# Las Trampas School, Inc.

Financial Statements

**For the years ended June 30, 2020 and 2019**

With Independent Auditors' Report Thereon

(A California Not-for-Profit Corporation)
June 30, 2020 and 2019

## Mission

Las Trampas supports adults with developmental disabilities to discover their capabilities and to lead full lives in their home, at work, and in the community.

## History

Las Trampas has a longstanding, rich history of providing services to people with developmental disabilities and their families. Founded in 1958 as a non-profit residential school by parents, family, and community members, Las Trampas School, Inc. provided on-site residential and educational services to children with developmental disabilities. The school was named for the creek that runs through the beautiful, three-and-a-half acre property in Lafayette, California. As the children grew into adulthood along with progressive changes in service provisions, Las Trampas changed its mission to provide services to adults with developmental disabilities.

Currently, Las Trampas provides day program educational and vocational services, residential services, supported and Independent living services throughout the communities of Lafayette, Concord, Pleasant Hill, and Walnut Creek, California. These services include:

- ADP Adult Development Program
- ARM Adult Residential Model
- SLS Supported Living Services
- ILS Independent Living Services

## Philosophy

It is the philosophy of Las Trampas that all persons with developmental disabilities are entitled to develop their optimum state of social, physical, and mental well-being, and share an integrated lifestyle similar to what non-disabled persons enjoy.

## Skills Training Methodologies

Las Trampas strives to provide the highest quality of services for adults with developmental disabilities by employing evidence-based teaching methods and curriculums that meet the training needs of the individuals served by the agency. Las Trampas provides training opportunities both on-site and in the community. On-site skills training includes simulated practice of the skills learned. However, Las Trampas believes that the best learning opportunities happen in community settings where the learned skills can be utilized in real-world settings, the settings where the individuals will be expected to employ the skills learned.

**Board of Directors and Executive Management as of June 30, 2020**

| Name | Position | Name | Position |
|---|---|---|---|
| Michael Collier | President | Keira Leilani Brown | Director |
| Miriam Scholes | 1st Vice President | Bob Damaschino | Director |
| Elizabeth DeForest | 2nd Vice President | Diego Guerrero | Director |
| Julie Seelen | Treasurer | Claude Garbarino | Director |
| Peter Jurichko | Secretary | Sarah Edinger-Gomez | Director |
| | | Terrance Murray | Director |

Daniel L. Hogue, M.S.
Executive Director

(A California Not-for-Profit Corporation)

June 30, 2020 and 2019

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# INDEPENDENT AUDITORS' REPORT

**The Board of Directors**
**Las Trampas School, Inc.**

We have audited the accompanying financial statements of Las Trampas School, Inc. (a California nonprofit organization) which comprise the statement of financial position as of June 30, 2020 and the related statements of activities and changes in net assets, 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.

***Auditor's Responsibility***
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Las Trampas School, 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.

***Other Matters***
We have previously audited Las Trampas School, Inc.'s June 30, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 31, 2019. 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.

Regalia & Associates

*Danville, California*
*December 3, 2020*

## Statements of Financial Position
## June 30, 2020 and 2019

### Assets

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Current Assets: | | | | |
| Cash and cash equivalents | $ | 2,159,130 | $ | 690,599 |
| Accounts receivable | | 683,876 | | 417,059 |
| Grants and pledges receivable | | 608,214 | | 640,716 |
| Prepaid expenses and deposits | | 385,720 | | 80,020 |
| Total current assets | | 3,836,940 | | 1,828,394 |
| Noncurrent Assets: | | | | |
| Investments | | 6,549,218 | | 6,539,976 |
| Right of use asset - equipment | | 59,440 | | 74,429 |
| Loan origination cost, net | | 40,000 | | - |
| Property and equipment, net | | 3,673,899 | | 2,004,115 |
| Total noncurrent assets | | 10,322,557 | | 8,618,520 |
| Total assets | $ | 14,159,497 | $ | 10,446,914 |

### Liabilities and Net Assets

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Current Liabilities: | | | | |
| Accounts payable | $ | 857,415 | $ | 66,601 |
| Accrued expenses | | 391,387 | | 287,995 |
| Operating lease payable - current portion | | 15,751 | | 15,189 |
| Notes and leases payable - current | | 16,870 | | 108,420 |
| Loan payable to SBA | | 755,667 | | - |
| Total current liabilities | | 2,037,090 | | 478,205 |
| Noncurrent Liabilities: | | | | |
| Operating lease payable - noncurrent portion | | 43,689 | | 59,240 |
| Construction loan | | 40,000 | | - |
| Notes and leases payable - long term | | 321,638 | | 296,453 |
| Total long-term liabilities | | 405,327 | | 355,693 |
| Total liabilities | | 2,442,417 | | 833,898 |
| Net Assets: | | | | |
| Without donor restrictions: | | | | |
| Operating | | 5,520,774 | | 2,850,945 |
| Board-designated for property and equipment | | 3,673,899 | | 2,004,115 |
| Board-designated for endowment | | 2,120,071 | | 2,038,901 |
| Total without donor restrictions | | 11,314,744 | | 6,893,961 |
| With donor restrictions | | 402,336 | | 2,719,055 |
| Total net assets | | 11,717,080 | | 9,613,016 |
| Total liabilities and net assets | $ | 14,159,497 | $ | 10,446,914 |

