LAVA MAE
(A NONPROFIT PUBLIC BENEFIT CORPORATION)

REPORT ON AUDIT OF FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

HEALY AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANT

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HEALY AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

July 23, 2019

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, 2018, 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, 2018, 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, 2018

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 860,991
Grants receivable	822,000
Prepaid expenses	41,303
Total Current Assets	1,724,294
Other assets	4,794
Fixed assets, net	415,643
Total Assets	$ 2,144,731
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 115,870
Total Liabilities	115,870
COMMITMENTS AND CONTINGENCIES	
NET ASSETS	
Without donor restrictions	1,063,836
With donor restrictions	965,025
Total Net Assets	2,028,861
Total Liabilities and Net Assets	$ 2,144,731

LAVA MAE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Foundation grants and awards	$ 564,997	$ 1,578,500	$ 2,143,497
Individual contributions	607,086	-	607,086
Corporate contributions	162,024	500,000	662,024
In-kind revenue	288,222	-	288,222
Other income	16,629	-	16,629
	1,638,958	2,078,500	3,717,458
Net assets released from restriction	1,398,997	(1,398,997)	-
TOTAL REVENUE AND SUPPORT	3,037,955	679,503	3,717,458
EXPENDITURES			
Program services	1,972,700	-	1,972,700
Administrative services	553,936	-	553,936
Fundraising expenses	150,386	-	150,386
In-kind expenses	288,222	-	288,222
TOTAL EXPENSES	2,965,244	-	2,965,244
CHANGE IN NET ASSETS	72,711	679,503	752,214
NET ASSETS, beginning of year	991,125	285,522	1,276,647
NET ASSETS, end of year	$ 1,063,836	$ 965,025	$ 2,028,861

LAVA MAE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services	Administrative Services	Fundraising Expenses	In-Kind Expenses	Total
Wages	$ 1,130,325	$ 224,653	$ 66,717	$ 175,000	$ 1,596,695
Payroll taxes	98,486	20,982	5,645	-	125,113
Employee benefits	230,128	48,556	7,510	-	286,194
Total Personnel Expenses	1,458,939	294,191	79,872	175,000	2,008,002
Professional services	109,043	150,286	23,825	-	283,154
Program vehicle expenses	122,355	8,154	-	-	130,509
Program supplies and expenses	117,024	-	-	-	117,024
Depreciation	101,651	13,962	-	-	115,613
In-kind expenses	-	-	-	113,222	113,222
Rent	-	-	44,130	-	44,130
Travel	24,556	11,126	151	-	35,833
IT services	10,550	19,350	-	-	29,900
Advertising	506	24,073	-	-	24,579
Program cleaning supplies	11,966	-	-	-	11,966
Printing, shipping, and postage	9,210	1,816	87	-	11,113
Utilities and building services	502	9,583	-	-	10,085
Insurance	-	7,267	-	-	7,267
Office supplies	2,706	2,039	3	-	4,748
Building maintenance	-	4,397	-	-	4,397
Miscellaneous expenses	1,500	2,089	381	-	3,970
Meetings	1,032	1,103	47	-	2,182
Recruiting	474	1,575	-	-	2,049
Taxes and fees	-	1,285	635	-	1,920
Dues and memberships	324	257	1,007	-	1,588
Equipment and maintenance	132	1,347	-	-	1,479
Event expenses	230	36	248	-	514
Total Expenses	$ 1,972,700	$ 553,936	$ 150,386	$ 288,222	$ 2,965,244

LAVA MAE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 752,214
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:	
Depreciation	115,613
CHANGES IN ASSETS AND LIABILITIES:	
Grants receivable	(551,096)
Prepaid expenses	(11,823)
Other assets	-
Accounts payable and accrued expenses	63,983
NET CASH PROVIDED BY OPERATING ACTIVITIES	368,891
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment	(148,164)
NET CASH USED BY INVESTING ACTIVITIES	(148,164)
NET INCREASE IN CASH AND CASH EQUIVALENTS	220,727
CASH AND CASH EQUIVALENTS, beginning of year	640,264
CASH AND CASH EQUIVALENTS, end of year	$ 860,991

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. The financial statements of the Organization have been prepared in accordance with ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

> **Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.
>
> **Net assets with donor restrictions**: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.
>
> Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Estimates

The preparation of financial statements in conformity with U.S. 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 reporting period. Actual results could differ from those estimates, and those differences could be material.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Fixed Assets

Fixed asset additions in excess of $5,000 are recorded at cost, or if donated, at fair value on the date of donation, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Maintenance and repairs that do not extend the useful lives of the respective assets are expensed as incurred.

