
826 VALENCIA, INC.

FINANCIAL STATEMENTS

June 30, 2019

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018)

CROSBY & KANEDA

Certified Public Accountants
for Nonprofit Organizations

826 VALENCIA, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
826 Valencia, Inc.
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of 826 Valencia, Inc., which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, cash flows and functional expenses 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.

Auditors' 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 from 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 826 Valencia, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited 826 Valencia Inc.'s June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 21, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Croody & Lameda CPAs LLP

Oakland, California

February 3, 2020

826 VALENCIA, INC.

**Statement of Financial Position
June 30, 2019
(With Comparative Totals as of June 30, 2018)**

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 945,320	\$ 1,653,331
Accounts receivable	7,133	16,632
Contributions receivable (Note 3)	1,265,248	475,801
Investments (Note 4)	5,429,986	4,357,950
Prepaid expenses	94,612	70,466
Inventory	68,010	63,739
Total current assets	7,810,309	6,637,919
Contributions receivable, noncurrent (Note 3)	273,000	64,467
Property and equipment, net (Note 6)	2,389,376	1,626,556
Deposits	72,280	72,280
Total Assets	\$ 10,544,965	\$ 8,401,222
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 99,460	\$ 80,519
Accrued vacation	65,045	59,828
Scholarships payable (Note 8)	294,180	361,929
Total current liabilities	458,685	502,276
Accrued rent	98,698	82,106
Total Liabilities	557,383	584,382
Net assets		
Without donor restrictions (Note 10)	7,971,102	6,248,444
With donor restrictions (Note 11)	2,016,480	1,568,396
Total Net Assets	9,987,582	7,816,840
Total Liabilities and Net Assets	\$ 10,544,965	\$ 8,401,222

See Notes to the Financial Statements

826 VALENCIA, INC.

Statement of Activities
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	Without Donor	With Donor	Total	
	Restrictions	Restrictions	2019	2018
Support and Revenue				
Support				
Foundation grants	\$ 476,789	\$ 1,694,031	\$ 2,170,820	\$ 1,380,175
Individual contributions	1,021,779	723,804	1,745,583	2,121,450
Corporate support	24,460	172,000	196,460	248,930
Government grants		474,000	474,000	95,765
Fundraising event, net (Note 12)	443,637		443,637	312,593
Total Support	1,966,665	3,063,835	5,030,500	4,158,913
In-kind Support				
Publishing, legal and other services	43,220		43,220	88,969
Event and other supplies	35,223		35,223	10,240
Rent	21,871		21,871	-
Leasehold improvements	581,779		581,779	20,000
Total In-kind Support	682,093	-	682,093	119,209
Revenue				
Store revenue, net (Note 13)	70,134		70,134	107,111
Investment activity, net (Note 4)	168,037		168,037	47,699
Other	8,340		8,340	19,135
Total Revenue	246,511	-	246,511	173,945
Support provided by expiring time and purpose restrictions	2,615,751	(2,615,751)	-	-
Total Support and Revenue	5,511,020	448,084	5,959,104	4,452,067
Expenses				
Program	2,942,319		2,942,319	2,579,853
Management and general	488,372		488,372	442,922
Fundraising	357,671		357,671	253,963
Total Expenses	3,788,362	-	3,788,362	3,276,738
Change in net assets	1,722,658	448,084	2,170,742	1,175,329
Net Assets, beginning of year	6,248,444	1,568,396	7,816,840	6,641,511
Net Assets, end of year	\$ 7,971,102	\$ 2,016,480	\$ 9,987,582	\$ 7,816,840

