Imagine Supported Living Services

(a not-for-profit corporation)

Financial Statements
and
Independent Auditors' Report

For the Years Ended
June 30, 2022 and 2021

Imagine Supported Living Services
Table of Contents

June 30, 2022 and 2021

Independent Auditors' Report

To the Board of Directors
Imagine Supported Living Services
Aptos, CA

Opinion

We have audited the financial statements of Imagine Supported Living Services, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Imagine Supported Living Services as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Other Matter - Report on 2020 Financial Statements

The financial statements of Imagine Supported Living Services for the year ended December 31, 2020, before the restatement described in Note 3, were audited by another auditor who expressed an unmodified opinion on those statements on December 2, 2022. As part of our audit of the financial statements for the years ended June 30, 2022 and 2021, we also audited the adjustments described in Note 3 that were applied to restate the 2020 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2020 financial statements of the entity other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2020 financial statements as a whole.

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 Imagine Supported Living Services' ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Imagine Supported Living Services' 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 Imagine Supported Living Services' 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.

BryMar

Watsonville, CA
April 18, 2024

Imagine Supported Living Services
Statements of Financial Position

June 30, 2022 and 2021

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 195,109	$ 380,180
Accounts receivable	651,068	486,242
Prepaid expenses	148,969	111,400
Other current assets	20,441	1,898
Total current assets	1,015,587	979,720
Property and equipment, net	856,631	884,946
Endowment investments	29,333	31,600
Total assets	$ 1,901,551	$ 1,896,266
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 94,962	$ 24,149
Accrued payroll	271,910	293,657
Current portion of long-term debt	10,748	10,141
Line of credit	25,000	-
Total current liabilities	402,620	327,947
Funds held in trust	1,808	2,060
Long-term debt	440,026	451,244
Total liabilities	844,454	781,251
Net assets		
Without donor restrictions	1,016,162	1,079,048
With restrictions		
With donor restrictions	11,602	4,367
Endowment funds	29,333	31,600
Total net asset with restrictions	40,935	35,967
Total net assets	1,057,097	1,115,015
Total liabilities and net assets	$ 1,901,551	$ 1,896,266

See independent auditors' report and accompanying notes to the financial statements.

Imagine Supported Living Services
Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2022

	Without donor restrictions	With donor restrictions	Total
REVENUE AND SUPPORT			
Program service fees	$ 5,657,516	$ -	$ 5,657,516
Contribution, grants and fundraising	153,177	11,000	164,177
Total revenue and support	5,810,693	11,000	5,821,693
Restrictions released from restrictions	2,765	(2,765)	-
Total revenues and support with restrictions released from restrictions	5,813,458	8,235	5,821,693
EXPENSES			
Program services	5,286,878	-	5,286,878
Management and general	571,536	-	571,536
Fundraising expenses	18,788	-	18,788
Total expenses	5,877,202	-	5,877,202
OTHER INCOME (EXPENSES)			
Other miscellaneous income	278	-	278
Gain (Loss) on investment	-	(3,267)	(3,267)
Interest income	580	-	580
Total expenses	858	(3,267)	(2,409)
Total change in net assets	(62,886)	4,968	(57,918)
Net assets, beginning of year	1,079,048	35,967	1,115,015
Net assets, end of year	1,016,162	40,935	1,057,097

Imagine Supported Living Services
Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2021

	Without donor restrictions	With donor restrictions	Total
REVENUE AND SUPPORT			
Program service fees	$ 5,836,891	$ -	$ 5,836,891
Contribution, grants and fundraising	126,769	41,600	168,369
Total revenue and support	5,963,660	41,600	6,005,260
Restrictions released from restrictions	60,700	(60,700)	-
Total revenues and support with restrictions released from restrictions	6,024,360	(19,100)	6,005,260
EXPENSES			
Program services	5,218,336	-	5,218,336
Management and general	833,925	-	833,925
Fundraising expenses	720	-	720
Total expenses	6,052,981	-	6,052,981
OTHER INCOME (EXPENSES)			
COVID tax refund	66,986	-	66,986
Interest income	1,121	-	1,121
Total expenses	68,107	-	68,107
Total change in net assets	39,486	(19,100)	20,386
Net assets, beginning of year	1,039,562	55,067	1,094,629
Net assets, end of year	$ 1,079,048	$ 35,967	$ 1,115,015

See independent auditors' report and accompanying notes to the financial statements.

