

**MWF MAKING WAVES FOUNDATION, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2020  
(WITH SUMMARIZED COMPARATIVE TOTALS  
FOR YEAR ENDED JUNE 30, 2019)**



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**MAKING WAVES FOUNDATION, INC.**  
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**(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2019)**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Making Waves Foundation, Inc.  
Richmond, California

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Making Waves Foundation, Inc. (a California nonprofit public benefit corporation), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
Making Waves Foundation, Inc.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Making Waves Foundation, Inc. as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

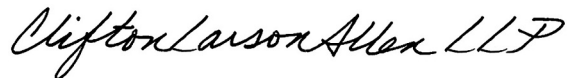
**Emphasis-of-Matter Regarding a Change in Reporting Entity**

As described in Note 14 to the consolidated financial statements, Making Waves Foundation, Inc. changed its organizational structure which remove Making Waves Academy from the consolidated financial statements in 2020. This is considered to be a change in the reporting entity, and as such, requires retrospective application in accordance with FASB ASC 250 *Accounting Changes and Error Corrections*. Accordingly, the accounting change has been retrospectively applied to prior periods presented. Our opinion is not modified with respect to that matter.

**Other Matters**

*Report on Summarized Comparative Information*

We have previously audited Making Waves Foundation, Inc.'s 2019 consolidated financial statements, and we expressed an unmodified opinion on those consolidated financial statements in our report dated September 16, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



**CliftonLarsonAllen LLP**

Glendora, California  
December 7, 2020

**MAKING WAVES FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2020**  
**(WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2019)**

<b>ASSETS</b>	<u>2020</u>	<u>2019</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 7,888,323	\$ 18,825,790
Investments	17,131,074	16,491,168
Accounts Receivable	5,287	8,918
Pledges Receivable, Current	269,000	355,000
Prepaid Expenses and Other Assets	210,373	252,525
Property - Held for Sale, Current	37,868,606	10,170,356
Total Current Assets	<u>63,372,663</u>	<u>46,103,757</u>
<b>LONG-TERM ASSETS</b>		
Restricted Cash and Cash Equivalents	1,685,576	1,679,808
Note Receivable, Net of Current Portion	-	3,856,016
Pledges Receivable, Net of Current Portion	378,451	573,971
Other Long-Term Assets	1,783,886	2,349,447
Property and Equipment - Program Related Investments (PRI), Net	172,006,214	179,140,533
Property and Equipment - Other, Net	7,643,638	22,161,039
Total Long-Term Assets	<u>183,497,765</u>	<u>209,760,814</u>
Total Assets	<u>\$ 246,870,428</u>	<u>\$ 255,864,571</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	\$ 1,877,432	\$ 7,428,260
Other Current Liabilities	30,000	13,333
Bonds Payable, Current Portion	1,690,301	1,621,382
Total Current Liabilities	<u>3,597,733</u>	<u>9,062,975</u>
<b>LONG-TERM LIABILITIES</b>		
Other Long-Term Liabilities	-	30,000
Bonds Payable, Net of Current Portion	37,651,203	39,289,529
Total Long-Term Liabilities	<u>37,651,203</u>	<u>39,319,529</u>
Total Liabilities	41,248,936	48,382,504
<b>NET ASSETS</b>		
Without Donor Restrictions	186,962,646	188,746,102
With Donor Restrictions	18,658,846	18,735,965
Total Net Assets	<u>205,621,492</u>	<u>207,482,067</u>
Total Liabilities and Net Assets	<u>\$ 246,870,428</u>	<u>\$ 255,864,571</u>

See accompanying Notes to Consolidated Financial Statements.

