

Audited Financial Statements



A NON-PROFIT WRITING & TUTORING CENTER

June 30, 2020

Quigley & Miron

826LA
Audited Financial Statements
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June 30, 2020

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Suite 1660
3550 Wilshire Boulevard
Los Angeles, California 90010

Telephone: (213) 639-3550
Facsimile: (213) 639-3555

Suite 700
1999 South Bascom Avenue
Campbell, California 95008

Telephone: (408) 614-0100
Facsimile: (213) 639-3555

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, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

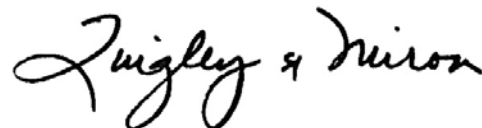
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2020, and the changes in its net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.



Los Angeles, California
April 1, 2021

826LA
Statement of Financial Position
June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 2,454,255	\$ 135,500	\$ 2,589,755
Contributions and grants receivable —Note 3	107,877	454,230	562,107
Inventory	50,929		50,929
Prepaid expenses	39,132		39,132
Total Current Assets	2,652,193	589,730	3,241,923
Non-Current Assets			
Deposits	37,890		37,890
Total Non-Current Assets	37,890		37,890
Total Assets	\$ 2,690,083	\$ 589,730	\$ 3,279,813
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued expenses	\$ 39,025	\$	\$ 39,025
Accrued paid time off	69,384		69,384
PPP advance—Note 5	264,500		264,500
Deferred lease incentive—Note 6	20,789		20,789
Total Liabilities	393,698		393,698
Net Assets			
Without donor restrictions—Note 8	2,296,385		2,296,385
With donor restrictions—Note 9		589,730	589,730
Total Net Assets	2,296,385	589,730	2,886,115
Total Liabilities and Net Assets	\$ 2,690,083	\$ 589,730	\$ 3,279,813

See notes to financial statements.

826LA
Statement of Activities
Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public Support and Revenue			
Contributions and grants			
Foundations	\$ 383,204	\$ 484,000	\$ 867,204
Individuals, corporations, and government agencies	409,915	211,780	621,695
In-kind—Note 10	45,044		45,044
Fundraising events			
Gross receipts	504,507		504,507
Less cost of direct benefits to donors	(9,631)		(9,631)
Fundraising Events, Net	494,876		494,876
Contracted services	161,250		161,250
Store sales			
Store sales	100,907		100,907
Less:			
Cost of goods sold	(39,363)		(39,363)
Other direct expenses	(41,335)		(41,335)
Store Sales, Net	20,209		20,209
Interest and dividends	18,560		18,560
Total Public Support and Revenue	1,533,058	695,780	2,228,838
Net assets released from restrictions	487,483	(487,483)	
Total Public Support, Revenue, and Net Assets Released from Restrictions	2,020,541	208,297	2,228,838
Expenses			
Youth creative and expository writing services	1,465,271		1,465,271
Management and general	243,282		243,282
Fundraising	314,614		314,614
Total Expenses	2,023,167		2,023,167
Change in Net Assets	(2,626)	208,297	205,671
Net Assets at Beginning of Year	2,299,011	381,433	2,680,444
Net Assets at End of Year	\$ 2,296,385	\$ 589,730	\$ 2,886,115

See notes to financial statements.

826LA
Statement of Functional Expenses
Year Ended June 30, 2020

	Youth Creative and Expository Writing Services	Management and General	Fundraising	Fundraising Events	Total
Salaries and wages	\$ 884,791	\$ 123,370	\$ 224,310	\$	\$ 1,232,471
Payroll taxes	69,398	9,676	17,593		96,667
Employee benefits	92,631	12,916	23,483		129,030
Total Personnel	1,046,820	145,962	265,386		1,458,168
Americorp Vista	23,435	1,378	2,757		27,570
Cost of direct benefits to donors				9,631	9,631
Cost of goods sold	39,363				39,363
Insurance	11,437	673	1,345		13,455
Miscellaneous expenses	49,837	2,931	5,863		58,631
National affiliate fees	51,000	3,000	6,000		60,000
Occupancy	184,811	10,871	21,742		217,424
Other direct expenses	41,335				41,335
Outside services	9,625	566	1,132		11,323
Postage and shipping	3,462	204	408		4,074
Printing and publications	31,379	1,846	3,691		36,916
Professional fees		72,706			72,706
Small equipment purchases	21,407	1,259	2,518		25,184
Supplies	23,710	1,395	2,790		27,895
Telephone	4,338	255	510		5,103
Travel	4,010	236	472		4,718
Total Expenses by Function	1,545,969	243,282	314,614	9,631	2,113,496
Less expenses included with revenues on the statement of activities					
Cost of direct benefits to donors				(9,631)	(9,631)
Cost of goods sold	(39,363)				(39,363)
Other direct expenses	(41,335)				(41,335)
Total Expenses	\$ 1,465,271	\$ 243,282	\$ 314,614	\$	\$ 2,023,167

See notes to financial statements.