## Statement of Activities and Changes in Net Assets
## For the Year Ended June 30, 2020
*(with Summarized Financial Information for the Year Ended June 30, 2019)*

| | Without Donor Restrictions | With Donor Restrictions | Total 2020 | Total 2019 |
|---|---|---|---|---|
| Operating revenue and contributed support: | | | | |
| *Operating revenue:* | | | | |
| Tuition and fees | $ 5,276,477 | $ - | **$ 5,276,477** | $ 5,306,659 |
| Rent | 28,352 | - | **28,352** | 49,824 |
| Contracts | 4,995 | - | **4,995** | 6,215 |
| Interest and dividends | 116,244 | - | **116,244** | 119,217 |
| Unrealized investment gains | 97,769 | - | **97,769** | 153,313 |
| Gain on sale of property | 1,776,036 | - | **1,776,036** | - |
| Forgiveness of debt | 52,000 | - | **52,000** | - |
| Other revenue | 27,662 | - | **27,662** | 40,148 |
| Total operating revenue | 7,379,535 | - | **7,379,535** | 5,675,376 |
| *Contributed support:* | | | | |
| Contributions | 232,848 | - | **232,848** | 237,445 |
| Grants | - | 559,340 | **559,340** | 1,266,668 |
| Fundraising events | 44,462 | - | **44,462** | 195,096 |
| In kind contributions | 13,550 | - | **13,550** | 5,100 |
| Total contributed support | 290,860 | 559,340 | **850,200** | 1,704,309 |
| *Net assets released from restrictions:* | | | | |
| Program restrictions | 26,881 | (26,881) | **-** | - |
| Capital campaign | 2,849,178 | (2,849,178) | **-** | - |
| Subtotal | 2,876,059 | (2,876,059) | **-** | - |
| Total contributed support and revenue | 10,546,454 | (2,316,719) | **8,229,735** | 7,379,685 |
| Expenses: | | | | |
| Program services | 5,006,079 | - | **5,006,079** | 5,212,872 |
| General and administrative | 867,323 | - | **867,323** | 756,587 |
| Fundraising | 252,269 | - | **252,269** | 179,115 |
| Total expenses | 6,125,671 | - | **6,125,671** | 6,148,574 |
| Increase (decrease) in net assets | 4,420,783 | (2,316,719) | **2,104,064** | 1,231,111 |
| Net assets at beginning of year | 6,893,961 | 2,719,055 | **9,613,016** | 8,381,905 |
| Net assets at end of year | $ 11,314,744 | $ 402,336 | **$ 11,717,080** | $ 9,613,016 |

## Statements of Cash Flows
## For the Years Ended June 30, 2020 and 2019

| | | 2020 | | 2019 |
|---|---|---|---|---|
| *Cash flows from operating activities:* | | | | |
| Increase in net assets | $ | 2,104,064 | $ | 1,231,111 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | | |
| Depreciation | | 213,924 | | 119,389 |
| Unrealized investment gains | | (97,769) | | (153,313) |
| Reinvested interest and dividends | | (116,244) | | (119,217) |
| *Changes in:* | | | | |
| Accounts receivable | | (266,817) | | 49,649 |
| Grants and pledges receivable | | 32,502 | | (558,516) |
| Prepaid expenses and deposits | | (305,700) | | 11,945 |
| Right of use asset - equipment | | 14,989 | | - |
| Loan origination fees | | (40,000) | | - |
| Accounts payable | | 790,814 | | 12,194 |
| Accrued expenses | | 103,392 | | 1,570 |
| Net cash provided by operating activities | | 2,433,155 | | 594,812 |
| *Cash flows from investing activities:* | | | | |
| Acquisition of property and equipment | | (1,883,708) | | (485,642) |
| Disposition (acquisition) of investments, net | | 204,771 | | (225,180) |
| Net cash used for investing activities | | (1,678,937) | | (710,822) |
| *Cash flows from financing activities:* | | | | |
| Proceeds from loan payable to SBA | | 755,667 | | - |
| Proceeds from construction loan | | 40,000 | | - |
| Proceeds generated from new vehicle lease | | 44,704 | | - |
| Accrual of interest related to notes payable | | 4,415 | | 1,998 |
| Principal payments under loans and leases payable | | (130,473) | | (14,880) |
| Net cash provided by (used for) financing activities | | 714,313 | | (12,882) |
| Increase (decrease) in cash and cash equivalents | | 1,468,531 | | (128,892) |
| Cash and cash equivalents at beginning of year | | 690,599 | | 819,491 |
| Cash and cash equivalents at end of year | $ | 2,159,130 | $ | 690,599 |
| *Supplemental Disclosures:* | | | | |
| Interest paid | $ | 6,719 | $ | 3,687 |
| State registration taxes paid | $ | 150 | $ | 150 |

## Statement of Functional Expenses
### For the Year Ended June 30, 2020
*(with Summarized Financial Information for the Year Ended June 30, 2019)*

