effective on a prospective basis for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 31, 2017. Early adoption of ASU 2015-11 is permitted. 826LA is currently evaluating the impact that the adoption of ASU 2015-11 will have on its financial statements.

Note 11—Subsequent Events

Subsequent events were evaluated through February 28, 2018, 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

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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, 2017 and 2016, and have issued our report thereon dated February 28, 2018, 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
February 28, 2018

826LA
Schedule A
Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 652,457	$ 77,605	$ 140,926	$ 870,988
Payroll taxes	54,548	6,488	11,782	72,818
Employee benefits	66,921	7,960	14,454	89,335
Total Personnel	**773,926**	**92,053**	**167,162**	**1,033,141**
Accounting fees	34,081	2,005	4,010	40,096
Americorp Vista	3,188	187	375	3,750
Depreciation	8,988	529	1,057	10,574
Fundraising events expenses—Note 8			82,852	82,852
Insurance	10,264	604	1,207	12,075
Miscellaneous	37,993	2,235	4,470	44,698
National affiliate fees	41,051	2,415	4,830	48,296
Occupancy	131,315	7,724	15,449	154,488
Outside services	18,688	1,099	2,198	21,985
Postage and shipping	1,015	60	119	1,194
Printing and publications	23,003	1,353	2,706	27,062
Small equipment purchases	1,388	81	163	1,632
Supplies	18,051	1,062	2,124	21,237
Telephone	3,635	214	428	4,277
Travel	5,181	305	610	6,096
Total Non-Personnel	**337,841**	**19,873**	**122,598**	**480,312**
Totals	**$ 1,111,767**	**$ 111,926**	**$ 289,760**	**$ 1,513,453**
	74%	**7%**	**19%**	**100%**

See accompanying independent auditor's report on supplementary information.

826LA
Schedule A
Statement of Functional Expenses
Year Ended June 30, 2016

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 561,207	$ 65,285	$ 91,715	$ 718,207
Payroll taxes	50,860	5,916	8,312	65,088
Employee benefits	60,708	7,062	9,921	77,691
Total Personnel	**672,775**	**78,263**	**109,948**	**860,986**
Accounting fees	29,871	1,757	3,514	35,142
Americorp Vista	12,499	735	1,470	14,704
Depreciation	14,465	851	1,701	17,017
Fundraising events expenses—Note 8			120,835	120,835
Insurance	11,161	657	1,313	13,131
Miscellaneous	31,237	1,838	3,675	36,750
National affiliate fees	48,165	2,833	5,666	56,664
Occupancy	135,582	7,975	15,951	159,508
Outside services	27,765	1,633	3,266	32,664
Postage and shipping	3,668	216	431	4,315
Printing and publications	21,023	1,237	2,473	24,733
Small equipment purchases	2,519	148	296	2,963
Supplies	26,729	1,572	3,145	31,446
Telephone	3,595	212	423	4,230
Travel	10,713	630	1,261	12,604
Total Non-Personnel	**378,992**	**22,294**	**165,420**	**566,706**
Totals	**$ 1,051,767**	**$ 100,557**	**$ 275,368**	**$ 1,427,692**
	74%	**7%**	**19%**	**100%**

See accompanying independent auditor's report on supplementary information.