
826 VALENCIA, INC.

FINANCIAL STATEMENTS

June 30, 2022

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2021)

CROSBY & KANEDA

Certified Public Accountants
for Nonprofit Organizations

826 VALENCIA, INC.

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of 826 Valencia, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, cash flows and functional expenses, 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 826 Valencia, Inc. as of June 30, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the Organization 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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 the Organization'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 the Organization'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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 9, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Croody & Lencida CPAs LLP

Oakland, California
March 21, 2023

826 VALENCIA, INC.

**Statement of Financial Position
June 30, 2022
(With Comparative Totals as of June 30, 2021)**

	2022	2021
Assets		
Assets		
Cash and cash equivalents	\$ 1,325,594	\$ 2,167,391
Accounts receivable	427,377	155,620
Contributions receivable (Note 3)	1,288,400	988,197
Investments		
Undesignated	5,073,470	4,939,323
Board designated	2,789,399	1,831,546
With donor restrictions	420,105	658,877
Total investments (Note 4)	8,282,974	7,429,746
Prepaid expenses and deposits	119,312	122,267
Inventory	43,569	58,846
Property and equipment, net (Note 6)	1,751,102	1,964,675
Total assets	\$ 13,238,328	\$ 12,886,742
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 58,953	\$ 65,621
Accrued vacation	77,879	79,883
Scholarships payable (Note 8)	184,568	217,392
Deferred revenue	25,000	-
PPP loan	-	487,317
Accrued rent	117,001	115,932
Total liabilities	463,401	966,145
Net assets		
Without donor restrictions (Note 10)	11,954,822	10,566,720
With donor restrictions (Note 11)	820,105	1,353,877
Total Net Assets	12,774,927	11,920,597
Total Liabilities and Net Assets	\$ 13,238,328	\$ 12,886,742

See Notes to the Financial Statements

826 VALENCIA, INC.

Statement of Activities
For the Year Ended June 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)

	Without Donor	With Donor	Total	
	Restrictions	Restrictions	2022	2021
Support and Revenue				
Support				
Foundation grants	\$ 1,361,650	\$ 1,609,323	\$ 2,970,973	\$ 1,681,710
Individual contributions	1,176,596	346,080	1,522,676	1,583,063
Corporate support	101,303	310,000	411,303	140,331
Government grants	2,594	911,328	913,922	513,114
Fundraising event, net	-	-	-	309,752
In-kind Support (Note 12)	75,655	-	75,655	87,981
Total Support	<u>2,717,798</u>	<u>3,176,731</u>	<u>5,894,529</u>	<u>4,315,951</u>
Revenue				
Store revenue, net (Note 13)	43,860	-	43,860	10,339
Other	9,010	-	9,010	13,611
Total Revenue	<u>52,870</u>	<u>-</u>	<u>52,870</u>	<u>23,950</u>
Investment activity, net (Note 4)	(480,959)	-	(480,959)	358,913
COVID support (Note 14)	553,893	-	553,893	590,578
Support provided by expiring time and purpose restrictions	3,710,503	(3,710,503)	-	-
Total Support and Revenue	<u>6,554,105</u>	<u>(533,772)</u>	<u>6,020,333</u>	<u>5,289,392</u>
Expenses				
Program	4,088,375	-	4,088,375	3,346,616
Management and general	530,317	-	530,317	384,423
Fundraising	547,311	-	547,311	379,456
Total Expenses	<u>5,166,003</u>	<u>-</u>	<u>5,166,003</u>	<u>4,110,495</u>
Change in net assets	1,388,102	(533,772)	854,330	1,178,897
Net Assets, beginning of year	<u>10,566,720</u>	<u>1,353,877</u>	<u>11,920,597</u>	<u>10,741,700</u>
Net Assets, end of year	<u>\$ 11,954,822</u>	<u>\$ 820,105</u>	<u>\$ 12,774,927</u>	<u>\$ 11,920,597</u>