See Notes to the Financial Statements

826 VALENCIA, INC.

**Statement of Cash Flows
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)**

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 2,170,742	\$ 1,175,329
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Contributions intended for capital projects	(50,000)	(150,000)
Depreciation	170,295	148,260
Investment activity, net	(168,037)	(47,699)
Donated stock	(53,998)	(14,583)
Donated property and equipment	(581,779)	(20,000)
Loss on disposition	-	1,844
Changes in assets and liabilities:		
Accounts receivable	9,499	(15,035)
Contributions receivable	(997,980)	(61,235)
Prepaid expenses	(24,146)	(14,810)
Inventory	(4,271)	(9,196)
Accounts payable and accrued expenses	18,941	(47,347)
Accrued vacation	5,217	16,100
Scholarships payable	(67,749)	3,942
Accrued rent	16,592	20,004
Net cash provided (used) by operating activities	443,326	985,574
Cash flows from investing activities		
Purchases of investments	(850,000)	(2,875,000)
Sales of investments	-	998
Purchase of property and equipment	(351,337)	(16,360)
Net cash provided (used) by investing activities	(1,201,337)	(2,890,362)
Cash flows from financing activities		
Contributions intended for capital projects	50,000	150,000
Net cash provided (used) by financing activities	50,000	150,000
Net change in cash and cash equivalents	(708,011)	(1,754,788)
Cash and cash equivalents, beginning of year	1,653,331	3,408,119
Cash and cash equivalents, end of year	\$ 945,320	\$ 1,653,331
Supplemental information		
Donated property and improvements	\$ 581,779	\$ 20,000

See Notes to the Financial Statements

826 VALENCIA, INC.

**Statement of Functional Expenses
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)**

	Program	Management and general	Fundraising	Total	
				2019	2018
Salaries	\$ 1,566,293	\$ 132,589	\$ 192,479	\$ 1,891,361	\$ 1,562,285
Benefits	175,932	14,498	21,159	211,589	180,591
Payroll taxes	125,878	10,616	15,166	151,660	124,943
Total Personnel	<u>1,868,103</u>	<u>157,703</u>	<u>228,804</u>	<u>2,254,610</u>	<u>1,867,819</u>
Scholarships and awards	23,500	-	-	23,500	103,500
Fees for service	57,390	171,055	19,475	247,920	192,603
Supplies and office expenses	124,841	67,093	6,934	198,868	126,956
Information technology	12,318	534	1,211	14,063	6,067
Travel and meals	10,571	11,367	4,180	26,118	20,069
Occupancy	257,368	34,935	17,423	309,726	301,961
Events and meetings	46,157	14,907	12,870	73,934	63,918
Insurance	12,281	633	1,435	14,349	13,688
Payments to affiliates (Note 18)	54,000	3,000	3,000	60,000	60,000
Depreciation	140,224	22,262	7,809	170,295	148,260
Americorps, volunteers and interns	187,007	1,689	27,132	215,828	174,972
Publications	38,869	306	17,744	56,919	64,122
Other	9,376	2,888	9,654	21,918	33,594
In-kind food, materials, supplies	35,223	-	-	35,223	10,240
In-kind services	65,091	-	-	65,091	88,969
Expenses by function	<u>\$ 2,942,319</u>	<u>\$ 488,372</u>	<u>\$ 357,671</u>	<u>\$ 3,788,362</u>	<u>\$ 3,276,738</u>
Expenses reported on a net basis on statement of activities					
Event expenses	-	-	99,888	99,888	109,860
Total Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 457,559</u>	<u>\$ 3,888,250</u>	<u>\$ 3,386,598</u>

See Notes to the Financial Statements

826 VALENCIA, INC.

Notes to the Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for the Year Ended June 30, 2018)

NOTE 1: NATURE OF ACTIVITIES

826 Valencia is a nonprofit organization dedicated to supporting under-resourced students ages six to eighteen with their creative and expository writing skills and to helping teachers inspire their students to write. Our services are structured around the understanding that great leaps in learning can happen with one-on-one attention and that strong writing skills are fundamental to future success.

826 Valencia comprises two writing centers—our flagship location in the Mission District and a second center in the Tenderloin neighborhood—and three satellite classrooms at nearby public schools. All of our programs are offered free of charge to make them accessible to the students who would not otherwise be able to access our support.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions – are resources available to support operations. The only limits on the use of the net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions – are resources that are restricted by a donor for use for a particular purpose or in a particular period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Organization must continue to use the resources in accordance with the donor's instructions.