**MAKING WAVES FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2020**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2019)**

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Total 2019
<b>REVENUES AND OTHER SUPPORT</b>				
Individuals and Trusts	\$ 1,832,811	\$ 55,000	\$ 1,887,811	\$ 2,099,975
Private Foundations	29,721,574	71,770	29,793,344	100,600,575
In-Kind Services	58,000	-	58,000	222,653
Rental Income	2,260,001	-	2,260,001	3,274,616
Other Income	6,050	-	6,050	73,559
Interest Income	39,508	-	39,508	92,747
Investment Income/(Loss)	131	403,546	403,677	396,974
Realized and Unrealized Gain/(Loss)	(759)	236,360	235,601	504,958
Net Assets Released from Restriction	843,795	(843,795)	-	-
Total Revenues and Net Assets Released from Restriction	34,761,111	(77,119)	34,683,992	107,266,057
<b>EXPENSES</b>				
Program Services:				
Direct Program Expenses	2,690,834	-	2,690,834	2,340,202
Contributions to Related Party	139,828	-	139,828	87,099
Personnel	4,508,984	-	4,508,984	4,850,708
Other	13,065,762	-	13,065,762	20,438,000
Management and General	3,561,082	-	3,561,082	2,941,032
Fundraising	1,266,378	-	1,266,378	963,033
Total Expenses	25,232,868	-	25,232,868	31,620,074
<b>CHANGE IN OPERATING NET ASSETS</b>	9,528,243	(77,119)	9,451,124	75,645,983
Impairment Loss	11,311,699	-	11,311,699	-
<b>CHANGE IN NET ASSETS</b>	(1,783,456)	(77,119)	(1,860,575)	75,645,983
Net Assets - Beginning of Year	188,746,102	18,735,965	207,482,067	131,836,084
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 186,962,646</u>	<u>\$ 18,658,846</u>	<u>\$ 205,621,492</u>	<u>\$ 207,482,067</u>

See accompanying Notes to Consolidated Financial Statements.

**MAKING WAVES FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2020**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2019)**

	Program Services	Management and General	Fundraising	Total 2020	Total 2019
Salaries and Wages	\$ 3,623,180	\$ 2,238,227	\$ 722,523	\$ 6,583,930	\$ 6,265,636
Pension and Retirement Plan	90,449	41,473	18,471	150,393	154,451
Other Employee Benefits	536,010	220,440	80,197	836,647	995,747
Payroll Taxes	259,345	152,405	48,295	460,045	412,053
Legal Expenses	30,150	12,925	4,237	47,312	18,920
Accounting Expenses	-	52,577	-	52,577	52,233
Other Fees for Services	617,023	115,916	128,359	861,298	1,007,548
Advertising and Promotion	6,143	-	318	6,461	100,447
Office Expenses	454,042	108,050	44,073	606,165	897,762
Printing and Postage	13,476	1,457	477	15,410	13,476
Information Technology	146,408	98,088	32,893	277,389	269,187
Occupancy Expenses	368,832	107,884	35,364	512,080	450,506
Program Related-Investment					
Direct Expenses	2,584,783	-	-	2,584,783	2,311,010
Travel Expenses	21,183	3,632	778	25,593	55,990
Conference Expenses	33,136	6,328	67,522	106,986	143,717
Excise Taxes	-	27,269	-	27,269	27,269
Interest Expense - PRI	1,708,776	-	-	1,708,776	1,774,885
Depreciation Expense - PRI	5,038,688	-	-	5,038,688	12,107,212
Depreciation Expense - Other	1,564,084	-	-	1,564,084	1,195,666
Insurance Expense	453,449	26,740	-	480,189	425,071
Direct Program Expenses	2,690,834	-	-	2,690,834	2,340,202
Grant to Related Party	139,828	-	-	139,828	87,099
Other Expenses	25,589	347,671	82,871	456,131	513,987
	<u>\$ 20,405,408</u>	<u>\$ 3,561,082</u>	<u>\$ 1,266,378</u>	<u>\$ 25,232,868</u>	
2020 Total Functional Expenses					
	<u>\$ 27,716,009</u>	<u>\$ 2,941,032</u>	<u>\$ 963,033</u>		<u>\$ 31,620,074</u>
2019 Total Functional Expenses					

See accompanying Notes to Consolidated Financial Statements.