| | Program Services | | | | Supporting Services | | | Totals | |
|---|---|---|---|---|---|---|---|---|---|
| | Residential Homes | Independent and Supported Living | Day Programs | Program | Management and General | Fundraising | Total Supporting Services | 2020 | 2019 |
| Salaries and benefits | $ 1,323,807 | $ 1,987,174 | $ 753,105 | $ 4,064,086 | $ 522,594 | $ 186,380 | $ 708,974 | **$ 4,773,060** | $ 4,968,298 |
| Program consultants | 66,767 | 641 | 23,640 | 91,048 | 2,514 | 14,333 | 16,847 | **107,895** | 203,458 |
| Total salaries and related costs | 1,390,574 | 1,987,815 | 776,745 | 4,155,134 | 525,108 | 200,713 | 725,821 | **4,880,955** | 5,171,756 |
| Conferences and dues | 426 | 855 | 2,749 | 4,030 | 6,984 | 3,431 | 10,415 | **14,445** | 12,217 |
| Event expense | - | - | - | - | - | - | - | **-** | 1,092 |
| Food | 27,086 | - | - | 27,086 | - | - | - | **27,086** | 52,315 |
| Insurance | 20,167 | 32,041 | 17,621 | 69,829 | 8,731 | 1,544 | 10,275 | **80,104** | 70,951 |
| Janitorial supplies | 3,398 | 658 | 1,637 | 5,693 | 1,852 | 24 | 1,876 | **7,569** | 6,237 |
| Occupancy | 8,333 | 16,667 | 139,583 | 164,583 | 31,250 | 12,500 | 43,750 | **208,333** | - |
| Office and administrative | 20,644 | 2,355 | 26,790 | 49,789 | 21,586 | 11,818 | 33,404 | **83,193** | 98,289 |
| Professional services | 52,928 | 4,276 | 73,668 | 130,872 | 183,481 | 10,830 | 194,311 | **325,183** | 262,300 |
| Program costs | 11,616 | 6,023 | 9,414 | 27,053 | 1,980 | 3,458 | 5,438 | **32,491** | 28,495 |
| Repairs and maintenance | 13,772 | 613 | 15,809 | 30,194 | 26,851 | 159 | 27,010 | **57,204** | 121,045 |
| Supplies and services | 6,968 | 2,233 | 3,835 | 13,036 | 4,459 | 2,083 | 6,542 | **19,578** | 28,140 |
| Travel and auto | 7,965 | 14,415 | 19,486 | 41,866 | 2,537 | 62 | 2,599 | **44,465** | 59,609 |
| Utilities and telephone | 22,111 | 13,812 | 61,002 | 96,925 | 28,569 | 5,647 | 34,216 | **131,141** | 116,739 |
| Total expenses before depreciation and capital campaign | 1,585,988 | 2,081,763 | 1,148,339 | 4,816,090 | 843,388 | 252,269 | 1,095,657 | **5,911,747** | 6,029,185 |
| Depreciation | 69,286 | - | 120,703 | 189,989 | 23,935 | - | 23,935 | **213,924** | 119,389 |
| Total expenses | $ 1,655,274 | $ 2,081,763 | $ 1,269,042 | $ 5,006,079 | $ 867,323 | $ 252,269 | $ 1,119,592 | **$ 6,125,671** | $ 6,148,574 |

Notes to Financial Statements
June 30, 2020 and 2019

## 1. Organization

Las Trampas School, Inc. (the School) was established as a California nonprofit corporation in 1958 to provide assistance to children and adults whose abilities are impaired due to mental or neurological deficiencies. The purpose of the School is to train, educate, and socially adjust these individuals to further condition of normal life, to help them develop suitable skills and occupational activities to the extent that they are able, and to organize social and recreational activities for the benefit of each individual.

***Nature of Activities***
The following four programs are included in the accompanying financial statements:

- Residential Homes (ARM) – Program is funded by California statute and provides licensed board and care of four residential homes for developmentally disabled individuals. There are 24 consumers residing in the homes.

- Supported Living (SLS) – Program is funded by a contract with the Regional Center of the East Bay (RCEB) to support developmentally disabled individuals in their own residences. There are 20 consumers participating in this program.

- Day Program (ADP) – Program is funded by California statute and provides a program for approximately 70 individuals with more developmental challenges than the other programs and for consumers who are non-ambulatory and non-verbal.

- Independent-Living Services (ILS) – Program is funded by a contract with RCEB. This program is designed to support developmentally disabled individuals who are able to live in the community with minimum staff supervision. The School helps the individuals learn a particular skill such as budgeting, menu planning, or keeping medical appointments. During the fiscal year ended June 30, 2020, the School served 17 individuals participating in the ILS program.

## 2. Summary of Significant Accounting Policies

**Basis of Accounting** – The financial statements of the School have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP").

**Measure of Operations** – The statements of activities and changes in net assets reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the School's ongoing operations which include a variety of programmatic activities. Nonoperating activities are limited to resources that generate return from interest-bearing deposits and other activities considered to be of a more unusual or nonrecurring nature.

**Cash and Cash Equivalents** – The School's cash consists of cash on deposit with banks. Cash equivalents represent savings, cash deposits and money market accounts with maturity dates of three months or less from the date of purchase.

*(continued)*

## 2. Summary of Significant Accounting Policies *(continued)*

**Concentrations of Credit Risk** – Financial instruments that potentially subject the School to concentrations of credit risk consist principally of cash and cash equivalents and deposits. The School maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The School manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy.

To date, the School has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and grants receivable considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from reputable organizations and foundations supportive of The School's mission.

**Investments** – The School follows the provisions of *ASC 958.320, Investments – Debt and Equity Securities for Not-for-Profit Entities* and has estimated the fair value of its investments using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that the School could realize in a current market exchange. The use of different assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimates are based on pertinent information available to management as of June 30, 2020 and 2019. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the statements presented, especially in light of the impact of COVID-19 on financial markets.

Purchased investments are initially stated at cost. Investments received by gift are recorded at market value at the date of contribution. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included on the statements of activities and changes in net assets. In accordance with ASC 958.320, the recorded amounts of all investments are adjusted annually to reflect current market values.

**Receivables and Credit Policies** – The School determined that no allowance for doubtful uncollectible accounts receivable is needed based on historical experience, an assessment of economic conditions, and a review of subsequent collections. It is the policy of the organization to periodically assess receivables to determine proper carrying value.

**Accounts, Grants and Pledges Receivable** – The School records accounts, grants and pledges receivable which are expected to be collected within one year at net realizable value. When material, grants and pledges receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue on the statement of activities. The allowance for uncollectible receivables is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivables are written off when deemed uncollectible.

*(continued)*

**2. Summary of Significant Accounting Policies** *(continued)*

**Fair Value Measurements** – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The School groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1
Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2
Other observable inputs, either directly or indirectly, including:
- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3
Unobservable inputs that cannot be corroborated by observable market data.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing model of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability.