The Organization's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds and its beneficial interest in perpetual trust held by a bank or trustee.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor imposed restrictions. Net assets restricted for acquisition of building or equipment (or less commonly, the contribution of those net assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service

826 VALENCIA, INC.

Notes to the Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for the Year Ended June 30, 2018)

by the Organization, unless the donor provides more specific directions about the period of its use.

Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless the contributed assets are specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Accounts Receivable

Accounts receivable are primarily unsecured non-interest bearing amounts due from grantors on a cost reimbursement or performance grants. The Organization considers all accounts receivable to be fully collectible at June 30, 2019. Accordingly, no allowance for doubtful accounts was deemed necessary. If amounts become uncollectible, they are charged to expense in the period in which that determination is made.

Income Taxes

The Internal Revenue Service and the California Franchise Tax Board have determined that the Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and the California Revenue and Taxation Code Section 23701(d). The Organization has evaluated its current tax positions as of June 30, 2019 and is not aware of any significant uncertain tax positions for which a reserve would be necessary. The Organization's tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively after they are filed.

Contributed Services

Contributed services are reflected in the financial statements at the fair value of the services received only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

826 VALENCIA, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)**

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all money market funds and other highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

The Organization classifies cash equivalents held for investments purposes in its investments accounts as part of its investment balances and reports transfers to and from such accounts as purchases and sales of investments for statement of cash flow purposes.

Concentration of Credit Risk

At times, the Organization may have deposits in excess of federally insured limits. The risk is managed by maintaining all deposits in high quality financial institutions.

Inventory

The Organization reports inventory at the lower of cost or market, computed on an average cost basis. Inventory consists of storefront merchandise, original publications, and donated publications.

Property and Equipment

Property and equipment purchased by the Organization is recorded at cost. The Organization capitalizes all expenditures for property and equipment over \$2,500; the fair value of donated fixed assets is similarly capitalized. Depreciation is computed using the straight-line method over the estimated useful lives on the property and equipment or the related lease terms as follows:

Furniture and equipment	3-5 years
Computer software	3 years
Computer hardware	3 years
Leasehold improvements	15 years or lease term

Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of the asset may not be recoverable.

826 VALENCIA, INC.

Notes to the Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for the Year Ended June 30, 2018)

Accrued Rent

The Organization recognizes rent expense on a straight-line basis over the term of its leases. Accrued rent consists of amounts accrued under this policy but not yet due under the terms of the related leases.

Expense Recognition and Allocation

The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions using a reasonable allocation method that is consistently applied as follows:

Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel.

Occupancy, depreciation, and interest are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.

Office expenses and supplies, insurance, and other expenses that cannot be directly identified are allocated on the basis of employee headcount for each program and supporting activity.

Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Organization generally does not conduct fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgments contain requests for contributions, joint costs have been allocated between fundraising and management and general expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

Changes in Accounting Principles

The Organization implemented FASB Accounting Standards Update 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.

The unrestricted net asset class has been renamed net assets without donor restrictions.

The financial statements include a disclosure about liquidity and availability of resources.

The changes have the following effect on net assets at June 30, 2018:

826 VALENCIA, INC.

Notes to the Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

Net Asset Class:	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted net assets	\$ 6,248,444	\$ -
Temporarily restricted net assets	1,568,396	-
Net assets without donor restrictions	-	6,248,444
Net assets with donor restrictions	-	1,568,396
Total	<u>\$ 7,816,840</u>	<u>\$ 7,816,840</u>

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Reclassifications

Certain accounts in the prior year's summarized information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events

The Organization has evaluated subsequent events and has concluded that as of February 3, 2020, the date that the financial statements were available to be issued, there were no significant subsequent events to disclose.

NOTE 3: CONTRIBUTIONS RECEIVABLE

The Organization considers all contributions receivable to be fully collectible at June 30, 2019. Accordingly, no allowance for doubtful accounts was deemed necessary. If amounts become uncollectible, they are charged to expense in the period in which that determination is made.

Contributions receivable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Contributions receivable	\$ 1,538,248	\$ 540,268
Less current portion	<u>(1,265,248)</u>	<u>(475,801)</u>
Contributions receivable, noncurrent	<u>\$ 273,000</u>	<u>\$ 64,467</u>

Management expects to collect the entirety of the noncurrent portion of contributions receivable by June 2021. Management has evaluated the discount to present value for such long term receivables and determined that such discounts would not be material to the financial statements.