**MAKING WAVES FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2020**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2019)**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (1,860,575)	\$ 75,645,983
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	6,602,772	12,107,212
Impairment Loss	11,311,699	-
Amortization of bond costs	81,975	137,180
Realized and Unrealized (Gain)/Loss	(235,601)	(504,958)
(Increase) Decrease in Assets:		
Accounts Receivable	3,631	(8,873)
Pledges Receivable	42,152	348,133
Prepaid Expenses and Other Assets	281,520	19,458
Other Long-Term Assets	565,561	(204,959)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Liabilities	(5,550,828)	(3,111,432)
Other Long-Term Liabilities	(13,333)	(35,375)
Net Cash Provided by Operating Activities	11,228,973	84,392,369
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property, Plant, and Equipment - PRI	(23,961,001)	(80,373,386)
Purchases of Investments	(404,305)	(1,213,889)
Proceeds from Sale of Investments	-	2,040,365
Collection of Notes Receivables	3,856,016	-
Net Cash Used by Investing Activities	(20,509,290)	(79,546,910)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of Notes and Bonds Payable	(1,651,382)	(1,555,274)
Net Cash Used by Financing Activities	(1,651,382)	(1,555,274)
<b>NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	(10,931,699)	3,290,185
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	20,505,598	17,215,413
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR</b>	\$ 9,573,899	\$ 20,505,598
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	\$ 1,708,776	\$ 1,774,885
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH REPORTED WITHIN THE STATEMENT OF FINANCIAL POSITION</b>		
Cash and Cash Equivalents	\$ 7,888,323	\$ 18,825,790
Restricted Cash and Cash Equivalents	1,685,576	1,679,808
Total Cash, Cash Equivalents, and Restricted Cash shown in the Statement of Cash Flows	\$ 9,573,899	\$ 20,505,598

See accompanying Notes to Consolidated Financial Statements.



**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

The consolidated financial statements include the financial position and the results of operations of Making Waves Foundation, Inc. (MWF) is a nonprofit organization and its Limited Liability Companies (the LLCs), (collectively, Making Waves). MWF is the single member for disregarded LLCs, formed for the purpose of holding title to property. These LLCs are also included in the consolidated financial statements. All intercompany accounts and transactions have been eliminated.

The mission is to advance educational opportunities for college-bound, career-minded, historically underrepresented and underserved youth.

**Cash and Cash Equivalents**

Making Waves defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

**Basis of Accounting**

The consolidated financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board.

**Functional Allocation of Expenses**

Costs of providing Making Waves' programs and other activities have been presented in the consolidated statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The expenses that are allocated include occupancy, depreciation and amortization, salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other expenses, which are allocated by time and effort.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Asset Classes**

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

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

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

**Investments**

Making Waves presents its investments in accordance with Accounting Standards Codification (ASC) 958-320, *Not-For-Profit Entities — Investments Debt & Equity Securities*. Under ASC 958-320, investments in marketable securities are reported at their fair values in the consolidated statement of financial position. The fair values of these investments are subject to change based on the fluctuations of fair values. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor or by Making Waves are reported as increases in net assets without donor restriction if the restrictions are met (either by the passage of time or by use) in the reporting period in which the income and gains are recognized.

**Accounts Receivable**

Accounts receivable primarily consist of amounts due from lessees as of June 30, 2020. Management believes that all receivables are fully collectible; therefore no provisions for uncollectible accounts were recorded.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property – Held for Sale**

Making Waves accounts for property held for sale at the lower of carrying value or fair value. Gains or losses recognized on the sale of property are presented on the consolidated statement of activities. During the year ended June 30, 2020, Making Waves incurred an impairment loss of \$11,311,699 for real estate improvements. This loss is presented on consolidated statement of activities.

**Property and Equipment – Program Related Investments**

Making Waves makes investments to advance its charitable purpose. Program related Investments (PRI) consists of real estate property leased to a public charter school and to build additional school facilities for charitable purposes. PRI are recorded at cost and depreciated under the straight-line method over their estimated useful lives of 3 to 39 years. Making Waves has elected to capitalize and depreciate all assets costing \$25,000 or more. All other assets are charged to expense in the year incurred. PRI consisted of the following as of June 30, 2020:

Property Held as Program Related Investments	
Land	\$ 26,706,234
Building and Building Improvements	156,035,507
Equipment	1,132,490
Construction in Progress	3,561,775
Less: Accumulated Depreciation	<u>(15,429,792)</u>
Subtotal Property Held as	
Program Related Investments	<u>\$ 172,006,214</u>

