

---

---

# **826 VALENCIA, INC.**

## **FINANCIAL STATEMENTS**

**June 30, 2020**

**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2019)**

---

---

**CROSBY & KANEDA**

Certified Public Accountants  
for Nonprofit Organizations

**826 VALENCIA, INC.**

**Contents**

Independent Auditors' Report	1-2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses	6
Notes to the Financial Statements	7-17

**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, 2020, 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, 2020, 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, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 3, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Crosby & Lameda CPAs LLP*

Oakland, California  
February 16, 2021

**826 VALENCIA, INC.**

**Statement of Financial Position  
June 30, 2020  
(With Comparative Totals as of June 30, 2019)**

	2020	2019
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 2,667,576	\$ 945,320
Accounts receivable	238,929	7,133
Contributions receivable (Note 3)	602,570	1,265,248
Investments (Note 4)	5,561,854	5,429,986
Prepaid expenses	111,702	94,612
Inventory	73,700	68,010
Total current assets	9,256,331	7,810,309
Contributions receivable, noncurrent (Note 3)	245,000	273,000
Property and equipment, net (Note 6)	2,176,290	2,389,376
Deposits	73,530	72,280
Total Assests	\$ 11,751,151	\$ 10,544,965
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 105,117	\$ 99,460
Accrued vacation	88,765	65,045
Scholarships payable (Note 9)	226,185	294,180
PPP loan (Note 7)	211,804	-
Accrued rent	110,084	98,698
Total current liabilities	741,955	557,383
PPP loan, noncurrent (Note 7)	267,496	-
Total Liabilities	\$ 1,009,451	\$ 557,383
Net assets		
Without donor restrictions (Note 11)	8,887,919	7,971,102
With donor restrictions (Note 12)	1,853,781	2,016,480
Total Net Assets	10,741,700	9,987,582
Total Liabilities and Net Assets	\$ 11,751,151	\$ 10,544,965

See Notes to the Financial Statements

826 VALENCIA, INC.

Statement of Activities  
For the Year Ended June 30, 2020  
(With Comparative Totals for the Year Ended June 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2020	2019
<b>Support and Revenue</b>				
Support				
Foundation grants	\$ 4,120	\$ 1,128,150	\$ 1,132,270	\$ 2,170,820
Individual contributions	2,434,950	125,500	2,560,450	1,745,583
Corporate support	158,100	441,266	599,366	196,460
Government grants	-	511,285	511,285	474,000
Fundraising event, net (Note 13)			-	443,637
In-kind Support (Note 14)	124,300		124,300	682,093
Total Support	<u>2,721,470</u>	<u>2,206,201</u>	<u>4,927,671</u>	<u>5,712,593</u>
Revenue				
Store revenue, net (Note 15)	72,979		72,979	70,134
Investment activity, net (Note 4)	125,498		125,498	168,037
Other	12,432		12,432	8,340
Total Revenue	<u>210,909</u>	<u>-</u>	<u>210,909</u>	<u>246,511</u>
Support provided by expiring time and purpose restrictions	<u>2,368,900</u>	<u>(2,368,900)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>5,301,279</u>	<u>(162,699)</u>	<u>5,138,580</u>	<u>5,959,104</u>
<b>Expenses</b>				
Program	3,539,126		3,539,126	2,942,319
Management and general	428,909		428,909	488,372
Fundraising	416,427		416,427	357,671
Total Expenses	<u>4,384,462</u>	<u>-</u>	<u>4,384,462</u>	<u>3,788,362</u>
Change in net assets	916,817	(162,699)	754,118	2,170,742
Net Assets, beginning of year	<u>7,971,102</u>	<u>2,016,480</u>	<u>9,987,582</u>	<u>7,816,840</u>
Net Assets, end of year	<u>\$ 8,887,919</u>	<u>\$ 1,853,781</u>	<u>\$ 10,741,700</u>	<u>\$ 9,987,582</u>

See Notes to the Financial Statements

**826 VALENCIA, INC.**

**Statement of Cash Flows**  
**For the Year Ended June 30, 2020**  
**(With Comparative Totals for the Year Ended June 30, 2019)**

