

**MAKING WAVES FOUNDATION, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2021**  
**(WITH SUMMARIZED COMPARATIVE TOTALS**  
**FOR YEAR ENDED JUNE 30, 2020)**



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

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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, 2021, 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.

***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, 2021, 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.

**Other Matters**

***Report on Summarized Comparative Information***

We have previously audited Making Waves Foundation, Inc.'s 2020 consolidated financial statements, and we expressed an unmodified opinion on those consolidated financial statements in our report dated December 7, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Glendora, California  
November 16, 2021

**MAKING WAVES FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2021**  
**(WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2020)**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 8,889,220	\$ 7,888,323
Investments	22,112,310	17,131,074
Accounts Receivable	7,114	5,287
Pledges Receivable, Current	173,000	269,000
Prepaid Expenses and Other Assets	199,483	210,373
Property - Held for Sale, Current	27,979,161	37,868,606
Total Current Assets	<u>59,360,288</u>	<u>63,372,663</u>
<b>LONG-TERM ASSETS</b>		
Restricted Cash and Cash Equivalents	1,688,179	1,685,576
Pledges Receivable, Net of Current Portion	540,697	378,451
Other Long-Term Assets	1,332,015	1,783,886
Property and Equipment - Program Related Investments (PRI), Net	171,929,765	172,006,214
Property and Equipment - Other, Net	6,845,397	7,643,638
Total Long-Term Assets	<u>182,336,053</u>	<u>183,497,765</u>
Total Assets	<u><u>\$ 241,696,341</u></u>	<u><u>\$ 246,870,428</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	\$ 1,781,319	\$ 1,877,432
Other Current Liabilities	-	30,000
Bonds Payable, Current Portion	1,762,150	1,690,301
Total Current Liabilities	<u>3,543,469</u>	<u>3,597,733</u>
<b>LONG-TERM LIABILITIES</b>		
Bonds Payable, Net of Current Portion	35,967,722	37,651,203
Total Long-Term Liabilities	<u>35,967,722</u>	<u>37,651,203</u>
Total Liabilities	39,511,191	41,248,936
<b>NET ASSETS</b>		
Without Donor Restrictions	176,819,964	186,962,646
With Donor Restrictions	25,365,186	18,658,846
Total Net Assets	<u>202,185,150</u>	<u>205,621,492</u>
Total Liabilities and Net Assets	<u><u>\$ 241,696,341</u></u>	<u><u>\$ 246,870,428</u></u>

See accompanying Notes to Consolidated Financial Statements.

**MAKING WAVES FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2021**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2020)**

	Without Donor Restrictions	With Donor Restrictions	Total 2021	Total 2020
<b>REVENUES AND OTHER SUPPORT</b>				
Individuals and Trusts	\$ 1,911,977	\$ 385,770	\$ 2,297,747	\$ 1,887,811
Private Foundations	973,434	4,800,000	5,773,434	29,793,344
In-Kind Services	48,000	-	48,000	58,000
Rental Income	2,380,661	-	2,380,661	2,260,001
Other Income	(1,947)	-	(1,947)	6,050
Interest Income	2,603	-	2,603	39,508
Investment Income	2	426,102	426,104	403,677
Realized and Unrealized Gain (Loss)	(7,987)	4,455,071	4,447,084	235,601
Redesignation of Restriction	2,000,000	(2,000,000)	-	-
Net Assets Released from Restriction	1,360,603	(1,360,603)	-	-
Total Revenues and Net Assets Released from Restriction	8,667,346	6,706,340	15,373,686	34,683,992
<b>EXPENSES</b>				
Program Services:				
Direct Program Expenses	1,641,986	-	1,641,986	2,690,834
Contributions to Related Party	60,809	-	60,809	139,828
Personnel	3,730,275	-	3,730,275	4,508,984
Other	10,919,840	-	10,919,840	13,065,762
Management and General	2,604,373	-	2,604,373	3,561,082
Fundraising	382,321	-	382,321	1,266,378
Total Expenses	19,339,604	-	19,339,604	25,232,868
<b>CHANGE IN OPERATING NET ASSETS</b>	(10,672,258)	6,706,340	(3,965,918)	9,451,124
<b>NONOPERATING OTHER EXPENSES</b>				
Gain on Sale of Asset	(1,565,597)	-	(1,565,597)	-
Impairment Loss	1,036,021	-	1,036,021	11,311,699
Total Nonoperating Other Expenses	(529,576)	-	(529,576)	11,311,699
<b>CHANGE IN NET ASSETS</b>	(10,142,682)	6,706,340	(3,436,342)	(1,860,575)
Net Assets - Beginning of Year	186,962,646	18,658,846	205,621,492	207,482,067
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 176,819,964</u>	<u>\$ 25,365,186</u>	<u>\$ 202,185,150</u>	<u>\$ 205,621,492</u>