**Property and Equipment**

Property and equipment are recorded at cost and depreciated under the straight-line method over their estimated useful lives of 3 to 39 years. Repair and maintenance costs, which do not extend the useful lives of the asset, are charged to expense. The cost of assets sold or retired and related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal, and any resulting gain or loss is included in the earnings. Making Waves has elected to capitalize and depreciate all assets costing \$25,000 or more. All other assets are charged to expense in the year incurred. Other property and equipment consisted of the following as of June 30, 2020:

Other Property and Equipment:	
Land	\$ 1,823,210
Building and Building Improvements	11,345,411
Leasehold Improvements	121,153
Equipment	966,137
Less: Accumulated Depreciation	<u>(6,612,273)</u>
Total Other Property and Equipment	<u>\$ 7,643,638</u>

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment (Continued)**

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as net assets without donor restriction support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that are to be used to acquire property and equipment, are reported as restricted.

Absent donor stipulations regarding how long those donated assets must be maintained, Making Waves reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Making Waves reclassifies net asset with donor restriction to net assets without donor restriction at that time.

**Accrued Vacation and Sick Leave**

Accrued employee vacation benefits are recognized as liabilities. Employees are paid for days or hours worked based upon board-approved schedules which include vacation. Sick leave is accumulated without limit for each employee at the equivalent rate of one day for each full month of service. Sick leave with pay is provided when employees are absent for health reasons.

**Revenue Recognition and Disaggregation of Revenue**

*Contributions* – Contribution revenue is primarily received from individuals and trusts and private foundations. All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as contributions with donor restrictions. Restricted contributions that are received and released in the same period are reported as promises to give without donor restrictions. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

*Contributed In-Kind Services* – Contributions of services are recognized when received if such services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. For the year ended June 30, 2020, the value of contributed services recognized as revenues amounted to \$58,000 and consisted primarily of donated professional services.

*Rental Income* – Rental income is recognized when earned based on the occupancy of the property.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes**

MWF is a nonprofit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. Making Waves is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes.

MWF is subject to excise tax on net investment income (excluding unrealized gains/losses) under the provisions of section 4940 of the Internal Revenue Code. During the year ended June 30, 2020, \$1,264 in estimated excise taxes were recorded for current year taxes on investment income. These taxes are shown as excise taxes on the consolidated statement of functional expenses and are included in accounts payable on the consolidated statement of financial position. The single-member LLCs of MWF, formed for investment holdings, are also exempt from federal and state income tax under the MWF exemption. Additionally, they qualify and have applied for exemption from the California LLC tax and fee under California Revenue and Taxation Code Section 23701h.

**Change in Accounting Principle**

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenues from Contracts with Customers (Topic 606). The update establishes the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. Making Waves has early adopted the implementation of ASU 2014-09 under the full retrospective approach. There was no material impact on the Making Waves' financial position and results of operations upon adoption of the new standard.

In November 2016, FASB issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230) – Restricted Cash. The update requires that the consolidated statement of cash flows explain the change during the period in the total of cash, cash equivalent and the amounts generally described as restricted cash or restricted cash equivalents. Making Waves has implemented ASU 2016-18 under the full retrospective approach. The impact resulted in an increase in cash and cash equivalents and the addition of a reconciliation of cash the consolidated statement of cash flows.

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. Making Waves has implemented ASU 2018-08 under the modified prospective approach. There was no material impact on the Making Waves' financial position and results of operations upon adoption of the new standard.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Summarized Comparative Totals**

The consolidated financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Making Waves' consolidated financial statements for the year ended June 30, 2019, from which the summarized comparative information was derived.

**Evaluation of Subsequent Events**

Making Waves has evaluated subsequent events through December 7, 2020, the date these financial statements were available to be issued.