**Property and Equipment** - Property and equipment purchased by the School are stated at cost or, if donated, at estimated fair value as of the date of the gift. The costs of additions and major improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Property and equipment are depreciated over the estimated useful lives of the assets (between 3 and 35 years) utilizing the straight-line method.

**Reclassifications** – Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

*(continued)*

## 2. Summary of Significant Accounting Policies (*continued*)

**Income Taxes** – The School is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The School has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The School has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

The School Fund has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that the organization continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status.

**Net Assets** - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Thus, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions
Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has the ability to designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment, and it has opted to do so as of June 30, 2020 and 2019.

Net Assets With Donor Restrictions
Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions can be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Functional Expenses** - The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among services and supporting services benefited. Such allocations are determined by management on an equitable basis. A majority of expenses (such as salaries and wages, rent and utilities, insurance, and other overhead) have been allocated based on time and effort using the School's payroll allocations. Other expenses (such as professional services and other direct costs) have been allocated in accordance with the specific services received from vendors.

(*continued*)

## 2. Summary of Significant Accounting Policies *(continued)*

**Revenue and Revenue Recognition** - Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. When applicable, revenue earned under a contractual arrangement (an "exchange transaction") is recognized when earned and therefore measured as services are provided.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

A portion of The School's revenue is derived from foundation grants which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses, with limited discretion over spending decisions and right of return of unused funds. Amounts received are recognized as revenue when The School has met the barriers as specified in the grant provisions. The School has received conditional grants amounting to $500,000 which have not been recognized at June 30, 2020 because the grant's matching provisions have not been met.

The School has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions received and Contributions Made (Topic 605)* as management believes the standard improves the usefulness and understandability of the Organization's financial reporting

**Comparative Financial Information** - The accompanying financial statements include certain prior-year summarized comparative information in total but not by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with our audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

**Donated Services and In-Kind Contributions** – Contributed services and costs are reflected at the fair value of the contribution received. The contributions of services and costs are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Such amounts, which are based upon information provided by third-party service providers, are recorded at their estimated fair value determined on the date of contribution and are reported as contributions in-kind and supporting services on the accompanying statement of activities and statements of functional expenses.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

*(continued)*

**2. Summary of Significant Accounting Policies** (*continued*)

**Recent and Relevant Accounting Pronouncements** – The following pronouncements became effective for fiscal years beginning subsequent to December 15, 2017 and 2018:

In August 2016, the FASB issued *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The School has adjusted the presentation of these statements accordingly.

In February 2016, the FASB issued *ASU 2016-02, Leases (Topic 842) Accounting for Leases*, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by *ASU No. 2018-01*, *ASU No. 2018-10*, and *ASU No. 2018-11*. This new pronouncement is effective for fiscal years beginning after December 15, 2018, but the School has elected early implementation.

The standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the statements of financial position for all leases with a term longer than 12 months. Leases are required to be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of activities and changes in net assets.

In August 2014, the FASB issued *ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires an organization's management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). As of December 3, 2020 (the date of the Independent Auditors' Report), the School management has made this evaluation and has determined that the School has the ability to continue as a going concern.

In June 2018, the FASB issued *ASU 2018-08, Not-for-Profit Entities (Topic 958)* – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The FASB issued this update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Accordingly, the School has incorporated these clarifying standards within the audited financial statements.

## 3. Cash and Cash Equivalents

Cash and cash equivalents include all funds in banks (checking, savings, and certificates of deposit) at the time of purchase that have a maturity date of three months or less. The components of cash and cash equivalents are as follows at June 30:

| | 2020 | 2019 |
|---|---|---|
| Checking (noninterest-bearing) | $ 499,224 | $ 305,923 |
| Money market and other deposits (interest-bearing) | 818,840 | 142,050 |
| Restricted for capital campaign (interest-bearing) | 825,600 | 226,675 |
| Restricted cash for individual client expenses (noninterest-bearing) | 15,466 | 15,951 |
| Total cash and cash equivalents | $ 2,159,130 | $ 690,599 |

The School attempts to limit its credit risk associated with cash equivalents by utilizing highly rated financial institutions. Funds in money market and other deposit accounts earn interest at rates ranging from 0.05% per annum to 0.65% per annum at June 30, 2020 and 2019.

## 4. Accounts, Grants and Pledges Receivables

Accounts receivable of $683,876 and $417,059 at June 30, 2020 and 2019 respectively, represent amounts billed for tuition, rent, and other program services and are generally due within 30 days. Grants and pledges receivable of $608,214 and $640,716 at June 30, 2020 and 2019 respectively, represent pledges for the School's capital campaign project and are expected to be collected by the end of the project. As disclosed in Note 2, management has assessed the receivables and believes all amounts are fully collectible based on detailed and careful analyses.

## 5. Investments and Endowment

Investments consist of the following at June 30:

| | 2020 | 2019 |
|---|---|---|
| Money market and certificate of deposit accounts | $ 99,280 | $ 448,368 |
| Mutual Funds: | | |
| Large Cap | 886,013 | 848,893 |
| Mid-Cap | 473,522 | 482,971 |
| Short-Term Income | 3,909,822 | 1,463,943 |
| Intermediate | 814,915 | 778,345 |
| Treasury bills | - | 2,168,784 |
| Multisector | - | 89,704 |
| Small Cap | 365,666 | 258,968 |
| Total investments | $ 6,549,218 | $ 6,539,976 |

*(continued)*

### 5. Investments and Endowment *(continued)*

Investments by net asset classification are summarized as follows at June 30, 2020:

| | Without Donor Restrictions | With Donor Restrictions: Time and Purpose | With Donor Restrictions: Perpetual In Nature | Total |
|---|---|---|---|---|
| Money market and deposit accounts | $ 73,446 | $ 25,833 | $ - | **$ 99,280** |
| Mutual Funds | 4,835,748 | 1,564,691 | 49,500 | **6,449,939** |
| Totals as of June 30, 2020 | $ 4,909,194 | $ 1,590,524 | $ 49,500 | **$ 6,549,218** |