826LA
Statement of Cash Flows
Year Ended June 30, 2020

Cash Flows from Operating Activities

Change in net assets	\$ 205,671
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Contributions and grants receivable	(153,917)
Inventory	680
Prepaid expenses	(3,857)
Deposits	(6,161)
Accounts payable and accrued expenses	(50,453)
Accrued paid time off	20,258
PPP advance	264,500
Deferred lease incentive	20,789
	<hr/>
Net Cash Provided by Operating Activities	297,510
	<hr/>
Net Increase in Cash and Cash Equivalent	297,510
	<hr/>
Cash and Cash Equivalents at Beginning of Year	2,292,245
	<hr/>
Cash and Cash Equivalents at End of Year	\$ 2,589,755
	<hr/> <hr/>

Supplementary Disclosures

Cash paid during the year for:

Income taxes	\$ -
Interest	\$ -
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See notes to financial statements.

826LA
Notes to Financial Statements
June 30, 2020

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, Writers’ Rooms on the campuses of Manual Arts High School and Roosevelt 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 using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 826LA’s net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of the 826LA and changes therein are presented and reported as follows:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of 826LA. These net assets may be used at the discretion of 826LA’s management and the board of directors.

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of 826LA and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit 826LA to use all or part of the income earned on related investments for general or specific purposes. 826LA had no funds that were required to be maintained in perpetuity at June 30, 2020.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of 826LA’s youth creative and expository writing services and interest earned. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature; 826LA did not engage in any reportable nonoperating activities during the year ended June 30, 2020.

826LA

Notes to Financial Statements—Continued

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

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, 2020. 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.

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, 2020, 826LA did not have any property or equipment obtained pursuant to gifts or capital leases.

Recently Adopted Accounting Principle—In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope of the accounting guidance for contributions received and contributions made. The clarifications and improved scope assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions, and 2) determining whether a contribution is conditional. The clarified guidance applies to all entities that receive or make contributions (grants). ASU No. 2018-08 has been adopted by 826LA for the year ended June 30, 2020. 826LA has determined that adopting ASU No. 2018-08 has had no material effect on the financial statements.

826LA

Notes to Financial Statements—Continued

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

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.

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 year ended June 30, 2020, 826LA's volunteer network donated 10,710 service hours valued at \$337,472. These valuations are based on an estimated rate of volunteer time of \$31.51 per hour in 2020, as computed by Independent Sector, a leading resource and research organization for the nonprofit industry.

Functional Expenses—The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among youth creative and expository writing services and supporting services benefited. Such allocations are determined by management on an equitable basis. Estimates of time and effort were used as the basis of allocation for the following expenses: salaries and wages, payroll taxes, and employee benefits. Estimates of square footage were used as the basis of allocation for the following expenses: Americorp Vista, depreciation, insurance, miscellaneous expenses, national affiliate fees, occupancy, outside services, postage and shipping, printing and publications, small equipment purchases, supplies, telephone, and travel.

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.

826LA

Notes to Financial Statements—Continued

Note 2—Availability and Liquidity

The following represents the availability and liquidity of 826LA’s financial assets at June 30, 2020 to cover operating expenses for the next fiscal year:

Financial assets at end of year	
Cash and cash equivalents	\$ 2,589,755
Contributions and grants receivable	562,107
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Total Financial Assets	3,151,862
Less amounts not available to be used within one year:	
Net assets with donor restrictions	
Youth creative and expository writing services	
After-school tutoring	(1,875)
Fieldtrips	(9,375)
In-school writing support	(65,876)
Workshops	(87,654)
Program and supporting services	
Office facility	(73,000)
Summer interns	(5,500)
Volunteer program	(46,450)
Restricted due to timing	(300,000)
Less net assets with time restrictions to be met within one year	150,000
Board-designated reserve	(1,267,765)
	<hr/>
Total Unavailable Financial Assets	(1,707,495)
Current Availability of Financial Assets	\$ 1,444,367

826LA’s goal is generally to maintain financial assets to meet at least 180 days of general operating expenses (approximately \$1,000,000). The board-designated reserve is intended by board of director policy to be used for future major capital investment and to support programs that have been impacted by unanticipated funding reductions.

Note 3—Contributions and Grants Receivable

Contributions and grants receivable at June 30, 2020 consist of the following:

Foundations	\$ 335,000
Government agencies	90,530
Individuals and corporations	136,577
	<hr/>
Total	\$ 562,107

826LA**Notes to Financial Statements—Continued****Note 4—Property and Equipment, Net**

Net property and equipment at June 30, 2020 consist of the following:

Furniture and equipment	\$ 78,653
Leasehold improvements	227,904
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	306,557
Less accumulated depreciation	(306,557)
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Property and Equipment, Net	<u><u>\$ -</u></u>

Note 5—PPP Advance

On April 28, 2020, 826LA received a \$264,500 advance from the U.S. Small Business Administration's (SBA) Paycheck Protection Program (PPP). The advance is designed to provide a direct incentive for small businesses struggling from the impact of the COVID-19 pandemic (see Note 13) to keep their workers on the payroll. While these funds carry loan repayment terms, it is the opinion of management that all funds received will be forgiven under the present terms of the PPP.