Imagine Supported Living Services
Statement of Functional Expenses

For the Year Ended June 30, 2022

	Program Service	Management and General	Fundraising	Total
Wages and salaries	$ 3,537,210	$ 379,459	$ 16,560	$ 3,933,229
Payroll taxes	284,570	22,471	1,046	308,087
Employee benefits	1,023,610	-	-	1,023,610
Utilities	6,411	712	-	7,123
Telephones and internet	26,093	237	26	26,357
Professional fees	129,119	125,254	-	254,373
Consumer related costs	139,716	-	-	139,716
Office expenses	26,053	237	26	26,316
Supplies	37,179	338	38	37,555
Taxes and fees	48,479	-	-	48,479
Insurance	-	9,828	1,092	10,920
Interest expenses	-	29,840	-	29,840
Depreciation	28,437	3,160	-	31,597
Total expenses	$ 5,286,878	$ 571,536	$ 18,788	$ 5,877,202

See independent auditors' report and accompanying notes to the financial statements.

Imagine Supported Living Services
Statement of Functional Expenses

For the Year Ended June 30, 2021

	Program Service	Management and General	Fundraising	Total
Wages and salaries	$ 3,669,829	$ 422,329	$ -	$ 4,092,158
Payroll taxes	275,286	24,533	-	299,819
Employee benefits	948,087	124,344	-	1,072,431
Utilities	95	6,946	-	7,041
Telephones and internet	1,576	18,873	-	20,449
Professional fees	161,600	43,984	-	205,584
Consumer related costs	143,864	25,216	-	169,080
Office expenses	5,969	18,925	720	25,614
Supplies	7,494	24,090	-	31,584
Taxes and fees	4,536	40,121	-	44,657
Insurance	-	15,677	-	15,677
Interest expenses	-	37,400	-	37,400
Depreciation	-	31,487	-	31,487
Total expenses	$ 5,218,336	$ 833,925	$ 720	$ 6,052,981

See independent auditors' report and accompanying notes to the financial statements.

Imagine Supported Living Services
Statements of Cash Flows

For the Years Ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (57,918)	$ 20,386
Adjustments to reconcile change in net assets cash provided by (used in) operating activities		
Depreciation	31,597	31,487
Gain (loss) on investments	3,267	-
(Increase) decrease in operating assets:		
Accounts receivable	(164,826)	49,653
Prepaid expenses	(37,569)	11,116
Other current assets	(18,543)	(2,741)
Increase (decrease) in operating liabilities:		
Accounts payable	70,813	(204,043)
Accrued payroll	(21,747)	15,717
Funds held in trust	(252)	(23,224)
Net cash provided by (used in) operating activities	(195,178)	(101,649)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(3,282)	-
Acquisition of investments	(1,000)	(31,600)
Net cash provided by (used in) investing activities	(4,282)	(31,600)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	25,000	-
Principal payments on note payable	(10,611)	(9,490)
Net cash provided by (used in) financing activities	14,389	(9,490)
Net increase (decrease) in cash and cash equivalents	(185,071)	(142,739)
Cash and cash equivalents, beginning of year	380,180	522,919
Cash and cash equivalents, end of year	$ 195,109	$ 380,180
SUPPLEMENTAL CASHFLOW DISCLOSURE		
Interest expenses	$ 29,840	$ 27,283

