LAVA MAE
(A NONPROFIT PUBLIC BENEFIT CORPORATION)

REPORT ON AUDIT OF FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

HEALY AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANT

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HEALY AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

June 22, 2020

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, 2019, 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, 2019, 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, 2019

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 436,926
Grants receivable	6,205
Prepaid expenses	39,485
Total Current Assets	482,616
Other assets	4,794
Fixed assets, net	283,328
Total Assets	$ 770,738
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 28,735
Total Liabilities	28,735
COMMITMENTS AND CONTINGENCIES	
NET ASSETS	
Without donor restrictions	638,827
With donor restrictions	103,176
Total Net Assets	742,003
Total Liabilities and Net Assets	$ 770,738

See Notes to Financial Statements

LAVA MAE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Foundation grants and awards	$ 109,278	$ 370,000	$ 479,278
Individual contributions	575,852	-	575,852
Corporate contributions	220,833	-	220,833
In-kind revenue	347,827	-	347,827
Other income	20,875	-	20,875
	1,274,665	370,000	1,644,665
Net assets released from restriction	1,231,849	(1,231,849)	-
TOTAL REVENUE AND SUPPORT	2,506,514	(861,849)	1,644,665
EXPENSES			
Program services	2,154,853	-	2,154,853
Administrative services	634,052	-	634,052
Fundraising expenses	142,618	-	142,618
TOTAL EXPENSES	2,931,523	-	2,931,523
CHANGE IN NET ASSETS	(425,009)	(861,849)	(1,286,858)
NET ASSETS, beginning of year	1,063,836	965,025	2,028,861
NET ASSETS, end of year	$ 638,827	$ 103,176	$ 742,003

LAVA MAE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services	Administrative Services	Fundraising Expenses	Total
Wages	$ 1,228,714	$ 294,138	$ 81,889	$ 1,604,741
Payroll taxes	88,997	21,576	6,899	117,472
Employee benefits	147,984	23,424	11,798	183,206
Total Personnel Expenses	1,465,695	339,138	100,586	1,905,419
Professional services	6,385	158,675	40,864	205,924
In-kind expenses	172,828	-	-	172,828
Grants paid to others	153,577	-	-	153,577
Depreciation	130,101	6,713	-	136,814
Program supplies and expenses	118,404	-	-	118,404
Rent	12,750	43,495	-	56,245
Insurance	22,986	10,205	-	33,191
Miscellaneous expenses	1,732	22,778	946	25,456
Program vehicle expenses	23,636	1,116	-	24,752
IT services	5,280	16,199	-	21,479
Meetings	5,617	9,546	-	15,163
Utilities and building services	1,227	9,787	-	11,014
Equipment and maintenance	9,413	72	-	9,485
Travel	8,246	915	222	9,383
Office supplies	4,462	3,705	-	8,167
Printing, shipping, and postage	3,753	2,979	-	6,732
Program cleaning supplies	5,861	763	-	6,624
Dues and memberships	483	3,444	-	3,927
Recruiting	1,122	2,200	-	3,322
Advertising	894	1,174	-	2,068
Taxes and fees	-	924	-	924
Building maintenance	401	224	-	625
Total Expenses	$ 2,154,853	$ 634,052	$ 142,618	$ 2,931,523

LAVA MAE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ (1,286,858)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:	
Depreciation	136,814
CHANGES IN ASSETS AND LIABILITIES:	
Grants receivable	815,795
Prepaid expenses	1,818
Accounts payable and accrued expenses	(87,135)
NET CASH USED BY OPERATING ACTIVITIES	(419,566)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment	(4,499)
NET CASH USED BY INVESTING ACTIVITIES	(4,499)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(424,065)
CASH AND CASH EQUIVALENTS, beginning of year	860,991
CASH AND CASH EQUIVALENTS, end of year	$ 436,926

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. In November 2019, the Organization shifted from providing direct service to helping others replicate its programs and approach around the world.

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 the Organization 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.

Grants Receivable

Grants receivable are recorded at net realizable value. An allowance for doubtful accounts is established based on factors such as historical experience, economic conditions, credit quality, age of the account balances, and a review of subsequent collections. Management determined no allowance for doubtful accounts was necessary as of December 31, 2019.

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.

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.

Revenue Recognition
The Organization is supported primarily through contributions from foundations, individuals, corporations, and in-kind donation of goods and services. 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.

Donated Services and In-Kind Contributions
Donated professional services are recorded at the respective fair values of the services received totaling $347,827 as of December 31, 2019. In addition, volunteers contribute significant amounts of time to the 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 based on time spent in the functional area.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Adopted Accounting Principles
In June 2018, the FASB issued ASU No. 2018-08 Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance applies to all organizations that receive or make contributions. The ASU includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. ASU 2018-08 also provides a framework to determine whether a contribution is conditional or unconditional, which may impact the timing of revenue recognition. Under the new guidance, if a transaction is considered an exchange transaction, it is accounted for under the applicable revenue recognition standards. The Organization adopted the standard on January 1, 2019. The adoption of this standard did not materially affect changes in net assets, financial position, or cash flows.

Relevant Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requires organizations to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the organization expects to be entitled to in exchange for those goods and services. The ASU is effective for fiscal year ended December 31. 2020. The Organization is adopting this new guidance on its financial statements for the year ended December 31, 2020.

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, 2020, 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, 2019, the Organization has $39,909 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.

For the year ended December 31, 2019, two donors accounted for 23% of total revenue (excluding in-kind revenue).

NOTE D – FIXED ASSETS

At December 31, 2019, fixed assets consisted of:

Vehicles and mobile trailers	$ 433,076
Computers and IT	127,580
Leasehold improvements	42,204
Total fixed assets	$ 602,860
Less: Accumulated depreciation	(319,532)
Total fixed assets, net	$ 283,328

For the year ended December 31, 2019, depreciation expense was $136,814.

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	$436,926
Grants receivable	6,205
Total Financial Assets	443,131
Less amounts not available to be used within one year:	
Net assets with purpose restrictions to be met in one year	(103,176)
Financial assets available to meet cash needs for general expenditures within one year	$339,955

The Organization has $339,955 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, 2019 was $56,245. 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 is $25,464 for the year ended December 31, 2020.

NOTE G – NET ASSETS WITH DONOR RESTRICTIONS

For the year ended December 31, 2019, 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	$ 815,025	$ 185,000	($946,849)	$ 53,176
Time restriction	150,000	185,000	(285,000)	50,000
Total	$ 965,025	$ 370,000	($1,231,849)	$ 103,176

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, 2019, the respective accrued vacation liability was $25,901. 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 June 22, 2020, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2019, that required recognition or disclosure in the financial statements.

As noted in Note A, at the end of 2019 the Organization shifted its focus from providing direct support to helping others replicate the system LavaMae used for its Radical Hospitality program. The Organization continued it reorganization, including a name change to Lava Mae^{x}, throughout January 2020.

NOTE I – SUBSEQUENT EVENTS (Continued)

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of non-essential businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the Organization expects this matter could negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.