Investments by net asset classification are summarized as follows at June 30, 2019:

| | Without Donor Restrictions | With Donor Restrictions: Time and Purpose | With Donor Restrictions: Perpetual In Nature | Total |
|---|---|---|---|---|
| Money market and deposit accounts | $ 136,758 | $ 311,610 | $ - | **$ 448,368** |
| Mutual Funds | 4,577,753 | 1,464,355 | 49,500 | **6,091,608** |
| Totals as of June 30, 2019 | $ 4,714,511 | $ 1,775,965 | $ 49,500 | **$ 6,539,976** |

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are summarized as follows:

| | Without Donor Restrictions | With Donor Restrictions: Time and Purpose | With Donor Restrictions: Perpetual In Nature | Total |
|---|---|---|---|---|
| Endowment net assets-June 30, 2018 | $ 1,858,023 | $ 76,943 | $ 49,500 | $ 1,984,466 |
| Investment income | 44,281 | 74,936 | - | 119,217 |
| Net unrealized gains | 104,967 | 48,346 | - | 153,313 |
| Reclassifications | (100,903) | (67,693) | - | (168,596) |
| Endowment net assets-June 30, 2019 | $ 1,906,368 | $ 132,532 | $ 49,500 | $ 2,088,400 |
| Investment income | - | 69,927 | - | 69,927 |
| Net unrealized gains | 31,471 | - | - | 31,471 |
| Reclassifications | 149,054 | (169,281) | - | (20,227) |
| Endowment net assets-June 30, 2020 | **$ 2,086,893** | **$ 33,178** | **$ 49,500** | **$ 2,169,571** |

During the years ended June 30, 2020 and 2019, earnings on investments were reinvested. Investment income consists of interest and dividends and amounted to $116,244 and $119,217 for the years ended June 30, 2020 and 2019, respectively. Net unrealized investment gains amounted to $97,769 and $153,313 for the years ended June 30, 2020 and 2019, respectively.

*(continued)*

**5. Investments and Endowment** *(continued)*

Endowment net asset composition by type of fund is summarized as follows:

| | Without Donor Restrictions | With Donor Restrictions: Time and Purpose | With Donor Restrictions: Perpetual In Nature | Total |
|---|---|---|---|---|
| As of June 30, 2020: | | | | |
| Donor-restricted endowment funds | **$ -** | **$ -** | **$ 49,500** | **$ 49,500** |
| Board-designated endowment funds | **2,086,893** | **33,178** | **-** | **2,120,071** |
| Totals as of June 30, 2020 | **$ 2,086,893** | **$ 33,178** | **$ 49,500** | **$ 2,169,571** |
| As of June 30, 2019: | | | | |
| Donor-restricted endowment funds | $ - | $ - | $ 49,500 | $ 49,500 |
| Board-designated endowment funds | 1,906,368 | 132,532 | - | 2,038,900 |
| Totals as of June 30, 2019 | $ 1,906,368 | $ 132,532 | $ 49,500 | $ 2,088,400 |

The School's Finance Committee has the responsibility for establishing the School's return objectives (generally lower rates of return associated with more stable and safer investments) and to define the risk parameters. The Committee routinely oversees investment performances and reviews cash flows necessary to sustain the School's operating activities.

*Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the School to retain as a fund of perpetual duration. In accordance with ASC 958.205.55.31, there are no deficiencies of this nature that are required to be reported in unrestricted net assets at June 30, 2020 and 2019. Such future deficiencies could result from unfavorable market fluctuations occurring after the investment of new restricted contributions and continued appropriation for certain programs which are deemed prudent by the Board of Directors. The School's investments may decline below their original basis due to market fluctuations and unrealized losses which are beyond the control of the School's management. Deficiencies of this nature are reported in unrestricted net assets.

*Return Objectives and Risk Parameters*

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the School must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Finance Committee and the Board of Directors, the endowment assets are invested in a manner that is intended to (1) produce results that approximate the price and yield results of the general market conditions (2) subject the School to a moderate level of investment risk and (c) maintain sufficient liquidity to meet planned expenditures.

*(continued)*

### 5. Investments and Endowment *(continued)*

*Strategies Employed for Achieving Objectives*
To satisfy its long-term rate-of-return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The School targets a diversified asset allocation that places a greater emphasis on equity-based investments (mutual funds) to achieve its long-term return objectives within prudent risk constraints.

*Spending Policy and How the Investment Objectives Relate to Spending Policy*
In accordance with the State of California's enacted version of UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) The duration and preservation of the fund, (b) The purposes of the School and the endowment funds, (c) General economic conditions, (d) The possible effect of inflation and deflation, (e) The expected total return from income and the appreciation of investments, (f) Other resources of the School, and (g) The investment policies of the School.