**NOTE 2 LIQUIDITY AND AVAILABILITY**

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

Cash and Cash Equivalents	\$ 7,888,323
Investments	17,131,074
Accounts Receivable	5,287
Pledges Receivable, Current	269,000
Pledges Receivable, Net of Current Portion	378,451
Less: Net Assets With Donor Restrictions	<u>(18,658,846)</u>
Total	<u>\$ 7,013,289</u>

As part of its liquidity management plan, Making Waves monitors liquidity required and cash flows to meet operating needs on a monthly basis. Making Waves structures its financial assets to be available as general expenditures, liabilities and other obligations come due.

**NOTE 3 CONCENTRATION OF RISK**

Making Waves maintains cash balances held in banks which are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). At times, cash in these accounts exceeds the insured amounts. Making Waves has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Making Waves invests excess cash in various types of investments. Balances in the Making Waves' investment accounts exceed the Securities Investors Protection Corporation insured limit. Making Waves has established guidelines relative to diversification and maturities that maximize safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. Making Waves has not experienced any losses in these accounts.

**MAKING WAVES FOUNDATION, INC.**  
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**JUNE 30, 2020**

**NOTE 3 CONCENTRATION OF RISK (CONTINUED)**

During the year ended June 30, 2020, approximately 86% of the Making Waves' total revenue was derived from one major donor. There was no related accounts receivable balance as of June 30, 2020.

**NOTE 4 FAIR VALUE OF INVESTMENTS**

ASC 820 provides a definition of fair value, establishes a hierarchy for measuring fair value under U.S. GAAP, and requires certain disclosures about fair values used in the consolidated financial statements. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 aim to maximize the use of observable inputs and minimize the use of unobservable inputs.

The standard describes a fair value hierarchy based on three levels of inputs as follows:

*Level 1* – Quoted prices in active markets for identical assets or liabilities.

*Level 2* – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in 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 or no market activity and that are significant to the fair value of the assets or liabilities.

At June 30, 2020, the fair value of Making Waves' financial assets and liabilities that are measured on a recurring basis, are categorized as follows using the fair value hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Bond Funds	\$ 5,064,572	\$ 5,064,572	\$ -	\$ -
Equity Funds	12,066,502	12,066,502	-	-
Total Investments	<u>\$ 17,131,074</u>	<u>\$ 17,131,074</u>	<u>\$ -</u>	<u>\$ -</u>

**MAKING WAVES FOUNDATION, INC.**  
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**NOTE 5 PLEDGES RECEIVABLE**

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Unconditional promises to give expected to be received in more than one year are recorded at fair value at the date of the promise. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value, which approximates fair value. Fair value of pledges receivable is estimated based on the present value of expected future cash flows. Making Waves uses the published U.S. Treasury rates on the date of the pledge to determine the discount rate applied to pledges receivable. The discount rate for the year ended June 30, 2020 was 1.71%. The portion of the discount attributed to a particular payment is recognized through contribution revenue as payments are received. Making Waves records discounts on pledges that are over \$250,000.

Pledges receivable as of June 30, 2020 are expected to be received as follows:

In One Year or Less	\$ 269,000
Between One and Five Years	400,000
Total Gross Pledges Receivable	<u>669,000</u>
Less: Discount on Pledges Receivable	(21,549)
Net Pledges Receivable	<u><u>\$ 647,451</u></u>

**NOTE 6 NOTE RECEIVABLE**

Making Waves has a note receivable from a third party related to the sale of property. The note required monthly interest only payments at a rate of 2.1% per annum. The note was paid in full in November 2019.

**NOTE 7 ENDOWMENT**

Making Waves' endowment consists of an individual fund established to support the charitable purposes of Making Waves. This endowment includes donor-restricted funds. As required by U.S. GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of Making Waves has interpreted 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, Making Waves classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment 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 is classified as net assets with donor restriction until those amounts are appropriated for expenditure by Making Waves in a manner consistent with the standard of prudence prescribed by UPMIFA.