See Notes to the Financial Statements

826 VALENCIA, INC.

**Statement of Cash Flows
For the Year Ended June 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)**

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 854,330	\$ 1,178,897
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	213,573	216,994
Investment activity, net	480,959	(358,913)
Donated stock	(134,187)	(3,639)
PPP loan forgiveness	(487,317)	(479,300)
Changes in assets and liabilities:		
Accounts receivable	(271,757)	83,309
Contributions receivable	(300,203)	(140,627)
Prepaid expenses	2,955	62,965
Inventory	15,277	14,854
Accounts payable and accrued expenses	(6,668)	(39,496)
Accrued vacation	(2,004)	(8,882)
Scholarships payable	(32,824)	(8,793)
Deferred revenue	25,000	-
Accrued rent	1,069	5,848
Net cash provided (used) by operating activities	358,203	523,217
Cash flows from investing activities		
Purchases of investments	(1,200,000)	(1,505,340)
Purchase of property and equipment	-	(5,379)
Net cash provided (used) by investing activities	(1,200,000)	(1,510,719)
Cash flows from financing activities		
Proceeds from PPP loan - second round	-	487,317
Net cash provided (used) by financing activities	-	487,317
Net change in cash and cash equivalents	(841,797)	(500,185)
Cash and cash equivalents, beginning of year	2,167,391	2,667,576
Cash and cash equivalents, end of year	\$ 1,325,594	\$ 2,167,391
Supplemental information:		
Donated stock	\$ 134,187	\$ 3,639

See Notes to the Financial Statements

826 VALENCIA, INC.

**Statement of Functional Expenses
For the Year Ended June 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)**

	Program	Management and general	Fundraising	Total	
				2022	2021
Salaries	\$ 2,236,435	\$ 164,610	\$ 363,033	\$ 2,764,078	\$ 2,416,214
Benefits	226,056	17,753	36,694	280,503	249,878
Payroll taxes	174,973	13,035	28,403	216,411	165,423
Total Personnel	<u>2,637,464</u>	<u>195,398</u>	<u>428,130</u>	<u>3,260,992</u>	<u>2,831,515</u>
Scholarships and awards	71,500	-	-	71,500	8,707
Fees for service	53,212	60,669	4,744	118,625	108,787
Supplies and office expenses	149,377	96,088	23,341	268,806	121,421
Information technology	17,987	8,732	12,244	38,963	18,653
Travel	25,197	10,433	4,320	39,950	4,532
Occupancy	255,306	28,796	14,713	298,815	289,654
Events and meetings	15,240	3,308	6,379	24,927	2,363
Insurance	19,353	19,886	3,142	42,381	17,202
Payments to affiliates (Note 19)	48,119	8,267	3,614	60,000	30,000
Depreciation	183,673	19,221	10,679	213,573	216,994
Americorps, volunteers and interns	468,991	1,403	1,629	472,023	312,646
Publications	51,606	7,827	21,979	81,412	25,558
Staff development, outreach, appreciation	15,695	16,114	8,440	40,249	34,482
Uncollectable accounts	-	54,175	-	54,175	-
In-kind goods and services	75,655	-	3,957	79,612	87,981
Total expenses by function	<u>\$ 4,088,375</u>	<u>\$ 530,317</u>	<u>\$ 547,311</u>	<u>\$ 5,166,003</u>	<u>\$ 4,110,495</u>
Expenses reported on a net basis on statement of activities					
Event expenses	-	-	-	-	60,080
Total Expenses	<u>\$ 4,088,375</u>	<u>\$ 530,317</u>	<u>\$ 547,311</u>	<u>\$ 5,166,003</u>	<u>\$ 4,170,575</u>

See Notes to the Financial Statements

826 VALENCIA, INC.

Notes to the Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for the Year Ended June 30, 2021)

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, 2022 (With Comparative Totals for the Year Ended June 30, 2021)

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

Accounting for Revenue

The Organization recognizes revenue as performance obligations are satisfied.

Revenue is recognized over time for cost reimbursement contracts as eligible expenses are incurred if other conditions of the contract are satisfied. Revenue from agreements that include milestones and milestone payments are recognized over time as milestones are reached. Revenue from agreements based on hourly rates are recognized over time as time is expended if the Organization expects it will have an enforceable right to payment for such amounts. Revenue is recognized based on estimated progress towards complete satisfaction of the performance obligation if the Organization can reasonably measure such progress. If the Organization's efforts are expended evenly throughout the performance period, the Organization may recognize revenue on a straight-line basis over such a period.