In accordance with this policy, the School reflected appropriations (and thus transferred funds out of investments and into its general checking account) of $506,043 and $87,847 during the years ended June 30, 2020 and 2019, respectively. Over the long term, the School expects the current spending policy to allow its endowment fund assets to grow at a moderate rate annually. This is consistent with the School's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

### 6. Fair Value Measurements

Composition of assets utilizing fair value measurements at June 30, 2020 is as follows:

| | Totals | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments: | | | | |
| Money market and deposit accounts | $ 99,280 | $ 99,280 | $ - | $ - |
| Mutual funds | 6,449,938 | 6,449,938 | - | - |
| Accounts receivable | 683,776 | - | 683,776 | - |
| Grants and pledges receivable | 608,214 | - | 608,214 | - |
| Totals | $ 7,841,208 | $ 6,549,218 | $ 1,291,990 | $ - |

Composition of assets utilizing fair value measurements at June 30, 2019 is as follows:

| | Totals | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments: | | | | |
| Money market and deposit accounts | $ 448,369 | $ 448,369 | $ - | $ - |
| Mutual funds | 6,091,608 | 6,091,608 | - | - |
| Accounts receivable | 417,059 | - | 417,059 | - |
| Grants and pledges receivable | 640,716 | - | 640,716 | - |
| Totals | $ 7,597,752 | $ 6,539,977 | $ 1,057,775 | $ - |

## 6. Fair Value Measurements *(continued)*

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value. This hierarchy consists of three broad levels: (a) Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets, generally without any adjustments, (b) Level 2 assets and liabilities are valued based on "observable inputs" other than quoted active market prices, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and interest rates and yield curves, and (c) Level 3 assets and liabilities are valued based on "unobservable inputs," such as a company's own estimates and pricing models. The School had no assets classified as Level 3 at June 30, 2020 and 2019.

## 7. Liquidity

The School regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the safeguarding of its available funds. The School has various sources of liquidity at its disposal, including cash and equivalents, receivables, and other sources (including the future collection of accounts, grants and pledges receivable.)

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the School considers all expenditures related to its ongoing activities in support of community initiatives to be general expenditures.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

| | 2020 | 2019 |
|---|---|---|
| Cash and cash equivalents | $ 2,159,130 | $ 690,599 |
| Investments | 6,549,218 | 6,539,976 |
| Accounts receivable | 683,876 | 417,059 |
| Pledges and grants receivable | 608,214 | 640,716 |
| Total financial assets | 10,000,438 | 8,288,350 |
| Less: amounts not available to be used within one year: | | |
| Net assets with donor restrictions for programs | (352,836) | (2,669,555) |
| Financial assets available to meet general expenditures over the next year | $ 9,647,602 | $ 5,618,795 |

The School receives a substantial amount of support by way of restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditures within one year.

As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

## 8. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of *ASC 710.25, Compensated Absences*. Under ASC 710.25, the School is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Annual leave accruals are recorded in the financial statements as an accrued liability based on hourly rates in effect at the end of the fiscal year. Accrued payroll liabilities amounted to $388,857 and $284,208 at June 30, 2020 and 2019, respectively, and are included with accrued expenses on the statements of financial position.

## 9. Bank Line of Credit

The School has a revolving line of credit with Heritage Bank of Commerce to fund various short-term operating needs. Outstanding balances are assessed a variable rate associated with the bank's index rate. There was no outstanding balance as of June 30, 2020 and 2019. The line of credit has a total available balance of $350,000 and, when utilized, is secured by certain assets and is subject to annual renewal conditions every December in accordance with the terms of the loan agreement. The bank line of credit was not utilized during the years ended June 30, 2020 and 2019 and there was no interest expense associated with the bank line of credit for the years ended June 30, 2020 and 2019. This line of credit was not renewed upon expiration at June 30, 2020.

## 10. Property and Equipment

Property and equipment consist of the following at June 30:

| | 2020 | 2019 |
|---|---|---|
| Land | $ 327,385 | $ 565,051 |
| Building and improvements | 2,130,528 | 2,306,292 |
| Vehicles | 541,123 | 599,895 |
| Equipment | 374,774 | 365,947 |
| Construction in progress (funded by capital campaign) | 2,612,573 | 672,112 |
| Total property and equipment | 5,986,383 | 4,509,297 |
| Less accumulated depreciation | (2,312,484) | (2,505,182) |
| Property and equipment (net) | $ 3,673,899 | $ 2,004,115 |

Total depreciation expense amounted to $213,924 and $119,389 for the years ended June 30, 2020 and 2019, respectively, and is reflected on the statement of functional expenses. During the year ended June 30, 2020, the School disposed of three fully depreciated vehicles with original cost basis of $108,477. These vehicles were donated to Car Donation Services. During the year ended June 30, 2020, the School sold partially depreciated real estate properties (Hamilton, Kauri and Southwind Houses) for an aggregate sales price of $2,325,000 with total original cost basis of $847,109 and accumulated depreciation of $298,145, resulting in a gain on sale of $1,776,036.

## 11. Notes and Leases Payable

Notes and leases payable are summarized as follows at June 30:

| | 2020 | 2019 |
|---|---|---|
| Lease payable to TCF Equipment Finance, bearing interest at the effective rate of 0.0299% per annum, secured by 2019 Ford Transit T-150, payable in equal installments of $859 over 60 months, with a final maturity date of December 2024. | $ 40,802 | $ - |
| Lease payable to TCF Equipment Finance, bearing interest at the effective rate of 10.91% per annum, secured by 2016 Ford Transit T-150 Van, payable in equal installments of $816 over 60 months, with a final maturity date of August 2021. | 10,961 | 20,543 |
| Community Development Block Grant, bearing interest at the fixed rate of 0.0% per annum (as long as the School does not default under the terms of the loan agreement), secured by real property (Moraga campus), with a maturity date of April 2031. | 165,000 | 165,000 |
| Community Development Block Grant, bearing interest at the fixed rate of 4.0%, secured by real property ("Maureen House"), with a maturity date of November 2032. If the School continues to comply with the terms of the loan agreement, principal and interest will be forgiven and recorded as revenue (debt forgiveness) on the maturity date. | 50,000 | 50,000 |
| Community Development Block Grant, bearing interest at the fixed rate of 4.0%, secured by real property ("Southwind House"), with a maturity date of September 2032. The property was sold during December 2019 and because the School complied with the terms of the loan agreement, the principal loan balance was forgiven and recorded as revenue (forgiveness of debt). The accrued interest of $49,583 was also forgiven and included in the total gain on sale. | - | 99,583 |
| $4,000,000 construction line of credit with California Bank of Commerce bearing interest at the variable rate of Prime + 1.25% during the first 24 months (construction phase). Upon completion of construction, the interest rate will be adjusted and will bear interest at a fixed rate of the 10 year Treasury rate + 2.75% per annum. Payments during the construction phase are interest only and thereafter convert to principal and interest in the amount of $21,643. | 40,000 | - |
| Community Development Block Grant, bearing interest at fixed rate of 4.0%, secured by real property ("Sheila House"), with a final maturity date of August 2035. If the School continues to comply with the terms of the loan agreement, the loan and interest will be forgiven and recorded as revenue on the maturity date. | $ 71,745 | $ 69,747 |