NOTE 1 - NATURE OF OPERATIONS

Imagine Supported Living Services, (the Organization) established as a charitable non-profit organization on June 4, 2002, and located in Aptos, California whose specific and primary purpose is to provide services to adults with developmental disabilities. These services may include, but are not limited to, finding securing housing, direct staff support for personal care and tasks, money management, social and recreational facilitation and medical management.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under the accrual basis of accounting, revenue and support are recorded when earned and expenses when incurred and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of presentation

The Organization presents information regarding its financial position and activities according to two classes of net assets:

> Net assets without donor restrictions consist of net assets that are for use in general operations and are not subject to donor (or certain grantor) restrictions. The governing board has not designated any amounts from net assets without donor restrictions.
>
> Net assets with donor restrictions represent contributions whose use has imposed restrictions. The 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. 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 has been fulfilled, or both.

Use of estimates

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

Cash and cash equivalents

For purposes of reporting cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of 90 days or less at the date of purchase to be cash equivalents. The carrying amount in the Statement of Financial Position approximates fair value.

Accounts receivable

Accounts receivable consist of the Organization's program income that supporting service was performed for the clients and the payments were in transit as of the statement of financial position date. Management provides for potentially uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of each commitment. Balances that are still outstanding after management has used reasonable collection efforts are written off through a change to the valuation allowance and a credit to accounts receivable. Management believes all accounts receivable as of June 30, 2022 and 2021 are collectible, therefore no allowance for doubtful accounts has been recorded.

Prepaid expenses

Prepaid expenses consist of expenses paid before they are incurred including insurance and other operating expenses. All prepaid expenses are expected to be expended within one year.

Other current assets

Other current assets include client advance and employee advance. Any expenses that are paid by the Organization on behalf of the clients and employees are recorded and expected to be reimbursed within one year.

Property and equipment

Property and equipment exceeding $1,000 are recorded at cost if purchased or at estimated fair market value at date of gift, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building	27.5 years
Building improvements	15 years
Office furniture and equipment	3–5 years

Endowment investment

Endowment investment is a permanently restricted endowment fund that is held at the Santa Cruz County Community Foundation (the Foundation); gains and losses associated with the investments remain restricted. The Organization is not entitled to the annual distribution of the total fund balance, the payout rate is determined each year by the Foundation's Board of Director, which is recorded as a transfer from the Endowment to the checking account and a release from restriction.

Fair value of financial instruments

Financial instruments included in the Organization's Statement of Financial Position as of June 30, 2022 and 2021 include cash, accounts receivable, accounts payable and accrued expenses. The carrying amounts of these financial instruments represent a reasonable estimate of the corresponding fair values.

Accounts payable

Accounts payable consist of amounts due for expenses incurred but not paid until the subsequent year.

Accrued expenses and other payables

Accrued liabilities consist of payroll and vacation expenses earned but not yet paid as of June 30, 2022 and 2021. Other payables include mileage and clients' utilities reimbursements payable to employees.

Funds held in trust

Funds held in trust consist of the client trust account that the Organization assists the clients in monies management. The Organization collects the funds on behalf of the clients and distributes the funds to the clients or their healthcare providers.

Long-term debt

Long-term debt consists of a note owed for loan outstanding at year end. The notes relate to the loans on the buildings and loans from the Santa Cruz County Bank.

Revenue recognition

Exchange revenue - The Organization recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization receives contracts from foundations to provide services. The performance obligation is providing the service to the grantee. The Organization establishes the transaction price, based on quoted prices in active markets. Revenue is recognized when the corresponding service has been provided according to the agreement, subject to the contract limit, if any.

