

Audited Financial Statements



A NON-PROFIT WRITING & TUTORING CENTER

June 30, 2023

Quigley & Miron

826LA
Audited Financial Statements
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June 30, 2023

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Independent Auditor's Report

Board of Directors
826LA
Los Angeles, California

Opinion

We have audited the accompanying financial statements of 826LA (826LA), a nonprofit organization, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 826LA as of June 30, 2023, 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.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of 826LA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 826LA's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 826LA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 826LA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "Ziegler & Miron". The signature is written in a cursive, flowing style.

Los Angeles, California
June 28, 2024

826LA
Statement of Financial Position
June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 2,830,829	\$ 99,420	\$ 2,930,249
Contributions and grants receivable—Note 3	34,453	359,638	394,091
Inventory	45,482		45,482
Prepaid expenses	39,317		39,317
Other current assets	193,600		193,600
Total Current Assets	3,143,681	459,058	3,602,739
Non-Current Assets			
Operating lease right-of-use asset—Note 5	404,282		404,282
Deposits	34,091		34,091
Total Non-Current Assets	438,373		438,373
Total Assets	\$ 3,582,054	\$ 459,058	\$ 4,041,112
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued expenses	\$ 62,834	\$	\$ 62,834
Accrued paid time off	108,761		108,761
Operating lease right-of-use-liability—Note 5	99,176		99,176
Total Current Liabilities	270,771		270,771
Noncurrent Liabilities			
Operating lease right-of-use-liability—Note 5	310,927		310,927
Total Non-Current Liabilities	310,927		310,927
Total Liabilities	581,698		581,698
Net Assets			
Without donor restrictions—Note 7	3,000,356		3,000,356
With donor restrictions—Note 8		459,058	459,058
Total Net Assets	3,000,356	459,058	3,459,414
Total Liabilities and Net Assets	\$ 3,582,054	\$ 459,058	\$ 4,041,112

See notes to financial statements.

826LA
Statement of Activities
Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public Support and Revenue			
Contributions and grants			
Foundations	\$ 753,502	\$ 388,400	\$ 1,141,902
Individuals and corporations	301,020	33,500	334,520
Government agencies	10,000	158,306	168,306
In-kind—Note 9	311,058		311,058
Fundraising events			
Gross receipts	371,638		371,638
Less cost of direct benefits to donors	(152,936)		(152,936)
Fundraising Events, Net	218,702		218,702
Store sales			
Gross sales	131,132		131,132
Less:			
Cost of goods sold	(53,470)		(53,470)
Other direct expenses	(30,406)		(30,406)
Store Sales, Net	47,256		47,256
Contracted services	40,251		40,251
Interest and dividends	42,739		42,739
Total Public Support and Revenue	1,724,528	580,206	2,304,734
Net assets released from restrictions	897,146	(897,146)	
Total Public Support, Revenue, and Net Assets Released from Restrictions	2,621,674	(316,940)	2,304,734
Expenses			
Youth creative and expository writing services	1,887,174		1,887,174
Management and general	214,187		214,187
Fundraising	440,250		440,250
Total Expenses	2,541,611		2,541,611
Change in Net Assets	80,063	(316,940)	(236,877)
Net Assets at Beginning of Year	2,920,293	775,998	3,696,291
Net Assets at End of Year	\$ 3,000,356	\$ 459,058	\$ 3,459,414

See notes to financial statements.

826LA
Statement of Functional Expenses
Year Ended June 30, 2023

	Youth Creative and Expository Writing Services	Management and General	Fundraising	Fundraising Events	Total
Salaries and wages	\$ 1,130,136	\$ 105,814	\$ 316,800	\$	\$ 1,552,750
Payroll taxes	89,142	8,346	24,988		122,476
Employee benefits	101,911	9,542	28,568		140,021
Total Personnel	1,321,189	123,702	370,356		1,815,247
Cost of direct benefits to donors				152,936	152,936
Cost of goods sold	53,470				53,470
Insurance	15,289	899	1,799		17,987
Intern stipends	18,855	3,375	70		22,300
Miscellaneous expenses	53,813	3,166	6,331		63,310
National affiliate fees	51,000	3,000	6,000		60,000
Occupancy	196,319	11,206	22,411		229,936
Other direct expenses	30,406				30,406
Outside services	97,108	4,749	9,497		111,354
Postage and shipping	3,243	191	382		3,816
Printing and publications	36,388	2,141	4,281		42,810
Professional fees	21,749	56,546	8,699		86,994
Small equipment purchases	3,637	214	428		4,279
Supplies	59,560	4,467	8,934		72,961
Telephone	7,710	454	907		9,071
Travel	1,314	77	155		1,546
Total Expenses by Function	1,971,050	214,187	440,250	152,936	2,778,423
Less expenses included with revenues on the statement of activities					
Cost of direct benefits to donors				(152,936)	(152,936)
Cost of goods sold	(53,470)				(53,470)
Other direct expenses	(30,406)				(30,406)
Total Expenses	\$ 1,887,174	\$ 214,187	\$ 440,250	\$	\$ 2,541,611

See notes to financial statements.