*(continued)*

## 11. Notes and Leases Payable *(continued)*

| | 2020 | 2019 |
|---|---|---|
| Paycheck Protection Plan loan from SBC pursuant to the CARES Act. Loan will mature in two years with interest accruing at the fixed rate of 1.0% per annum. If funds are used according to the provision of the CARES Act, the School can apply for forgiveness. | **$ 755,667** | $ - |
| Total loans, notes and leases payable | **1,134,175** | 404,873 |
| Less: loans, notes and leases payable – current portion | **(772,537)** | (108,420) |
| Loans, notes and leases payable – noncurrent portion | **$ 361,638** | $ 296,453 |

At June 30, 2020, principal payments under notes and leases payable over the next five years are due and payable as follows: Year ending June 30, 2021: $772,537; Year ending June 30, 2022: $50,207; Year ending June 30, 2023: $9,126; Year ending June 30, 2024: $9,663; Year ending June 30, 2025: $5,897, and thereafter: $286,745. Interest expense amounted to $6,719 and $3,687 for the years ended June 30, 2020 and 2019, respectively.

## 12. Right of Use Asset and Leases

Rent Expense

In accordance with *ASU 2016-02, Leases*, the School is required to reflect the present value of future operating lease payments (discounted at an appropriate borrowing rate) as a "Right of Use" asset and a corresponding lease liability. Accordingly, the School has recorded a total lease liability in the amount of $59,440 for its equipment leases (split between current amount of $15,751 and noncurrent amount of $43,689) and a corresponding right of use asset in the amount of $59,440. The weighted average discount rate associated with the calculation of the present value of the future lease payments as of June 30, 2020 was 4.0%.

As of June 30, 2020, future minimum lease payments under the lease liability as of June 30, 2020 (including principal and accrued interest) are as follows: Year ending June 30, 2021: $17,638; Year ending June 30, 2022: $17,637; Year ending June 30, 2023: $17,383; and Year ending June 30, 2024: $11,080.

As of June 30, 2020, the School also leases equipment under multi-year operating leases with maturity dates ranging from December 20, 2020 through February 20, 2024. Rent expense related to equipment amounted to $19,829 and $23,502 for the years ended June 30, 2020 and 2019, respectively.

Rent Income

The School leases its residential homes to individuals receiving care from the School. Rental agreements are under a month-to-month arrangements. Rental revenue is reported as earned over the terms of the leases. Rental income amounted to $28,352 and $49,824 for the years ended June 30, 2020 and 2019, respectively, and are reflected on the statement of activities and changes in net assets.

## 13. PPP Loan Program Under the CARES Act

During May 2020, the School applied for and received $755,667 in a forgivable loan under the Small Business Administration Paycheck Protection Program ("PPP"). Congress established the PPP to provide relief to small businesses during the coronavirus pandemic as part of the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136. This legislation authorized the United States Treasury Department to use the SBA's 7(a) small business lending program to fund loans of up to $10 million per borrower that qualifying businesses could spend to cover payroll, mortgage interest, rent, and utilities.

The School expended the funds for payroll, operating overhead, and other eligible costs in accordance with its agreement with the SBA. Management fully anticipates that it will satisfy the PPP's eligibility and loan forgiveness criteria, enabling the funds to be reclassified from a liability to contributed income.

As of June 30, 2020, loan payable to SBA amounted to $755,667 on the statements of financial position. Based on the guidance in *FASB ASC 405-20-40-1, Liabilities*, the proceeds from the loan would remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven and the debtor has been "legally released" or (2) the debtor pays off the loan to the creditor. Once the loan is, in part or wholly, forgiven and legal release is received, the School is instructed to reduce the liability by the amount forgiven and record the forgiven loan as income.

## 14. Government Contracts and Concentration Vulnerability

For the years ended June 30, 2020 and 2019, the School received $5,185,553 and $5,206,819, respectively, from RCEB, representing approximately 64% and 71%, respectively, of the School's total operating revenue. As of June 30, 2020 and 2019, the School reflected accounts receivable due from RCEB totaling $683,876 and $417,059, respectively. With respect to its funding agreement with RCEB, the contract states that not more than 15 percent of Regional Center funds can be spent on administrative costs. For the years ended June 30, 2020 and 2019, administrative costs as a percentage of total expenses amounted to 14.16% and 12.31%, respectively. Consequently, the ability of the School to sustain itself is vulnerable to the continued funding represented by these government contracts and presents a concentration vulnerability.

## 15. Capital Campaign

The School is constructing a new campus in its Lafayette location. The total budget for the construction is $13,881,956 and management has identified various funding sources: (a) $4,000,000 construction loan from California Bank of Commerce, (b) $1,000,000 from the School's capital reserve fund, (c) funds obtained from the sale of several of the School's residential homes, and (d) donations from individuals, foundations, and corporations.