See accompanying Notes to Consolidated Financial Statements.

**MAKING WAVES FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2021**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2020)**

	Program Services	Management and General	Fundraising	Total 2021	Total 2020
Salaries and Wages	\$ 3,029,210	\$ 1,881,997	\$ 228,020	\$ 5,139,227	\$ 6,583,930
Pension and Retirement Plan	92,941	40,748	9,262	142,951	150,393
Other Employee Benefits	379,183	120,696	12,144	512,023	836,647
Payroll Taxes	228,941	98,464	14,031	341,436	460,045
Legal Expenses	17,973	-	-	17,973	47,312
Accounting Expenses	2,240	57,584	-	59,824	52,577
Other Fees for Services	425,283	135,355	73,426	634,064	861,298
Advertising and Promotion	-	-	-	-	6,461
Office Expenses	375,904	24,262	4,031	404,197	606,165
Printing and Postage	4,993	2,057	1,221	8,271	15,410
Information Technology	187,774	85,441	13,067	286,282	277,389
Occupancy Expenses	357,250	146,449	22,398	526,097	512,080
Program Related-Investment					
Direct Expenses	2,581,214	-	-	2,581,214	2,584,783
Travel Expenses	-	1,088	-	1,088	25,593
Conference Expenses	20,897	-	1,999	22,896	106,986
Excise Taxes	-	-	-	-	27,269
Interest Expense - PRI	1,639,857	-	-	1,639,857	1,708,776
Depreciation Expense - PRI	3,952,186	-	-	3,952,186	5,038,688
Depreciation Expense - Other	790,871	-	-	790,871	1,564,084
Insurance Expense	393,594	10,232	1,565	405,391	480,189
Direct Program Expenses	1,641,986	-	-	1,641,986	2,690,834
Grant to Other Organization	17,370	-	-	17,370	-
Grant to Related Party	60,809	-	-	60,809	139,828
Other Expenses	152,434	-	1,157	153,591	456,131
2021 Total Functional Expenses	<u>\$ 16,352,910</u>	<u>\$ 2,604,373</u>	<u>\$ 382,321</u>	<u>\$ 19,339,604</u>	
2020 Total Functional Expenses	<u>\$ 20,405,408</u>	<u>\$ 3,561,082</u>	<u>\$ 1,266,378</u>		<u>\$ 25,232,868</u>

See accompanying Notes to Consolidated Financial Statements.