Note 6—Leases

826LA leases space under non-cancelable operating leases in Hollywood, expiring September 2021, Echo Park, expiring August 2022, and Mar Vista, expiring September 2022. Additionally, 826LA leases copier equipment under a non-cancelable operating lease expiring March 2024.

<u>Year Ended June 30,</u>	
2021	\$ 239,774
2022	195,238
2023	39,995
2024	9,062
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Total	<u><u>\$ 484,069</u></u>

Rent expense related to the Echo Park lease during the year ended June 30, 2020 was approximately \$89,000. Rent expense related to the Mar Vista lease during the year ended June 30, 2020 was approximately \$69,000. Rent expense related to the Hollywood lease during the year ended June 30, 2020 was approximately \$37,000. Rent expense related to the copier lease during the year ended June 30, 2020 was approximately \$12,000.

826LA

Notes to Financial Statements—Continued

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—Net Assets Without Donor Restrictions

Net assets without donor restrictions for the year ended June 30, 2020 are as follows:

Undesignated	\$ 1,028,620
Board-designated reserve	1,267,765
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Total	\$ 2,296,385

The board-designated reserve consists of voluntary board-approved segregations of net assets without restrictions for specific purposes, projects or investments, and to provide funds to allow 826LA to operate effectively in the event of reductions or curtailment of portions of its funding in the future.

Note 9—Net Assets With Donor Restrictions

Net assets with donor restrictions for the year ended June 30, 2020 are as follows:

Subject to expenditure for specified purpose:

Youth creative and expository writing services		
Fieldtrips	\$	7,500
In-school writing support		25,000
Workshops		5,000
Program and supporting services		
Office facility		73,000
Volunteer program		25,000

Promises to give, the proceeds from which have been restricted by donors:

Youth creative and expository writing services		
After-school tutoring		1,875
Fieldtrips		1,875
In-school writing support		40,875
Workshops		82,655
Program and supporting services		
Summer interns		5,500
Volunteer program		21,450
Support for future periods		300,000

Total	\$	589,730
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826LA**Notes to Financial Statements—Continued****Note 9—Net Assets with Donor Restrictions—Continued**

Net assets released from donor restrictions for the year ended June 30, 2020 are as follows:

Satisfaction of purpose restrictions:	
Youth creative and expository writing services	
After-school tutoring	\$ 52,000
Fieldtrips	35,000
In-school writing support	225,103
Workshops	67,998
Program and supporting services	
Office facility	44,000
Summer interns	6,932
Volunteers program	46,450
Satisfaction of passage of time	10,000
Total	\$ 487,483

Note 10—In-Kind Contributions

In-kind contributions totaling \$45,044 are included in the statement of functional expenses as follows for the year ended June 30, 2020:

Small equipment purchases	\$ 24,704
Other direct expenses	15,335
Supplies	4,400
Miscellaneous	605
Total	\$ 45,044

Note 11—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, 2020 were \$2,800 and \$12,113, respectively.

Note 12—Recent Accounting Pronouncements

Revenue Recognition—In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2019; early adoption is permitted for fiscal years beginning after December 15, 2016. The guidance permits the use of either a retrospective or cumulative effect transition method. 826LA is evaluating whether this will have a material impact on its financial statements.

Leases—In February 2016, 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 not-for-profit entities with fiscal years beginning after December 15, 2021, with early adoption permitted. 826LA is currently evaluating the impact that the adoption of ASU No. 2016-02 will have on its financial statements.

Gifts-in-Kind—In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires increased transparency around the use and valuation of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit entities. Under the updated guidance, gifts-in-kind are required to be presented as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, and to be disaggregated in the notes to the financial statements by the category that depicts the type of contributed nonfinancial assets. There are additional required disclosures regarding qualitative information denoting whether the gifts-in-kind were monetized or utilized during the reporting period; the entity's policy, if any, about monetizing rather than utilizing contributed nonfinancial assets; and the valuation techniques and inputs used to arrive at a fair value measure. ASU No. 2020-07 is to be applied retrospectively and is effective for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. Early adoption is permitted. 826LA is currently evaluating the impact that the adoption of ASU 2020-07 will have on its financial statements.

Note 13—Risks and Uncertainties

In early March 2020, the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, has been, and continues to be, severely impacted, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. 826LA has continued to conduct its youth creative and expository writing services activities, on a remote basis, and to monitor the ongoing impact of the pandemic response on its overall operations. At the time of this reporting, the cumulative financial impact of the pandemic on 826LA, if any, cannot be fully determined, therefore no related adjustment has been made to these financial statements.

Note 14—Subsequent Events

On March 17, 2021, 826LA received \$258,900 in a second draw of PPP funding from the SBA under the federal *Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act*, passed by Congress in December 2020, which extended and broadened the original program (see Note 5).

Management evaluated subsequent events through April 1, 2021, the date the financial statements were available to be issued.