Revenue is recognized at a point in time when goods or services are provided to customers and the Organization is not required to provide additional goods or services or if the above criteria are not met. The Organization tracks contract assets representing earned amounts that are not yet receivable separately from accounts receivable, if any. As a practical expedient the Organization disregards the effects of potential financing components if the period between payment and performance is one year or less. 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.

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, 2022. 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.

826 VALENCIA, INC.

Notes to the Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for the Year Ended June 30, 2021)

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, 2022 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, hardware, website	3 years
Leasehold improvements	13 - 15 years or lease term

826 VALENCIA, INC.

Notes to the Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for the Year Ended June 30, 2021)

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.

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.

826 VALENCIA, INC.

Notes to the Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for the Year Ended June 30, 2021)

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, 2021, 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.

Recent Accounting Pronouncements

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The update requires that in-kind contributions be presented as a separate line on the statement of activities, describe whether contributed nonfinancial assets were monetized or utilized, disclose policies for monetization rather than utilization (if any), donor-imposed restrictions related to in-kind contributions and describe the valuation techniques used to arrive at a fair value measure of value of donated items. The Organization's adoption of this update did not have a material impact on the Organizations financial statements.

Subsequent Events

The Organization has evaluated subsequent events and has concluded that as of March 21, 2023, the date that the financial statements were available to be issued, there were no significant subsequent events to disclose.

NOTE 3: 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, 2022. 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>2022</u>	<u>2021</u>
Due within one year	\$ 888,400	\$ 888,197
Due between one and five years	<u>400,000</u>	<u>100,000</u>
Total	<u>\$ 1,288,400</u>	<u>\$ 988,197</u>

826 VALENCIA, INC.

Notes to the Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for the Year Ended June 30, 2021)

NOTE 4: INVESTMENTS

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

	<u>2022</u>	<u>2021</u>
Cash and money market funds	\$ 2,707,555	\$ 2,479,974
US Treasuries	869,454	860,138
Fannie Mae mortgage pools	233,039	-
Mutual funds	909,513	959,712
Exchange traded funds	<u>3,563,413</u>	<u>3,129,922</u>
Total	<u>\$ 8,282,974</u>	<u>\$ 7,429,746</u>

Investment Activity

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

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 156,413	\$ 60,999
Realized and unrealized gains (losses)	<u>(637,372)</u>	<u>297,914</u>
Total	<u>\$ (480,959)</u>	<u>\$ 358,913</u>

Term and Duration

The Organization's US treasury holdings have maturities that run through 2030 and the Organization mortgage pool holdings have maturities through 2052.

Investment Allocation

The Organization allocates investments in three different portfolios. Investment of donor restricted funds pending expenditure and operating reserves are invested entirely in money market funds and cash equivalents. Board designated funds and other funds are invested in portfolios consisting of approximately 33% cash equivalents, 9% equities, 47% fixed income and 12% in real estate and other.

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, 2022:

826 VALENCIA, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)**

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash and money market funds	\$ 2,707,555	\$ -	\$ 2,707,555
US Treasuries	869,454	-	869,454
Fannie Mae Mortgage Pools	-	233,039	233,039
Exchange traded and mutual funds			
Fixed income	2,991,156	-	2,991,156
Equities	711,298	-	711,298
Real estate, commodities, other	<u>770,472</u>	<u>-</u>	<u>770,472</u>
Total	<u>\$ 8,049,935</u>	<u>\$ 233,039</u>	<u>\$ 8,282,974</u>

Methodologies Used

Fannie Mae Mortgage Pools: Based on the recent price shown on the Organization's brokerage statement which was based on pricing service analysis of trading in similar securities with adjustments for changes formulated from a third-party vendor's proprietary pricing methodology; to establish this modeled price, a host of factors such as recent trade activity, size, timing, and yields of comparable holdings are used; Fannie Mae carries a AAA rating from S&P. The value of such pools and repayment of principal in such pools depends in part on prevailing interest rates.