	2020	2019
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 754,118	\$ 2,170,742
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Contributions intended for capital projects	-	(50,000)
Depreciation	220,259	170,295
Investment activity, net	(125,498)	(168,037)
Donated stock	(6,370)	(53,998)
Donated property and equipment	-	(581,779)
Changes in assets and liabilities:		
Accounts receivable	(231,796)	(86,243)
Contributions receivable	690,678	(902,238)
Prepaid expenses	(17,090)	(24,146)
Inventory	(5,690)	(4,271)
Deposits	(1,250)	-
Accounts payable and accrued expenses	5,657	18,941
Accrued vacation	23,720	5,217
Scholarships payable	(67,995)	(67,749)
Accrued rent	11,386	16,592
Net cash provided (used) by operating activities	1,250,129	443,326
<b>Cash flows from investing activities</b>		
Purchases of investments	-	(850,000)
Purchase of property and equipment	(7,173)	(351,337)
Net cash provided (used) by investing activities	(7,173)	(1,201,337)
<b>Cash flows from financing activities</b>		
Contributions intended for capital projects	-	50,000
Proceeds from Paycheck Protection Program Loan	479,300	-
Net cash provided (used) by financing activities	479,300	50,000
Net change in cash and cash equivalents	1,722,256	(708,011)
Cash and cash equivalents, beginning of year	945,320	1,653,331
Cash and cash equivalents, end of year	\$ 2,667,576	\$ 945,320
<b>Supplemental information</b>		
Donated property and improvements	\$ -	\$ 581,779

See Notes to the Financial Statements

826 VALENCIA, INC.

**Statement of Functional Expenses  
For the Year Ended June 30, 2020  
(With Comparative Totals for the Year Ended June 30, 2019)**

	Program	Management and general	Fundraising	Total	
				2020	2019
Salaries	\$ 1,974,167	\$ 165,146	\$ 268,258	\$ 2,407,571	\$ 1,891,361
Benefits	187,766	21,064	16,534	225,364	211,589
Payroll taxes	152,277	10,920	20,357	183,554	151,660
Total Personnel	<u>2,314,210</u>	<u>197,130</u>	<u>305,149</u>	<u>2,816,489</u>	<u>2,254,610</u>
Scholarships and awards	40,500	-	-	40,500	23,500
Fees for service	60,579	94,484	4,259	159,322	247,920
Supplies and office expenses	112,230	31,709	1,651	145,590	179,136
Information technology	237	16,938	2,864	20,039	14,063
Travel	11,818	3,758	8,566	24,142	26,118
Occupancy	251,893	34,474	17,101	303,468	309,726
Events and meetings	3,096	3,053	14,451	20,600	73,934
Insurance	14,824	1,499	1,503	17,826	14,349
Payments to affiliates (Note 19)	49,895	5,046	5,059	60,000	60,000
Depreciation	183,845	26,483	9,931	220,259	170,295
Americorps, volunteers and interns	327,696	30	13,357	341,083	215,828
Publications	49,204	1,213	17,171	67,588	76,651
Other	-	13,092	10,164	23,256	21,918
In-kind goods and services	119,099	-	5,201	124,300	100,314
Expenses by function	<u>\$ 3,539,126</u>	<u>\$ 428,909</u>	<u>\$ 416,427</u>	<u>\$ 4,384,462</u>	<u>\$ 3,788,362</u>
Expenses reported on a net basis on statement of activities					
Event expenses	-	-	-	-	99,888
Total Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416,427</u>	<u>\$ 4,384,462</u>	<u>\$ 3,888,250</u>

## 826 VALENCIA, INC.

### Notes to the Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for the Year Ended June 30, 2019)

---

#### NOTE 1: NATURE OF ACTIVITIES

826 Valencia (the Organization) 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 Organizations. 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 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 by the

## 826 VALENCIA, INC.

### Notes to the Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for the Year Ended June 30, 2019)

---

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, 2020. 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**

Contributions receivable, including grants and pledges receivable, are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. The Organization has evaluated the value of the discount and concluded that it was not material for recognition. The Organization considers all contributions receivable to be fully collectible at June 30, 2020. 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

## 826 VALENCIA, INC.

### Notes to the Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for the Year Ended June 30, 2019)

---

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, 2020 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.

#### 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.

#### 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	13 - 15 years or lease term

## 826 VALENCIA, INC.

### Notes to the Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for the Year Ended June 30, 2019)

---

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.