826 VALENCIA, INC.

Notes to the Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

NOTE 4: INVESTMENTS

The fair value of investments consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 2,906,570	\$ 1,307,663
Bonds	-	447,098
Exchange traded funds	<u>2,523,416</u>	<u>2,603,189</u>
Total	<u>\$ 5,429,986</u>	<u>\$ 4,357,950</u>

Investment Activity

Investment activity consisted of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 105,250	\$ 46,014
Realized and unrealized gains (losses)	<u>62,787</u>	<u>1,685</u>
Total	<u>\$ 168,037</u>	<u>\$ 47,699</u>

Investment Allocation

The Organization allocates investments to two different portfolios. Investments of donor restricted funds pending expenditure are invested entirely in money market funds and cash equivalents. Funds without donor restriction are invested in a portfolio with an approximate 20% equity, 5% real estate and 75% fixed income and money market allocation.

NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Organization determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 - Inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the assets or liability.

Fair value inputs of assets measured on recurring basis were as follows at June 30, 2019:

	<u>Level 1</u>
Money market funds	\$ 2,906,570
Exchange traded funds	
Fixed income	1,761,218
Equity	596,792
Real estate	<u>165,406</u>
Total	<u>\$ 5,429,986</u>

826 VALENCIA, INC.

Notes to the Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for the Year Ended June 30, 2018)

Methodologies Used

Exchange traded funds: Valued based on the most recent closing price reported on the primary active market on which the individual securities are traded as of the last business day of the fiscal year.

Money market funds: For open ended money market mutual funds, values are based on the net asset value of fund shares as of the last business day of the fiscal year, which is the price used for transactions on that date.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 12,281	\$ 12,281
Computer software and website	32,316	29,064
Computer hardware	42,541	42,541
Leasehold improvements	2,865,145	1,935,283
Less accumulated depreciation	<u>(562,907)</u>	<u>(392,613)</u>
Total	<u>\$ 2,389,376</u>	<u>\$ 1,626,556</u>

NOTE 7: COMMITMENTS

Operating Leases

The Organization leases office space at 826 Valencia St., 828A Valencia St. and 166-180 Golden Gate Ave. in San Francisco under non-cancelable leases that expire through May 2030. Future minimum lease payments were as follows for the years ended June 30:

2020	\$ 249,066
2021	254,604
2022	261,543
2023	208,971
2024	148,646
Thereafter	<u>880,588</u>
Total	<u>\$ 2,003,418</u>

Rent for the years ended June 30, 2019 and 2018 was \$260,453 and \$257,462, respectively. In addition, the Organization received in-kind rent valued at \$21,871 for the year ended June 30, 2019.

Options to Renew

The Organization has options to renew its leases under certain terms and conditions.

<u>Location</u>	<u>Renewal Period</u>	<u>Rent Change</u>
826 Valencia St.	5 years	Fixed
166-180 Golden Gate Ave.	5 years	Fair Market

826 VALENCIA, INC.

Notes to the Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

Scholarships

As further described in Note 8, in addition to the payables reflected on the financial statements, the Organization has awarded \$111,000 in scholarship awards that have unmet conditions. The Organization may designate a portion of its net asset without donor restriction to cover the payment of such scholarships if such commitments exceed the available balance in net assets with donor restrictions for scholarship purposes.

NOTE 8: SCHOLARSHIPS PAYABLE

The Organization provides scholarships to college students with terms up to 10 years. Approved and accepted scholarships made by the Organization may include certain conditions or milestones which must be met by the recipient in order to receive future scholarship payments. The Organization recognizes scholarship expense and payables once the conditions of the award are met. As of June 30, 2019 scholarships payable consisted of the following:

Scholarships awarded but unpaid	\$ 405,180
Less awards with unmet conditions	<u>(111,000)</u>
Total	<u>\$ 294,180</u>

NOTE 9: CONTINGENCIES

Grant awards require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of the Organization to the provisions of the grants. The Organization's management is of the opinion that the Organization has complied with the terms of all grants.