NOTE 6: PROPERTY AND EQUIPMENT

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

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 12,281	\$ 12,281
Computer software and website	32,316	32,316
Computer hardware	58,623	58,623
Leasehold improvements	2,873,363	2,873,363
Less accumulated depreciation	<u>(1,225,481)</u>	<u>(1,011,908)</u>
Total	<u>\$ 1,751,102</u>	<u>\$ 1,964,675</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:

2023	\$ 208,971
2024	148,646
2025	137,392
2026	143,963
2027	147,559
Thereafter	<u>451,642</u>
Total	<u>\$ 1,238,173</u>

826 VALENCIA, INC.

Notes to the Financial Statements
For the Year Ended June 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)

Rent for the years ended June 30, 2022 and 2021 was \$259,425 and \$260,542, respectively. In addition, the Organization received in-kind rent valued at \$72,000 for the year ended June 30, 2022.

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 8, in addition to the payables reflected on the financial statements, the Organization has awarded \$357,000 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, 2022 scholarships payable consisted of the following:

Scholarships awarded but unpaid	\$ 541,568
Less awards with unmet conditions	<u>(357,000)</u>
Total	<u>\$ 184,568</u>

NOTE 9: CONTINGENCIES

Grants

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.

Paycheck Protection Program

Guidance related to this program is evolving. The SBA reserves the right to audit any forgiveness granted, and such audit activity, if any, may result in changes to amounts forgiven or a requirement to return funds received.

826 VALENCIA, INC.

Notes to the Financial Statements
For the Year Ended June 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)

NOTE 10: NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Invested in property and equipment	\$ 1,751,102	\$ 1,964,675
Designated - reserve	2,789,399	1,831,546
Undesignated	<u>7,414,321</u>	<u>6,770,499</u>
Total	<u>\$ 11,954,822</u>	<u>\$ 10,566,720</u>

NOTE 11: NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Purpose restriction	\$ 420,105	\$ 658,877
Future operations	<u>400,000</u>	<u>695,000</u>
Total	<u>\$ 820,105</u>	<u>\$ 1,353,877</u>

NOTE 12: IN-KIND SUPPORT

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

	<u>2022</u>	<u>2021</u>
Design and photography services	\$ 3,655	\$ 15,981
Rent	<u>72,000</u>	<u>72,000</u>
Total	<u>\$ 75,655</u>	<u>\$ 87,981</u>

In-kind rent for use of space of approximately 2,877 square feet was donated for programmatic purposes. The Organization valued the space at the rate of approximately \$25 a square foot per year based on an estimate of the average market rate for similar space.

Donated services were used for programmatic purposes and the value of those services was based on an estimate of the cost for similar services.

NOTE 13: 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>2022</u>	<u>2021</u>
Gross receipts	\$ 76,422	\$ 26,908
Less cost of goods sold	<u>(32,562)</u>	<u>(16,569)</u>
Total	<u>\$ 43,860</u>	<u>\$ 10,339</u>

826 VALENCIA, INC.

Notes to the Financial Statements
For the Year Ended June 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)

NOTE 14: COVID SUPPORT

COVID support consisted of the following for the years ended June 30:

	<u>2022</u>	<u>2021</u>
PPP loan forgiveness	\$ 487,317	\$ 479,300
ERTC	<u>66,576</u>	<u>111,278</u>
Total	<u>\$ 553,893</u>	<u>\$ 590,578</u>

NOTE 15: 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, 2022, conditional grants outstanding consisted of the following:

<u>Grant</u>	<u>Award</u>	<u>Recognized</u>	<u>Remaining</u>	<u>Condition</u>
Grant I	\$1,575,000	\$225,000	\$1,350,000	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.

NOTE 16: CONCENTRATIONS

Concentration of Credit Risk

At times, the Organization may have bank deposits in excess of federally insured limits.

Contributions Receivable

As of June 30, 2022 approximately 39% of contributions receivable were from two funders.

NOTE 17: 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 \$21,238 and \$19,798 for the years ended June 30, 2022 and 2021, respectively.

826 VALENCIA, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)**

NOTE 18: 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, 2022 and 2021, chapter fees paid to 826 National totaled \$60,000 and \$30,000, respectively. The Organization received certain grants and other funding from 826 National.

NOTE 19: 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, 2022 are:

Cash and cash equivalents	\$ 1,325,594
Accounts receivable	427,377
Contributions receivable, current	888,400
Investments	8,282,974
Less purpose-restricted net assets	<u>(420,105)</u>
Total	<u>\$ 10,504,240</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 20: UNCERTAINTIES

Coronavirus

In March 2020, the WHO classified the COVID-19 outbreak as a pandemic. 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.