#### **Accrued Rent**

Certain of the Organization's leases may include non-level payment terms or rent free periods. The Organization recognizes rental expense for minimum lease payments from operating leases on a straight-line basis over the lease term, including any additional cancelable option periods where failure to exercise such options would result in an economic penalty. Consistent with this policy rent expense is recorded beginning at the start of the Organization's use of the property or build-out period during which time the Organization may not make rent payments.

#### **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 adopted FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The ASU clarifies current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria

826 VALENCIA, INC.

Notes to the Financial Statements  
For the Year Ended June 30, 2020  
(With Comparative Totals for the Year Ended June 30, 2019)

for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance. In addition, it increases the number of contributions that are likely to be considered conditional by removing guidance that a conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote. The Adoption of this ASU did not result in a material change to the financials of the Organization.

**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, 2019, 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.

**NOTE 3: CONTRIBUTIONS RECEIVABLE**

Contributions receivable consisted of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 602,570	\$ 1,265,248
Due between one and five years	<u>245,000</u>	<u>273,000</u>
Total	<u>\$ 847,570</u>	<u>\$ 1,538,248</u>

**NOTE 4: INVESTMENTS**

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

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 3,039,839	\$ 2,906,570
Exchange traded funds	<u>2,522,015</u>	<u>2,523,416</u>
Total	<u>\$ 5,561,854</u>	<u>\$ 5,429,986</u>

**Investment Activity**

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

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 103,796	\$ 105,250
Realized and unrealized gains (losses)	<u>21,702</u>	<u>62,787</u>
Total	<u>\$ 125,498</u>	<u>\$ 168,037</u>

## 826 VALENCIA, INC.

### Notes to the Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for the Year Ended June 30, 2019)

#### Investment Allocation

The Organization allocates investments in two different portfolios. Investment of donor restricted funds pending expenditure are invested entirely in money market fund and cash equivalents. Funds without donor restriction are invested in a portfolio with an approximate allocation of 55% equity, 2% real estate and 43% fixed income and money market funds.

#### 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, 2020:

	<u>Level 1</u>
Money market funds	\$ 3,039,839
Exchange traded funds	
Fixed income	722,559
Equity	1,749,267
Real estate	<u>50,189</u>
Total	<u>\$ 5,561,854</u>

#### 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>2020</u>	<u>2019</u>
Furniture and equipment	\$ 12,281	\$ 12,281
Computer software and website	32,316	32,316
Computer hardware	42,541	42,541
Leasehold improvements	2,872,318	2,865,145

**826 VALENCIA, INC.**

**Notes to the Financial Statements  
For the Year Ended June 30, 2020  
(With Comparative Totals for the Year Ended June 30, 2019)**

---

Less accumulated depreciation	<u>(783,166)</u>	<u>(562,907)</u>
Total	<u>\$ 2,176,290</u>	<u>\$ 2,389,376</u>

**NOTE 7: PAYCHECK PROTECTION PROGRAM LOAN**

The Organization received a paycheck protection program (PPP) loan of \$479,300 bearing interest of 1% with a maturity date of April 2022 which it accounts for under FASB 470. The proceeds from the loan will remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven and the Organization has been “legally released” or (2) the Organization pays off the loan. Future maturities are due as follows for the years ended June 30:

2021	\$ 211,804
2022	<u>267,496</u>
Total	<u>\$ 479,300</u>

**NOTE 8: 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:

2021	\$ 254,604
2022	261,543
2023	208,971
2024	148,646
2025	125,420
Thereafter	<u>743,164</u>
Total	<u>\$ 1,742,348</u>

Rent for the years ended June 30, 2020 and 2019 was \$260,866 and \$260,453, respectively. In addition, the Organization received in-kind rent valued at \$72,000 for the year ended June 30, 2020.

**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

**Scholarships**

As further described in Note 9, in addition to the payables reflected on the financial statements, the Organization has awarded \$204,000 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.

