HEALY AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANT

# LAVA MAE
# (A NONPROFIT PUBLIC BENEFIT CORPORATION)

## REPORT ON AUDIT OF FINANCIAL STATEMENTS

## YEAR ENDED DECEMBER 31, 2017

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# INDEPENDENT AUDITOR'S REPORT

April 23, 2018

Board of Directors
Lava Mae
San Francisco, California

I have audited the financial statements of Lava Mae (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows 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 the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



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***Opinion***

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lava Mae as of December 31, 2017, 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.

Healy and Associates

Healy and Associates
Concord, California

**LAVA MAE**
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

| | |
|---|---|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and cash equivalents (Notes B and C) | $ 640,264 |
| Grants and accounts receivable (Notes B and C) | 270,904 |
| Prepaid expenses | 29,480 |
| Total Current Assets | 940,648 |
| Other assets | 4,794 |
| Fixed assets, net (Note D) | 383,092 |
| Total Assets | $ 1,328,534 |
| LIABILITIES AND NET ASSETS | |
| CURRENT LIABILITIES | |
| Accounts payable and accrued expenses (Note G) | $ 51,887 |
| Total Liabilities | 51,887 |
| COMMITMENTS AND CONTINGENCIES (Note E) | |
| NET ASSETS | |
| Unrestricted | 991,125 |
| Temporarily restricted (Note F) | 285,522 |
| Total Net Assets | 1,276,647 |
| Total Liabilities and Net Assets | $ 1,328,534 |

See Notes to Financial Statements

**LAVA MAE**
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| REVENUE AND SUPPORT | | | |
| Foundation grants and awards | $ 374,417 | $ 329,750 | $ 704,167 |
| Individual contributions | 437,411 | | 437,411 |
| Corporate contributions | 267,154 | | 267,154 |
| In-kind revenue | 283,984 | | 283,984 |
| Other income | 6,822 | | 6,822 |
| | 1,369,788 | 329,750 | 1,699,538 |
| Net assets released from restriction | 109,228 | (109,228) | - |
| TOTAL REVENUE AND SUPPORT | 1,479,016 | 220,522 | 1,699,538 |
| EXPENDITURES | | | |
| Program services | 1,307,572 | | 1,307,572 |
| Administrative services | 362,670 | | 362,670 |
| Fundraising expenses | 320,316 | | 320,316 |
| TOTAL EXPENSES | 1,990,558 | - | 1,990,558 |
| CHANGE IN NET ASSETS | (511,542) | 220,522 | (291,020) |
| NET ASSETS, beginning of year | 1,502,667 | 65,000 | 1,567,667 |
| NET ASSETS, end of year | $ 991,125 | $ 285,522 | $ 1,276,647 |

**LAVA MAE**
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

| | Program Services | Administrative Services | Fundraising Expenses | Total |
|---|---|---|---|---|
| Wages | $ 727,940 | $ 151,316 | $ 71,883 | $ 951,139 |
| Payroll taxes | 63,574 | 13,307 | 6,438 | 83,319 |
| Employee benefits | 115,299 | 32,967 | 11,315 | 159,581 |
| Total Personnel Expenses | 906,813 | 197,590 | 89,636 | 1,194,039 |
| In-kind expenses | 4,500 | 54,320 | 225,164 | 283,984 |
| Program vehicle expenses | 95,486 | 2,015 | - | 97,501 |
| Professional services | 30,248 | 51,485 | 2,250 | 83,983 |
| Program supplies and expenses | 76,280 | - | - | 76,280 |
| Depreciation | 57,552 | 7,114 | - | 64,666 |
| Event expenses | 33,629 | - | 500 | 34,129 |
| Rent | 17,849 | 4,113 | - | 21,962 |
| Program cleaning supplies | 19,125 | - | - | 19,125 |
| Taxes and fees | 12,617 | 4,334 | 979 | 17,930 |
| Equipment and maintenance | 12,244 | 5,267 | - | 17,511 |
| Utilities and building services | 7,132 | 7,298 | - | 14,430 |
| Travel | 12,270 | 1,314 | - | 13,584 |
| Printing, shipping, and postage | 6,856 | 1,393 | 576 | 8,825 |
| Recruiting | 2,371 | 5,899 | 54 | 8,324 |
| Insurance | 91 | 7,282 | - | 7,373 |
| IT services | 312 | 6,051 | - | 6,363 |
| Building maintenance | 4,638 | 1,336 | - | 5,974 |
| Meetings | 4,184 | 297 | - | 4,481 |
| Office supplies | 2,649 | 1,493 | - | 4,142 |
| Dues and memberships | 469 | 1,875 | 149 | 2,493 |
| Miscellaneous expenses | 237 | 2,194 | - | 2,431 |
| Advertising | 20 | - | 1,008 | 1,028 |
| Total Expenses | $ 1,307,572 | $ 362,670 | $ 320,316 | $ 1,990,558 |

**LAVA MAE**
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Change in net assets | $ (291,020) |
| Adjustments to reconcile change in net assets to cash provided (used) by operating activities: | |
| Depreciation | 64,666 |
| CHANGES IN ASSETS AND LIABILITIES: | |
| Accounts receivable | 29,096 |
| Prepaid expenses | (7,646) |
| Other assets | (3,398) |
| Accounts payable and accrued expenses | (23,693) |
| NET CASH USED BY OPERATING ACTIVITIES | (231,995) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchase of equipment | (275,371) |
| NET CASH USED IN INVESTING ACTIVITIES | (275,371) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (507,366) |
| CASH AND CASH EQUIVALENTS, beginning of year | 1,147,630 |
| CASH AND CASH EQUIVALENTS, end of year | $ 640,264 |

## NOTE A – NATURE OF ACTIVITIES

Lava Mae (Organization) is a California nonprofit public benefit corporation, founded in 2015 with its principal office in San Francisco. The Organization's mission is to raise awareness of, and both provide and support the delivery of, health, hygiene and other charitable services for those experiencing or at risk for, homelessness.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Accounting Method and Basis of Presentation

The accounting records of the Organization are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Financial statement presentation follows the guidance of the Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities.* Under this standard, the Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Organization had no permanently restricted net assets at December 31, 2017.

### Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months, which are neither held for nor restricted by donors for long term purposes. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

### Property and Equipment

Property and equipment are stated at cost. Major furniture and equipment purchases are capitalized and depreciated over their respective useful lives. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, which range from three to five years. Maintenance and repairs that do not extend the useful lives of the respective assets are expensed as incurred.

### Revenue Recognition

The Organization receives funding primarily from individual, foundation, and corporate contributions. In accordance with ASC 958, grants and contributions received are recorded as unrestricted or temporarily restricted depending on the existence and nature of grantor restrictions. Contributions are recorded as restricted support if they are received with grantor stipulations that limit the use of the contributed assets. When a grantor restriction expires, that is, when a stipulated purpose restriction is accomplished, or donor restrictions are satisfied by the passage of time, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. As permitted by ASC 958, donor-restricted contributions whose restrictions are met in the same year may be reported as unrestricted support.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue Recognition (Continued)

The Organization evaluates the collectability of its receivables on an ongoing basis and records a provision for potential uncollectible receivables when appropriate. Management did not consider an allowance for doubtful accounts necessary as of December 31, 2017.

### Fair Value Measurements

The Organization's financial instruments include cash and cash equivalents measured using Level 1 inputs. The carrying amount of these financial instruments has been estimated by management to approximate fair value. Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." When determining the inputs used to measure fair value, the highest priority is given to observable inputs and lowest priority is given to unobservable inputs. Accounting Standards Codification (ASC) 820-10, *Fair Value Measurement*, establishes a fair value hierarchy to prioritize the inputs used in measuring fair value. The fair value hierarchy is categorized into three levels based on the inputs as follows:

> **Level 1**— Quoted prices for identical assets and liabilities in active markets.
> **Level 2**—Observable inputs other than Level 1, which include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.
> **Level 3**—Unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets and liabilities.

### Donated Services and In-Kind Contributions

Donated professional services are recorded at the respective fair values of the services received totaling $283,984 as of December 31, 2017. In addition, volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by U.S. GAAP.

### Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the statements of functional expenses. The statement presents the natural classification of detail of expenses by function. Costs common to multiple functions have been allocated among the various functions benefited. General and administrative expenses include the costs that are not directly identifiable with any specific program, but which provide the overall support and direction of the organization. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Tax Exemption Status

The Organization has received exempt status under section 501(c)(3) of the Internal Revenue Code. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS along with related state filings. The related tax returns are subject to examination by federal and state taxing authorities generally for three years after they are filed. The Organization has no unrelated business income, and Management has analyzed tax positions taken and has concluded that there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

### Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

## NOTE C – CONCENTRATIONS

At December 31, 2017, the Organization had $384,988 in accounts in financial institutions exceeding insured limits. To date, the Organization has not experienced, nor does it anticipate, any losses with respect to such accounts. In addition, the Organization's accounts receivable consists of 74% represented from one funder.

## NOTE D – FIXED ASSETS

At December 31, 2017 fixed assets consisted of:

| | |
|---|---|
| Mobile trailer | $ 339,790 |
| Computers and IT | 101,080 |
| Leasehold improvements | 31,383 |
| Total fixed assets | $ 472,253 |
| Less: Accumulated depreciation | (89,161) |
| Total fixed assets, net | $ 383,092 |

For the year ended December 31, 2017, depreciation expense was $64,666.

## NOTE E – COMMITMENTS AND CONTIGENCIES

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

## NOTE E – COMMITMENTS AND CONTIGENCIES (Continued)

Rental expense for the year ended December 31, 2017 was $21,962. In September of 2017, the Organization moved their primary offices within San Francisco signing a three-year lease. In addition, the Organization leased offices in Los Angeles beginning October 2017 for 15 months. Accordingly, the future commitments for the new lease are as follows:

| Year Ended December 31 | |
|---|---|
| 2018 | $ 48,300 |
| 2019 | $ 37,452 |
| 2020 | $ 25,464 |

## NOTE F – TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2017, temporarily restricted net assets consisted of:

| Foundation | Beginning Balance | Income and Contributions | Released from Restriction | Ending Balance |
|---|---|---|---|---|
| Mental Insight | $ 15,000 | $ - | $ (15,000) | $ - |
| DRKF | 50,000 | - | (50,000) | - |
| Annenburg | - | 100,000 | (34,228) | 65,772 |
| San Diego | - | 10,000 | (10,000) | - |
| Venable | - | 19,750 | - | 19,750 |
| Kaiser | - | 200,000 | - | 200,000 |
| Total | $ 65,000 | $ 329,750 | $ (109,228) | $ 285,522 |

## NOTE G – EMPLOYEE BENEFITS

The Organization's employees are entitled to paid time off based upon length of service and other factors. As of December 31, 2017, the respective accrued vacation liability was $12,041. In addition, accrued payroll as of December 31, 2017 was $11,225. These amounts are reflected as accrued expenses in the statement of financial position.

## NOTE H – SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition and disclosure through April 23, 2018, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2017 that required recognition or disclosure in the financial statements.