Contribution revenue - The Organization records contributions, including unconditional promises to give as revenue at their fair value in the period the contribution or pledge is received. All contributed support is recognized as revenue without donor restrictions when received or un-conditionally promised. The Organization reports gifts of cash and other assets as restricted support if such gifts are received with donor stipulations that limit the use of the donated assets. When such restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

Nonfinancial contributions

Occasionally, the Organization received donated services from unpaid volunteers who assist in fund-raising, program activities, and special events. The Organization records nonfinancial support including contributed assets and professional services. Contributed professional services are recognized if the services received (a) create or enhance a non-financial asset or (b) require specialized skills, provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributions of fixed assets are recognized as nonfinancial asset donations at their fair market value. There were no nonfinancial contributions received for the years ended June 30, 2022 and 2021.

COVID tax refund

During the fiscal year ended June 30, 2021, the Organization received $66,986 as tax refund on sick leave paid out to employees due to COVID.

Functional expense allocations

The costs of providing the various program and supporting services have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses applicable to more than one program are allocated based on usage and management's estimates.

Tax exempt status

The Organization is exempt from federal and state income taxes under Sections 501(c) (3) of the Internal Revenue Code (IRC) and 23701(d) of the California Revenue and Taxation Code. The Organization does pay unrelated business income tax on rental activities that are not related to its exempt purpose.

In accordance with GAAP, an organization must recognize the tax benefit associated with any tax positions taken for tax return purposes when it is more likely than not the position will be sustained. The Organization does not believe there are any material uncertain tax positions. For the years ended June 30, 2022 and 2021, there were no tax related interest or penalties recorded or included in the financial statements.

Recent accounting standards

Leases - In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 requires entities to recognize right-of-use assets and lease liabilities on the statement of financial position for the rights and obligations created by all leases, including operating leases, with terms of more than 12 months. The new standard also requires additional disclosures on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative information. The effective date was July 1, 2021, however, in June 2020, FASB issued ASU 2020-05 which pushed out the effective date out by one year. The new standard is effective for the Organization on July 1, 2022. Early adoption is permitted. The Organization is in the process of evaluating the impact the adoption of this standard will have on its financial statements and related disclosures.

Contributed nonfinancial assets – In September 2020, FASB issued ASU No. 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. ASU 2020-07 requires entities to present contributed nonfinancial assets as a separate line item in the statement of activities. The standard also requires additional disclosure over these contributed nonfinancial assets including a disaggregation of the amount recognized, qualitative information on utilization, entity policy, description over donor imposed restrictions, and valuation techniques. The effective date was July 1, 2021. The Organization has implemented this standard and has reflected this on its financial statements and related disclosures using a retrospective approach. The net assets and changes in net assets are unchanged due to implementation.

NOTE 3 - PRIOR PERIOD ADJUSTMENTS

During years ended June 30, 2022 and 2021, management reviewed and adjusted revenue and multiple balance sheet's items of prior year. As a result, the Organization has restated the net assets for the year ended June 30, 2020 to reflect the correct net balance for that year; adjustment related to net assets are summarized as follows:

	Without donor restrictions	With donor restrictions	Total
Net Assets - June 30, 2020	$ 1,177,346	$ 55,067	$ 1,232,413
Subtract: Overstatement of Net Assets	(137,784)	-	(137,784)
Net Assets - June 30, 2020 as Restated	$ 1,039,562	$ 55,067	$ 1,094,629

The following illustrates the adjustment in the Statements of Financial Position as of June 30, 2020:

	Previously Reported	Adjustment	Restated
Cash and cash equivalent	$ 516,412	$ 6,509	$ 522,921
Accounts receivable	478,920	59,767	538,687
Prepaid expenses	121,236	(1,767)	119,469
Property and equipment, net	982,387	(68,745)	913,642
Total Assets	$ 2,098,955	$ (4,236)	$ 2,094,719
Accounts payable	$ 62,176	$ 166,016	$ 228,192
Accrued payroll	304,797	(29,689)	275,108
Other current liabilities	27,977	141	28,118
Long-term debt	473,795	(2,920)	470,875
Total Assets	$ 868,745	$ 133,548	$ 1,002,293

NOTE 4 - LIQUIDITY AND AVAILABILITY

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures.