**MAKING WAVES FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2021**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2020)**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (3,436,342)	\$ (1,860,575)
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation	4,743,057	6,602,772
Impairment Loss	1,036,021	11,311,699
Loss (Gain) on Sale of Assets	(1,565,597)	-
Amortization of Bond Costs	78,669	81,975
Realized and Unrealized Gain	(4,447,084)	(235,601)
(Increase) Decrease in Assets:		
Accounts Receivable	(1,827)	3,631
Pledges Receivable	10,890	42,152
Prepaid Expenses and Other Assets	(66,246)	281,520
Other Long-Term Assets	451,871	565,561
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Liabilities	(96,113)	(5,550,828)
Other Long-Term Liabilities	<u>(30,000)</u>	<u>(13,333)</u>
Net Cash (Used) Provided by Operating Activities	(3,322,701)	11,228,973
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property, Plant, and Equipment - PRI	(4,107,823)	(23,961,001)
Proceeds on Sale of Property, Plant, and Equipment	10,658,477	-
Purchases of Investments	(534,152)	(404,305)
Collection of Notes Receivables	-	3,856,016
Net Cash Provided (Used) by Investing Activities	<u>6,016,502</u>	<u>(20,509,290)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of Notes and Bonds Payable	<u>(1,690,301)</u>	<u>(1,651,382)</u>
Net Cash Used by Financing Activities	<u>(1,690,301)</u>	<u>(1,651,382)</u>
<b>NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	1,003,500	(10,931,699)
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	<u>9,573,899</u>	<u>20,505,598</u>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR</b>	<u><u>\$ 10,577,399</u></u>	<u><u>\$ 9,573,899</u></u>

See accompanying Notes to Consolidated Financial Statements.



**MAKING WAVES FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2021**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2020)**

	<u>2021</u>	<u>2020</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	<u>\$ 1,639,857</u>	<u>\$ 1,708,776</u>
 <b>RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH REPORTED WITHIN THE STATEMENT OF FINANCIAL POSITION</b>		
Cash and Cash Equivalents	\$ 8,889,220	\$ 7,888,323
Restricted Cash and Cash Equivalents	<u>1,688,179</u>	<u>1,685,576</u>
Total Cash, Cash Equivalents, and Restricted Cash Shown in the Statement of Cash Flows	<u>\$ 10,577,399</u>	<u>\$ 9,573,899</u>

*See accompanying Notes to Consolidated Financial Statements.*

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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, 2021**

**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, 2021. Management believes that all receivables are fully collectible; therefore no provisions for uncollectible accounts were recorded.

**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, 2021, Making Waves incurred an impairment loss of \$1,036,021 for real estate improvements. This loss is presented on consolidated statement of activities.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**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, 2021:

Property Held as Program Related Investments:	
Land	\$ 26,706,234
Building and Building Improvements	156,782,376
Equipment	1,132,490
Construction in Progress	6,690,643
Less: Accumulated Depreciation	<u>(19,381,978)</u>
Subtotal Property Held as	
Program Related Investments	<u><u>\$ 171,929,765</u></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, 2021:

Other Property and Equipment:	
Land	\$ 1,823,210
Building and Building Improvements	11,345,411
Leasehold Improvements	121,153
Equipment	952,937
Less: Accumulated Depreciation	<u>(7,397,314)</u>
Total Other Property and Equipment	<u><u>\$ 6,845,397</u></u>

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.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**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 (those with a measurable performance or other barrier and a right of return) are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Making Waves sold land and building at 1700 West 4th Street, Antioch, in November 2020 and returned approximately \$10.04 million of the proceeds to the John H. & Regina K. Scully Foundation, as a part of the Real Estate Acquisition Grant Agreement. The return of proceeds is netted within Private Foundation Contributions on statement of activities, whereas gross contributions received during the year ended June 30, 2021 was approximately \$15.82 million.

*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, 2021, the value of contributed services recognized as revenues amounted to \$48,000 and consisted primarily of donated professional services.

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

**Income Taxes**

MWF is a nonprofit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) (IRC) 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.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**Income Taxes (Continued)**

MWF is subject to excise tax on net investment income (excluding unrealized gains/losses) under the provisions of section 4940 of the IRC. During the year ended June 30, 2021, no excise taxes were recorded. 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.

**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, 2020, from which the summarized comparative information was derived.

**Evaluation of Subsequent Events**

Making Waves has evaluated subsequent events through November 16, 2021, 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	\$ 8,889,220
Investments	22,112,310
Accounts Receivable	7,114
Pledges Receivable, Current	173,000
Pledges Receivable, Net of Current Portion	540,697
Less: Net Assets With Donor Restrictions	<u>(25,365,186)</u>
Total	<u><u>\$ 6,357,155</u></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.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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.