**MAKING WAVES FOUNDATION, INC.  
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**NOTE 7 ENDOWMENT (CONTINUED)**

In accordance with UPMIFA, Making Waves considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the various funds
- (2) The purposes of the donor-restricted endowment funds
- (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 Making Waves
- (7) The investment policies of Making Waves

**Investment Return Objectives, Risk Parameters, and Strategies**

Making Waves has adopted investment and spending policies, approved by the board of directors, for endowment assets that attempt to support the long-term financial sustainability of Making Waves while preserving the inflation-adjusted value of the endowment assets over the long-term. Under these policies, the endowment assets are invested in a manner that is intended to produce results that exceed the amount appropriated for operations by the rate of inflation while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, Making Waves has adopted a strategy of investing in domestic and international equities, fixed income securities, and alternative investments.

**Spending Policy**

Making Waves has a policy to distribute annually not more than 3-5% of the endowment fund value, based on the average portfolio balances over the preceding twelve quarters subject to the approval of the endowment and investment committee. No endowment spending occurred for the year ended June 30, 2020. In the event that the principal value of the endowment funds is reduced below the corpus amount, distributions will be reduced accordingly in compliance with the standard of prudence prescribed by UPMIFA.

Endowment net asset composition by type of fund as of June 30, 2020:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
With Donor Restriction Endowment Funds	<u>\$ -</u>	<u>\$ 17,131,074</u>	<u>\$ 17,131,074</u>

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 7 ENDOWMENT (CONTINUED)**

Endowment activity for the year ended June 30, 2020 is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment Net Assets -			
Beginning of Year	\$ -	\$ 16,491,168	\$ 16,491,168
Investment Return:			
Investment Income	-	403,546	403,546
Net Appreciation	-	236,360	236,360
Total Investment Return	<u>-</u>	<u>639,906</u>	<u>639,906</u>
Endowment Net Assets -			
End of Year	<u>\$ -</u>	<u>\$ 17,131,074</u>	<u>\$ 17,131,074</u>

**NOTE 8 LONG-TERM DEBT**

In March 2017, Making Waves obtained financing through the California Municipal Finance Authority (CMFA). The amount loaned to Making Waves was \$45,000,000 to be applied to the refinancing, construction and acquisition of educational facilities and equipment. The bonds are considered unconditional general obligations of Making Waves, secured by a pledge of revenues and a deed of trust. The loan agreement requires Making Waves to comply with various covenants, conditions, and restrictions including maintaining certain financial ratios. The bond bears an interest rate of 4.17%.

Making Waves is required to maintain in a bond reserve cash account an amount at least equal to the bond reserve requirement which is \$1,665,716. This represents an amount equal to six months debt service on the bonds. Commencing in May 2017 Making Waves must make monthly payments of principal and interest. The bonds mature in March 2037 but are subject to early redemption at the option of Making Waves together with accrued interest. The outstanding balance as of June 30, 2020 was \$40,094,017.

**Debt Issuance Costs**

In connection with the issuance of debt as described above, Making Waves has incurred certain costs which are capitalized and amortized over the term of the related debt or written off to expense if the debt is repaid. Debt issue costs are netted against the associated debt on the consolidated statement of financial position. Unamortized debt issue costs as of June 30, 2020 was \$752,513.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 8 LONG-TERM DEBT (CONTINUED)**

Future maturities of bond payable outstanding as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 1,690,301
2022	1,762,150
2023	1,837,052
2024	1,915,139
2025	1,996,544
Thereafter	<u>30,892,831</u>
Total Future Maturities	40,094,017
Less: Unamortized Debt Issue Costs	<u>(752,513)</u>
Total	<u><u>\$ 39,341,504</u></u>

**NOTE 9 EMPLOYEE RETIREMENT**

**Defined Contribution Plan**

Making Waves offers a defined contribution retirement plan to its qualifying employees. Contributions are made to the Plan through Employee elective deferrals and discretionary Employer matching contributions. Employee retirement expense for the year ended June 30, 2020 was \$150,393.