The Organization considers investment income without donor restrictions, appropriated earnings from donor-restricted and contributions without donor restrictions to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, program expenses, and fundraising expenses to be paid in the subsequent year.

The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that mission fulfillment will continue to be met, ensuring the sustainability of the Organization.

The following table reflects the Organization's financial assets as of June 30, 2022 and 2021, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include board-designated special projects fund that is intended to fund special board initiatives not considered in the annual operating budget. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also include net assets with donor restrictions greater than one year and special project outside of the Organization's core programs.

	2022	2021
Cash and cash equivalents	$ 195,109	$ 380,180
Accounts receivable	651,068	486,242
Less: donor restricted financial assets	-	-
	$ 846,177	$ 866,422

NOTE 5 - PROPERTY AND EQUIPMENT

As of June 30, 2022 and 2021, the value of the property and equipment and related accumulated depreciation is as follows:

	2022	2021
Land	$ 494,990	$ 494,990
Building and improvements	583,164	583,164
Furniture and equipment	6,957	3,675
Less: accumulated depreciation	(228,480)	(196,883)
	$ 856,631	$ 884,946

Depreciation and amortization expense for the years ended June 30, 2022 and 2021, was $31,597 and $31,487, respectively.

NOTE 6 - INVESTMENTS

The Organization reports investments at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

The three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little to no market activity and that are significant to the fair value of the assets or liabilities.

When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The Organization has retained the services of the Foundation to manage, act as agent and invest the Organization's funds held in trust, according to the Foundation's investment policy guidelines for balanced pool funds. The investments are recognized at fair value as of June 30:

	2022	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)
Endowed - Socially Responsible Long Term Pool	$ 29,333		$ -	$ 29,333

	2021	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)
Endowed - Socially Responsible Long Term Pool	$ 31,600	$ -	$ -	$ 31,600

The Organization holds level 3 investments with the Foundation pooled funds, which is considered beneficial interest of an agency fund; valued on a recurring basis, the balance should be reported at fair value. The Organization has an interest in a portion of one or more of the Foundation's investment portfolios, but does not have a direct claim to a portion of each individual stock, bond or other investments within the underlying investment portfolio. The investment portfolio is comprised of many different investments with varying levels of observable inputs; valuation of the entire portfolio itself cannot directly be corroborated with observable market data.

The table below summarizes changes in investments measured at fair value for which the Organization has used Level 3 inputs to determine fair value. The table reflects gains and losses for the full year for all financial assets classified as Level 3.

	2022	2021
Beginning balance	$ 31,600	$ -
Contributions	1,000	31,600
Earnings/(losses)	(2,771)	-
Foundation service fee	(496)	-
Ending balance	$ 29,333	$ 31,600

NOTE 7 - LINE OF CREDIT

On April 2022, the Organization started a line of credit with credit limit of $200,000. The outstanding balance as of June 30, 2022 was $25,000 and the interest rate was 10%.

NOTE 8 - LONG-TERM DEBT

On March 2019, the Organization assumed a note, secured by deeds of trusts, in the total amount of $482,722, payable to Santa Cruz County Bank. The interest rate is $5,750% for initial 60 monthly installments of $3,064, then at 5.792% for 59 monthly consecutive installments of $3,075 (beginning of April 2024); the note matures in March 2029. The minimum principal obligations for fiscal years ended June 30th are due as follows:

	2022
2023	$ 10,748
2024	11,302
2025	12,014
2026	12,739
2027	13,507
Thereafter	390,464
	$ 450,774

For the years ended June 30, 2022 and 2021, interest expenses were $29,840 and $27,283, respectively.

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions during the years ended June 30, 2022 and 2021 consisted of the following:

	2022	2021
Clients with disabilities	$ 11,602	$ 4,367
Endowment fund	29,333	31,600
	$ 40,935	$ 35,967

Net assets with donor restrictions released from restrictions during the years ended June 30, 2022 and 2021 consisted of the following:

	2022	2021
Client support and Community Center Development	$ -	$ 55,067
Clients with disabilities	2,765	5,633
	$ 2,765	$ 60,700

NOTE 10 - ENDOWMENT FUND

The Organization's endowment consists of funds established for earnings thereon to support the Organization's community programs. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor imposed restrictions.