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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Organization is supported primarily through contributions from foundations. In accordance with ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities,* 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. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements 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.

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, 2018.

Donated Services and In-Kind Contributions

Donated professional services are recorded at the respective fair values of the services received totaling $288,222 as of December 31, 2018. 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 program activities 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. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Indirect costs such as general and administrative expenses include costs that are not directly identifiable with any specific program, but which provide the overall support and direction of the Organization. Such expenses which are common to multiple functions have been allocated among the various functions benefited.

Advertising

The Organization recognized advertising expenditures of $24,579 for the year ended December 31, 2018.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principles
During the year ended December 31, 2018, the Organization adopted the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"), required for annual reporting periods beginning after December 15, 2017. This 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 provide about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity and availability has also been added.

Recent Accounting Pronouncements
In May 2014, as part of its ongoing efforts to assist in the convergence of U.S. GAAP and International Financial Reporting Standards ("IFRS"), the FASB issued 2014-09, *Revenue from Contracts with Customers* (Topic 606). The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The ASU provides alternative methods of initial adoption and will become effective for private companies for annual periods beginning after December 15, 2018.

The FASB has issued several updates to the standard which i) defer the original effective date from January 1, 2018 to January 1, 2019, while allowing for early adoption as of January 1, 2018 (ASU 2015-14); ii) clarify the application of the principal versus agent guidance (ASU 2016-08); and iii) clarify the guidance on inconsequential and perfunctory promises and licensing (ASU 2016-10). In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers* (Topic 606) *Narrow-Scope Improvements and Practical Expedients*, to address certain narrow aspects of the guidance including collectability criterion, collection of sales taxes from customers, noncash consideration, contract modifications and completed contracts. This issuance does not change the core principle of the guidance in the initial topic issued in May 2014. The Organization is currently evaluating the impact of adopting this new guidance on its financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 establishes a comprehensive new lease accounting model. The new standard clarifies the definition of a lease and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than one year. ASU 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. The Organization is currently evaluating impact of adopting this new guidance on its financial statements.

NOTE C – CONCENTRATIONS

At December 31, 2018, the Organization has $364,632 in cash held in financial institutions exceeding insured limits. To date, the Organization has not experienced, nor does it anticipate, any losses with respect to such accounts. Management monitors the creditworthiness of the financial institutions on an on-going basis.

At December 31, 2018, three donors accounted for 88% of total receivables. In addition, three contributors accounted for approximately 53% of total contribution revenue (excluding in-kind revenue) for the year ended December 31, 2018.

NOTE D – FIXED ASSETS

At December 31, 2018, fixed assets consisted of:

Vehicles and mobile trailers	$ 456,202
Computers and IT	127,580
Leasehold improvements	36,634
Total fixed assets	$ 620,416
Less: Accumulated depreciation	(204,773)
Total fixed assets, net	$ 415,643

For the year ended December 31, 2018, depreciation expense was $115,613.

NOTE E – LIQUIDITY AND AVAILABILITY

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:

Cash	$860,991
Grants receivable	822,000
Total Financial Assets	1,682,991
Less amounts not available to be used within one year:	
Net assets with purpose restrictions to be met in one year	(965,025)
Financial assets available to meet cash needs for general expenditures within one year	$717,966

The Organization has $717,966 in financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NOTE F – 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.

Rental expense for the year ended December 31, 2018 was $44,130. 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. The future commitments for the leases are as follows:

Year Ended December 31	
2019	$ 37,452
2020	$ 25,464

NOTE G – NET ASSETS WITH DONOR RESTRICTIONS

For the year ended December 31, 2018, net assets with donor restriction activity consisted of the following:

Nature of Restriction	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
Specific purpose	$ 285,522	$ 1,753,500	($1,223,997)	$ 815,025
Time restriction	-	325,000	(175,000)	150,000
Total	$ 285,522	$ 2,078,500	($1,398,997)	$ 965,025

NOTE H – EMPLOYEE BENEFITS

The Organization's employees are entitled to paid time off based upon length of service and other factors. As of December 31, 2018, the respective accrued vacation liability was $35,597. This amount is reflected as accrued expenses in the statement of financial position.

NOTE I – SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition and disclosure through July 23, 2019, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2018, that required recognition or disclosure in the financial statements.