826LA
Statement of Cash Flows
Year Ended June 30, 2023

Cash Flows from Operating Activities

Change in net assets	\$ (236,877)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Noncash lease expenses	(404,282)
Changes in operating assets and liabilities:	
Contributions and grants receivable	335,804
Inventory	(203)
Prepaid expenses	19,538
Other current assets	(193,600)
Deposits	4,586
Accounts payable and accrued expenses	(50,140)
Accrued paid time off	51,891
Operating lease liability	410,103
	<u>(63,180)</u>
Net Cash Used in Operating Activities	(63,180)
Net Decrease in Cash and Cash Equivalents	(63,180)
Cash and Cash Equivalents at Beginning of Year	<u>2,993,429</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,930,249</u>

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 nonprofit organization with locations in Mar Vista and Echo Park, school-based sites at Manual Arts High School in South LA, Roosevelt High School in Boyle Heights, and Venice High School in Venice, and relationships with over 100 Los Angeles schools. 826LA is dedicated to supporting students, ages six to eighteen, with their creative and expository writing skills and to helping teachers inspire their students to write. 826LA's services are structured around the understanding that great leaps in learning can happen with one-on-one attention, and that writing helps students learn, grow, and engage with the world. Through the utilization of hundreds of community-based volunteers, 826LA presents a sustainable way to provide educational programs and individualized attention to economically disadvantaged children. By offering all programs for free, 826LA breaks down barriers that might prevent students from learning and families from accessing this level of personalized instruction for their children.

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 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, 2023.

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, 2023.

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.

826LA

Notes to Financial Statements—Continued

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

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, 2023. 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 individual items purchased or donated with values less than \$5,000. As of June 30, 2023, 826LA did not have any property or equipment obtained pursuant to gifts or capital leases.

Recently Adopted Accounting Principle—In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (ASU 2016-02), *Leases (Topic 842)*. This standard is applicable to leases with terms exceeding 12 months and requires lessees to recognize the assets and related liabilities that arise from leases in the statement of financial position. Additionally, in July 2018, FASB issued ASU 2018-11 *Leases (Topic 842)—Targeted Improvements*, which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative effect adjustment to the opening balance of net assets without donor restrictions in the period of adoption. 826LA has adopted ASU No. 2016-02 on a prospective basis for the year ended June 30, 2023, and has adjusted the presentation of the financial statements accordingly.

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. While 826LA is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf, 826LA's management has assessed the credit risk associated with its cash deposits at June 30, 2023 and believes it is not exposed to any significant credit risk with its cash and cash equivalents. However, due to the current risk and uncertainties affecting financial institutions (see Note 11), the related impact cannot be reasonably estimated at this time.

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

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.

In-Kind Contributions—826LA records the value of donated materials and services at their fair value at the date of donation. In-kind services are recorded only if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. 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, 2023, 826LA's volunteer network donated 4,082 service hours valued at \$122,256. These valuations are based on an estimated rate of volunteer time of \$29.95 per hour in 2023, as computed by Independent Sector, a leading resource and research organization for the nonprofit industry. Donated services are not reflected in the accompanying financial statements as they do not meet the criteria for recognition under current accounting standards.

Contracts with Customers—Accounting standards require an organization to recognize revenue arising from contracts with customers at the time the customer obtains control of a contracted goods or service. 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.

Store Sales—Store sales revenue is recognized at the point of sale.

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

Interest and dividend income—Interest and dividend income is recognized when earned and is reported as interest and dividends under public support and revenue in the statement of activities.

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: Insurance, miscellaneous expenses, national affiliate fees, occupancy, outside services, postage and shipping, printing and publications, professional fees, 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, 2023 to cover operating expenses for the next fiscal year:

Financial assets at end of year	
Cash and cash equivalents	\$ 2,930,249
Contributions and grants receivable	<u>394,091</u>
Total Financial Assets	3,324,340
Less amounts not available to be used within one year:	
Net assets with donor restrictions	
Youth creative and expository writing services	(68,400)
Restricted due to timing	(390,658)
Less net assets with time restrictions to be met within one year	390,658
Board-designated reserve	<u>(1,311,354)</u>
Total Unavailable Financial Assets	<u>(1,379,754)</u>
Current Availability of Financial Assets	<u>\$ 1,944,586</u>

826LA's goal is generally to maintain financial assets to meet at least 180 days of general operating expenses (approximately \$900,000). 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, 2023 consist of the following:

Government agencies	\$ 180,591
Foundations	180,000
Individuals and corporations	<u>33,500</u>
Total	<u>\$ 394,091</u>

Note 4—Property and Equipment, Net

Net property and equipment at June 30, 2023 consist of the following:

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

826LA**Notes to Financial Statements—Continued****Note 5—Leases**

826LA leases space under a non-cancelable operating lease in Mar Vista for a one-year term, expiring in September 2024. Rent expense under this lease totaled \$74,011 for the year ended June 30, 2023. Additionally, 826LA leases copier equipment under a non-cancelable operating lease expiring March 2024. Rent expense under this lease totaled \$12,083 for the year ended June 30, 2023.

Commencing September 2022, 826LA entered into a five-year lease for office space in Echo Park. With the adoption of ASU 2016-02, effective September 1, 2022, an operating lease right-of-use asset and an operating lease liability were recorded relating to this operating lease using the lease term and monthly rental amounts, and a discount rate of 2.95% amounting to \$479,823 and \$479,823, respectively.

Future minimum annual rental commitments by year for the operating lease with a maturity greater than one year from June 30, 2023 are as follows:

<u>Year Ended June 30,</u>	
2024	\$ 99,176
2025	102,647
2026	106,240
2027	109,958
2028	18,430
	<hr/>
	Gross Rental Payments 436,451
Less effect of discounting at 2.95%	(26,348)
	<hr/>
	Operating Lease Liability \$ 410,103

Rent expense for the Echo Park lease totaled \$86,126 for the year ended June 30, 2023.

Note 6—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 7—Net Assets Without Donor Restrictions

Net assets without donor restrictions for the year ended June 30, 2023 are as follows:

Undesignated	\$ 1,689,002
Board-designated reserve	1,311,354
	<hr/>
Total Net Assets Without Donor Restrictions	\$ 3,000,356

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.

826LA**Notes to Financial Statements—Continued****Note 8—Net Assets With Donor Restrictions**

Net assets with donor restrictions for the year ended June 30, 2023 are as follows:

Subject to expenditure for specified purpose:	
Youth creative and expository writing services	\$ 68,400
Promises to give, the proceeds from which have been restricted by donors:	
Support for future periods	390,658
	<u>390,658</u>
Total Net Assets With Donor Restrictions	<u>\$ 459,058</u>

Net assets released from donor restrictions for the year ended June 30, 2023 are as follows:

Satisfaction of purpose restrictions:	
Youth creative and expository writing services	\$ 62,500
Facility improvements	25,000
Summer interns	12,832
Satisfaction of passage of time	
Youth creative and expository writing services	780,531
Fiscal 2022 and 2023 galas	15,000
Summer interns	1,283
	<u>796,814</u>
Total Net Assets Released from Donor Restrictions	<u>\$ 897,146</u>

Note 9—In-Kind Contributions

During the year ended June 30, 2023, donated counseling services and supplies were received by 826LA and recorded in the statement of activities under the in-kind contributions caption. The following illustrates the in-kind contributions received by category:

Supplies	\$ 133,964
Counseling services	117,000
Legal services	60,094
	<u>311,058</u>
Total	<u>\$ 311,058</u>

In-kind contributions were recorded in the respective captions in the statement of functional expenses as follows:

Supplies	\$ 133,964
Outside services	64,375
Miscellaneous	12,879
	<u>211,218</u>
Total	<u>\$ 211,218</u>

Counseling services received but not yet used totaled \$99,840 at June 30, 2023, and are recorded under other assets on the statement of financial position.

In-kind contributions were received without donor restrictions and were used exclusively for program service activities. In-kind contributions of supplies were valued at their estimated wholesale prices of identical or similar products at the date of each respective gift. In-kind contributions of counseling services were valued at their estimated fair value provided by the counseling service provider. In-kind contributions of legal services were valued at their estimated rates of legal services provided by a law firm.

Note 10—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, 2023 were \$2,954 and \$11,882, respectively.

Note 11—Risks and Uncertainties

In March 2023, the shut-down of certain financial institutions raised economic concerns over disruption in the U.S. banking system. The U.S. government took certain actions to strengthen public confidence in the U.S. banking system, however, there can be no certainty that the actions taken by the U.S. government will be effective in mitigating the effects of financial institution failures on the economy, which may include limits on access to short-term liquidity in the near term or other adverse effects. As disclosed in Note 1, at times, 826LA maintains cash and cash equivalents in excess of federally-insured limits. Given the uncertainty of the situation, the related financial impact cannot be reasonably estimated at this time.

Note 12—Subsequent Events

Management evaluated all activities of 826LA through June 28, 2024, which is the date the financial statements were available to be issued, and 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.