Endowments with donor restrictions

The Organization's donor-restricted endowment includes those resources restricted by donors that the Organization is committed to maintaining in perpetuity.

Interpretation of relevant law

The Organization's Board of Directors has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment held in perpetuity, (b) the original value of subsequent gifts to the endowment held in perpetuity, and (c) accumulations to the endowment held in perpetuity made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with the California version of the UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation

5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Return objectives and risk parameters

The Organization 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 Organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the Organization diversifies its investments, subject to practicality constraints, among a variety of asset classes so as to provide a balance that will enhance total real return while avoiding undue risk concentration in any single asset class or investment category.

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 Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2022 and 2021.

Spending policy

Under the current policy, which is reviewed and approved yearly by the Board of Trustees, the withdrawal is expected to be at least 1% each year, and no more than 7%. The calculation of the draw is based upon the five preceding year average endowment fund balance. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to grow.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2022 and 2021 is as follows:

	2022	2021
Endowed - Socially Responsible Long Term Pool	$ 29,333	$ 31,600

Changes in endowment net assets for the fiscal years ended June 30, 2022 and 2021 is as follows:

	2022	2021
Beginning balance	$ 31,600	$ -
Contributions	1,000	31,600
Earnings/(losses)	(2,771)	-
Foundation service fee	(496)	-
Ending balance	$ 29,333	$ 31,600

NOTE 11 - FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Organization allocates all expenses based on a time allocation of the employees per month and this is done for all expense. Facility related expenses are allocated based on estimated use of square footage.

NOTE 12 - CONCENTRATION OF RISK

Financial instruments that potentially subject the Organization to credit risk consist primarily of cash, and receivables. The Organization maintains cash with commercial banks and other major financial institutions. At times, cash balances may be in excess of the Federal Deposit Insurance (FDIC) limits of $250,000.

The credit risk associated with receivables is mitigated by the fact that the receivables are due from Organization members, local donors and governments.

For the years ended June 30, 2022 and 2021, there was one source that provided more than 10% of program revenue to the organization.

NOTE 13 - COMMITMENTS AND CONTIGENCIES

The Organization is the subject of lawsuits and claims arising in the ordinary course of business from time to time. The Organization reviews any such legal proceedings and claims on an ongoing basis and follow appropriate accounting guidance when making accrual and disclosure decisions. The Organization establishes accruals for those contingencies where the incurrence of a loss is probable and can be reasonably estimated, and it discloses the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for the Organization's financial statements to not be misleading. To estimate whether a loss contingency should be accrued by a charge to income, the Organization evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of the loss. The Organization does not record liabilities when the likelihood that the liability has been incurred is probable, but the amount cannot be reasonably estimated. Based upon present information, the Organization determined that there were no matters that required an accrual as of June 30, 2022 or 2021, nor were there any asserted or unasserted claims for which material losses are reasonably possible.

The spread of COVID-19, a novel strain of coronavirus, is altering the behavior of society across the world. The continued spread of COVID-19 may adversely impact the local, regional, national and world economies. The extent to which Covid-19 may impact the Organization’s activities may depend on future developments which are highly uncertain and cannot be predicted. Although to date, Covid-19 has not had a material impact on the Organization’s activities, management cannot presently estimate the overall long-term operational and financial impact to the Organization.

NOTE 14 - SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the date the financial statements were available to be issued. The Organization recognizes in the financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

Management evaluates events occurring subsequent to June 30, 2022 in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the independent auditors’ report which is the date the financial statements were available to be issued.

No events have occurred that require recognition or disclosure for the year ended June 30, 2022.