826 VALENCIA, INC.

Notes to the Financial Statements  
For the Year Ended June 30, 2020  
(With Comparative Totals for the Year Ended June 30, 2019)

**NOTE 9: 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, 2020 scholarships payable consisted of the following:

Scholarships awarded but unpaid	\$ 430,185
Less awards with unmet conditions	<u>(204,000)</u>
Total	<u>\$ 226,185</u>

**NOTE 10: 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 11: NET ASSETS WITHOUT DONOR RESTRICTIONS**

Net assets without donor restrictions were available as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Invested in property and equipment	\$ 2,176,290	\$ 2,389,376
Designated - reserve	1,642,046	1,591,309
Undesignated	<u>5,069,583</u>	<u>3,990,417</u>
Total	<u>\$ 8,887,919</u>	<u>\$ 7,971,102</u>

**NOTE 12: NET ASSETS WITH DONOR RESTRICTIONS**

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

	<u>2020</u>	<u>2019</u>
Purpose restriction	\$ 1,143,781	\$ 1,816,480
Future operations	<u>710,000</u>	<u>200,000</u>
Total	<u>\$ 1,853,781</u>	<u>\$ 2,016,480</u>

**NOTE 13: FUNDRAISING EVENT**

The Organization's annual fundraising event was canceled in the most recent year due to COVID-19 restrictions. Funds raised net of direct donor benefit expense totaled \$0 and \$443,637 for the years ended June 30, 2020 and 2019, respectively.

## 826 VALENCIA, INC.

### Notes to the Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for the Year Ended June 30, 2019)

#### NOTE 14: IN-KIND SUPPORT

The Organization received the benefit of the following in-kind contributions during the years ended June 30:

	<u>2020</u>	<u>2019</u>
Publishing, legal and other services	\$ 45,035	\$ 43,220
Event and other supplies	7,265	35,223
Rent	72,000	21,871
Leasehold improvements	<u>-</u>	<u>581,779</u>
Total	<u>\$ 124,300</u>	<u>\$ 682,093</u>

#### NOTE 15: STORE REVENUE

The Organization operates three retail stores in San Francisco. The Organization recognizes revenue related to store sales at the point in time items are sold in person or shipped for online orders by the Organization. Revenue related to the stores was as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Gross receipts	\$ 106,458	\$ 140,844
Less cost of goods sold	<u>(33,479)</u>	<u>(70,710)</u>
Total	<u>\$ 72,979</u>	<u>\$ 70,134</u>

#### NOTE 16: 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, 2020, 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	\$23,000	\$23,000	Program performance
Grant II	\$1,575,000	\$150,000	\$1,425,000	Program performance

##### In-kind Rent

The Organization received a conditional in-kind promise to give for office and program rental space. 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 \$72,000 of in-kind rent during the year ended June 30, 2020 based on the cost of similar rental space the Organization leases in San Francisco.

**826 VALENCIA, INC.**

**Notes to the Financial Statements  
For the Year Ended June 30, 2020  
(With Comparative Totals for the Year Ended June 30, 2019)**

---

**NOTE 17: CONCENTRATIONS**

**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.

**Contributions Receivable**

As of June 30, 2020 approximately 29% of contributions receivable were from one funder.

**NOTE 18: 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 \$15,592 and \$12,085 for the years ended June 30, 2020 and 2019, respectively.

**NOTE 19: RELATED PARTY TRANSACTIONS**

**826 National Chapter Fees and Grants**

The Organization is related to 826 National through a chapter affiliation agreement. 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, 2020 and 2019, chapter fees paid to 826 National totaled \$60,000. The Organization received certain grants and other funding from 826 National.

**NOTE 20: 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, 2020 are:

Cash and cash equivalents	\$ 2,667,576
Accounts receivable	238,929
Contributions receivable, current	602,570
Investments	5,561,854
Less purpose-restricted net assets	<u>(1,143,781)</u>
Total	<u>\$ 7,927,148</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.

**NOTE 21: SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events and has concluded that as of February 16, 2021, the date that the financial statements were available to be issued, there were no significant subsequent events to disclose beyond the following:

**826 VALENCIA, INC.**

**Notes to the Financial Statements  
For the Year Ended June 30, 2020  
(With Comparative Totals for the Year Ended June 30, 2019)**

---

**Public Health Order - Coronavirus**

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic and the Organization and the area it operates in was subject to a public health order related to COVID-19 coronavirus which affected activities of the Organization. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude of the effect that the pandemic will have on the Organization's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact on its financial condition, liquidity, operations and workforce.