During the year ended June 30, 2021, approximately 85% of the Making Waves' total contributions, excluding approximately \$10.04 million of proceeds returned, was derived from one major donor. There was no related accounts receivable balance as of June 30, 2021.

**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.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 4 FAIR VALUE OF INVESTMENTS (CONTINUED)**

At June 30, 2021, 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:

	Total	Level 1	Level 2	Level 3
Bond Funds	\$ 6,137,924	\$ 6,137,924	\$ -	\$ -
Equity Funds	15,874,323	15,874,323	-	-
Cash Settlements	100,063	100,063	-	-
Total Investments	<u>\$ 22,112,310</u>	<u>\$ 22,112,310</u>	<u>\$ -</u>	<u>\$ -</u>

**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, 2021 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, 2021 are expected to be received as follows:

In One Year or Less	\$ 173,000
Between One and Five Years	555,508
Total Gross Pledges Receivable	<u>728,508</u>
Less: Discount on Pledges Receivable	<u>(14,811)</u>
Net Pledges Receivable	<u>\$ 713,697</u>

**NOTE 6 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.



**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 6    ENDOWMENT (CONTINUED)**

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.

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, 2021. 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.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 6 ENDOWMENT (CONTINUED)**

Endowment net asset composition by type of fund as of June 30, 2021:

	Without Donor Restriction	With Donor Restriction	Total
With Donor Restriction Endowment Funds	\$ -	\$ 22,012,247	\$ 22,012,247

Endowment activity for the year ended June 30, 2021 is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment Net Assets - Beginning of Year	\$ -	\$ 17,131,074	\$ 17,131,074
Investment Return:			
Investment Income	-	426,102	426,102
Net Appreciation	-	4,455,071	4,455,071
Total Investment Return	-	4,881,173	4,881,173
Endowment Net Assets - End of Year	\$ -	\$ 22,012,247	\$ 22,012,247

**NOTE 7 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, 2021 was \$38,403,716.

**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, 2021 was \$673,844.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

Future maturities of bond payable outstanding as of June 30, 2021 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 1,762,150
2023	1,837,052
2024	1,915,139
2025	1,996,544
2026	2,081,410
Thereafter	28,811,421
Total Future Maturities	38,403,716
Less: Unamortized Debt Issue Costs	(673,844)
Total	<u>\$ 37,729,872</u>

**NOTE 8 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, 2021 was \$142,951.

**NOTE 9 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, 2021 was \$2,376,476. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 244,410
2023	195,433
2024	160,139
2025	139,841
2026	7,189
Thereafter	6,290
Total	<u>\$ 753,302</u>

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 9 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, 2021 was \$286,672.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 309,608
2023	1,970
Total	<u>\$ 311,578</u>

**NOTE 10 CONDITIONAL PROMISE TO GIVE**

Making Waves has received a pledge from John H. & Regina K. Scully 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, 2021, 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, 2021. There was no conditional promise to be received at June 30, 2021.

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 11 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	\$ 596,299
Construction	<u>2,471,132</u>
Total	<u>3,067,431</u>

Subject to the Passage of Time:

Promises to Give that are Not Restricted by Donors, but Which are Unavailable for Expenditure Until Due	<u>285,508</u>
Total	<u>285,508</u>

Endowments:

Subject to Appropriation and Expenditure When a  
Specified Event Occurs:

Restricted by Donors for:

Available for General Use	<u>9,012,247</u>
Total	<u>9,012,247</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>22,012,247</u>

Total Net Assets with Donor Restrictions	<u><u>\$ 25,365,186</u></u>
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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, 2021:

Satisfaction of Purpose Restrictions:

Educational Programs	\$ 1,205,341
Expiration of Time Restrictions	<u>155,262</u>
Total Net Assets Released from Donor Restrictions	<u><u>\$ 1,360,603</u></u>

**MAKING WAVES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 12 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.

In the prior 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 Making Waves, COVID-19 may impact various parts of its 2022 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 Making Waves 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.