NOTE 10: NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consisted of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Invested in property and equipment	\$ 2,389,376	\$ 1,626,556
Designated - reserve	1,591,309	1,520,245
Undesignated	<u>3,990,417</u>	<u>3,101,643</u>
Total	<u>\$ 7,971,102</u>	<u>\$ 6,248,444</u>

NOTE 11: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Purpose restriction	\$ 1,816,480	\$ 1,418,396
Future operations	<u>200,000</u>	<u>150,000</u>
Total	<u>\$ 2,016,480</u>	<u>\$ 1,568,396</u>

826 VALENCIA, INC.

Notes to the Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

NOTE 12: FUNDRAISING EVENT

The Organization held a fundraising event during the year. Activity related to the event was as follows during the years ended June 30:

	<u>2019</u>	<u>2018</u>
Admission	\$ 187,600	\$ 87,250
Donations and sponsorships	352,925	329,973
Sale of auction items	3,000	5,230
Less costs of direct donor benefit	<u>(99,888)</u>	<u>(109,860)</u>
Total	<u>\$ 443,637</u>	<u>\$ 312,593</u>

NOTE 13: STORE REVENUE

The Organization operates two retail stores in San Francisco. Revenue related to the stores was as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Gross receipts	\$ 140,844	\$ 166,510
Less cost of goods sold	<u>(70,710)</u>	<u>(59,399)</u>
Total	<u>\$ 70,134</u>	<u>\$ 107,111</u>

NOTE 14: CONDITIONAL PROMISES TO GIVE

Contributions

In addition to the activity on the financials, the Organization may receive contributions with future payments subject to certain conditions, performance barriers or rights of revocation. It is the Organization's policy to defer revenue recognition of conditional amounts until such conditions have been satisfied. As of June 30, 2019, conditional grants outstanding consisted of the following:

<u>Grant</u>	<u>Award</u>	<u>Recognized</u>	<u>Remaining</u>	<u>Condition</u>
Grant I	\$46,000	\$0	\$46,000	Program performance
Grant II	\$1,575,000	\$75,000	1,500,000	Program performance

In-kind rent

The Organization received a conditional in-kind promise to give for office and program rental space during the year ended June 30, 2019. The lease term is for 10 years ending in April 2029 with one option to renew for an additional 10 years. The use of the space is conditional on the provision of program services. The Organization recognized \$21,871 of in-kind rent during the year ended June 30, 2019 based on the cost of similar rental space the Organization leases in San Francisco.

NOTE 15: CONCENTRATIONS

Contributions Receivable

As of June 30, 2019 approximately 34% of contributions receivable was from two funders.

826 VALENCIA, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)**

NOTE 16: RETIREMENT PLAN

The Organization has a defined contribution retirement plan (the Plan) under section 401(k) of the Internal Revenue Code which allows for both employer contributions and pre-tax employee contributions. The Plan covers all employees over the age of 21 immediately upon hire. The plan provides for employer matching contributions up to 1% of eligible employee's salary. The Organization contributed \$12,085 and \$9,600 for the years ended June 30, 2019 and 2018, respectively.

NOTE 17: RELATED PARTY TRANSACTIONS

826 National

The Organization is related to 826 National through a chapter affiliation agreement.

Chapter Fees and Grants

The Organization pays an annual fee to 826 National based on the Organization's gross revenues for the preceding year in exchange for brand building services, evaluation and chapter and program development, and various administrative, financial and accounting support services.

For the years ended June 30, 2019 and 2018, chapter fees paid to 826 National totaled \$60,000. The Organization received certain grants and other funding from 826 National.

NOTE 18: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019 are:

Cash and cash equivalents	\$ 945,320
Accounts receivable	7,133
Contributions receivable, current	1,265,248
Investments	5,429,986
Less purpose-restricted net assets	<u>(1,816,480)</u>
Total	<u>\$ 5,831,207</u>

As part of the Organization's liquidity management plan, the Organization invests cash in excess of daily requirements in cash and cash equivalents and short-term investments.