**NOTE 10 OPERATING LEASES**

**MWF as Lessor**

Through its title holding LLCs, MWF has lease agreements for the use of office space. The agreements have various terms with the final agreement expiring in May 2026. Lease revenue under these agreements for the year ended June 30, 2020 was \$2,260,001. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 1,962,535
2022	206,718
2023	195,433
2024	147,239
2025	126,941
Thereafter	<u>6,290</u>
Total	<u><u>\$ 2,645,156</u></u>

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 10 OPERATING LEASES (CONTINUED)**

**MWF as Lessee**

MWF leases two of its facilities under agreements which have various terms with the final lease agreement expiring August 2023. Lease expense under these agreements for the year ended June 30, 2020 was \$303,640.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 307,407
2022	309,608
2023	1,970
Total	<u>\$ 618,985</u>

**NOTE 11 CONDITIONAL PROMISE TO GIVE**

Making Waves has received a pledge from Scully Memorial Foundation to donate up to \$2,500,000 annually, if required for Making Waves to meet its obligations under the loan agreement described in Note 8. The pledge is for the period of ten years beginning with the 2018 fiscal year. During the fiscal year ended June 30, 2020, the Making Waves reexamined the contract under the standard ASU 2018-08, and noted that there is a measurable barrier and a right of return exists under the agreement. Making Waves did not receive or record any amounts under this conditional promise to give at June 30, 2020. There was no conditional promise to be received at June 30, 2020.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes or periods:

Subject to Expenditure for Specified Purpose:	
Educational Programs	\$ 1,472,772
Total	<u>1,472,772</u>
Subject to the Passage of Time:	
Promises to Give that are Not Restricted by Donors, but Which are Unavailable for Expenditure Until Due	55,000
Total	<u>55,000</u>
Endowments:	
Subject to Appropriation and Expenditure When a Specified Event Occurs:	
Restricted by Donors for:	
Available for General Use	4,131,074
Total	<u>4,131,074</u>
Subject to NFP Endowment Spending Policy and Restricted to General Endowment	<u>13,000,000</u>
Total	<u>13,000,000</u>
Total Endowments	<u>17,131,074</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 18,658,846</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30, 2020:

Release of Restrictions:	
Satisfaction of Purpose Restrictions:	
Educational Programs	\$ 828,795
Expiration of Time Restrictions	<u>15,000</u>
Total Net Assets Released from Donor Restrictions	<u><u>\$ 843,795</u></u>

**NOTE 13 COMMITMENTS AND CONTINGENCIES**

From time to time, Making Waves may be subject to a variety of claims and lawsuits in the ordinary course of business. Management believes there are no outstanding claims or lawsuits that, individually or in the aggregate, would have a material adverse effect on Making Waves' financial position, activities, or cash flows.

**MAKING WAVES FOUNDATION, INC.**  
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**NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

During the fiscal year, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Subsequent to year-end, the COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to the School, COVID-19 may impact various parts of its 2021 operations and financial results, including, but not limited to, loss of revenues, additional bad debts, costs for increased use of technology, or potential shortages of personnel. Management believes the School is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

**NOTE 14 CHANGE IN REPORTING ENTITY**

In July 2019, Making Waves changed its organizational structure which remove Making Waves Academy (MWA) from the consolidated financial statements. Making Waves does not have controlling common board members with MWA, nor does MWA have economic dependency on Making Waves. For the year ended June 30, 2019, MWA was consolidated into Making Waves' financial statements due to controlling common board members. In accordance with FASB ASC 250 Accounting Changes and Error Corrections, this is considered to be a change in the reporting entity, which requires retrospective application. The reconciliation of the change in reporting entity is at June 30, 2019 is as follows:

<u>At June 30, 2019</u>	<u>As Originally Presented</u>	<u>Change in Reporting Entity</u>	<u>After Change</u>
<b>NET ASSETS</b>			
Without Donor Restrictions	\$ 192,373,936	\$ (3,627,834)	\$ 188,746,102
With Donor Restrictions	18,735,965	-	18,735,965
Total Net Assets	<u>\$ 211,109,901</u>	<u>\$ (3,627,834)</u>	<u>\$ 207,482,067</u>
<b>CHANGE IN NET ASSETS</b>			
Without Donor Restrictions	\$ 78,263,337	\$ (554,309)	\$ 77,709,028
With Donor Restrictions	(2,081,875)	18,830	(2,063,045)
Total Change in Net Assets	<u>\$ 76,181,462</u>	<u>\$ (535,479)</u>	<u>\$ 75,645,983</u>