The School contracted with Mueller Nicholls as general contractor to construct the campus facilities. The total contract commitment amounts to $9,510,861. As of June 30, 2020, $1,080,947 has been expended under this arrangement. Management anticipates the project will be completed during June 2021.

## 16. Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions (previously unrestricted net assets) consist of the following at June 30:

| | 2020 | 2019 |
|---|---|---|
| Unrestricted cumulative operating activities | $ 5,520,774 | $ 2,850,945 |
| Designated by the Board of Directors for property and equipment | 3,673,899 | 2,004,115 |
| Designated by the Board of Directors for endowment fund | 2,120,071 | 2,038,901 |
| Total net assets without donor restrictions | $ 11,314,744 | $ 6,893,961 |

Total net assets without donor restrictions of $11,314,744 and $6,893,959 at June 30, 2020 and 2019, respectively, represents the cumulative operating surpluses of the School since its inception.

The Board of Directors may elect certain unrestricted balances to be set aside as Board-designated funds, with future changes subject to approval by the Board. As noted above, the Board of Directors has designated certain portions of the School's net assets for property and equipment and, separately, for the endowment fund.

Net Assets with Donor Restrictions – Time and Purpose Restrictions

The School recognizes support from net assets with donor restrictions (previously temporarily restricted net assets) when the restrictions imposed by the donors have been satisfied or expired.

Beginning balances, activity, and ending balances related to net assets restricted by donor for time and purpose are summarized as follows for the year ended June 30, 2020:

| Restricted For: | Beginning | Additions | Transfers | Ending |
|---|---|---|---|---|
| ADP communications device | $ 5,946 | $ - | $ 4,398 | $ 1,548 |
| Capital campaign | 2,641,343 | 512,840 | 2,849,178 | 305,005 |
| Chef's Table | 546 | - | 475 | 71 |
| Residential homes | 10,295 | 17,500 | 6,257 | 21,538 |
| Staff appreciation | - | 11,000 | 11,000 | - |
| Sprinkler repair and irrigation | 684 | - | - | 684 |
| Supported living | 454 | - | - | 454 |
| Technology | 763 | 15,500 | 162 | 16,101 |
| Day program | - | 2,500 | 2,500 | - |
| Outings | 6,060 | - | 400 | 5,660 |
| ADP van | 3,464 | - | 1,689 | 1,775 |
| Totals | $ 2,669,555 | $ 559,340 | $ 2,876,059 | $ 352,836 |

*(continued)*

## 16. Net Assets *(continued)*

Beginning balances, activity, and ending balances related to net assets restricted by donor for time and purpose are summarized as follows for the year ended June 30, 2019:

| Restricted For: | Beginning | Additions | Transfers | Ending |
|---|---|---|---|---|
| ADP communications device | $ 2,121 | $ 4,135 | $ 310 | $ 5,946 |
| Capital campaign | 1,859,347 | 1,158,640 | 376,644 | 2,641,343 |
| Chef's table | 2,347 | - | 1,801 | 546 |
| Residential homes | 6,477 | 8,000 | 4,182 | 10,295 |
| Share the Spirit | - | 2,220 | 2,220 | - |
| Sprinkler repair and irrigation | 684 | - | - | 684 |
| Supported living | 103 | 400 | 49 | 454 |
| Technology | 1,030 | - | 267 | 763 |
| Day program | 2,500 | - | 2,500 | - |
| Outings | 8,518 | - | 2,458 | 6,060 |
| ADP Van | 6,203 | 93,273 | 96,012 | 3,464 |
| Totals | $ 1,889,330 | $ 1,266,668 | $ 486,443 | $ 2,669,555 |

During the years ended June 30, 2020 and 2019, the School received donor restricted contributions of $559,340 and $1,266,668, respectively. Net assets released from restrictions amounted to $2,876,059 and $486,442 during the years ended June 30, 2020 and 2019, respectively.

Net Assets with Donor Restrictions – Restrictions in Perpetuity

Net assets with donor restrictions, restrictions in perpetuity, consist of the following at June 30:

| | 2020 | 2019 |
|---|---|---|
| Gifts received and restricted for endowment programs | **$ 49,500** | $ 49,500 |

There were no contributions to net assets with donor restrictions, restrictions in perpetuity, during the years ended June 30, 2020 or 2019. All of the endowment funds represent donor contributions that are subject to restrictions of gift instruments requiring that the principal balances be maintained in perpetuity. The School is permitted to utilize all earnings from investments classified as donor restricted in perpetuity through an appropriation process under UPMIFA guidelines.

## 17. In-Kind Contributions

The School received pro-bono services amounting to $13,550 and $5,100 for the years ended June 30, 2020 and 2019, respectively. The values of these contributions met the criteria for recognition under *ASC 958.605.30-11 Revenue Recognition of Not-For-Profit Entities* and are reflected in the financial statements on the statement of activities and changes in net assets.

## 18. COVID-19

In late 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in China and has since spread to other countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic.

The novel coronavirus threat has (a) significantly impacted financial markets, (b) potentially diminished revenue streams, and (c) impacted private enterprises with which the School conducts business. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic.

Management is carefully monitoring the situation and evaluating its options during this time. These financial statements do not contain any adjustments related to economic losses which may or may not be realized by the School as a result of these events.

## 19. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future funding agreements, which are not reflected in the financial statements.

Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate the School to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond the School's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management personnel, including executive officers of the organization, and (d) Financial risks associated with funds on deposit in accounts at financial institutions. Certain of the grants and contracts (including current and prior costs) are subject to adjustment upon review and final acceptance by the granting agency. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements.

## 20. Subsequent Events

In compliance with *ASC 855, Subsequent Events*, the School has evaluated subsequent events through December 3, 2020, the date the financial statements were available to be issued and, in the opinion of management, there are no subsequent events which need to be disclosed.