

MAKING WAVES FOUNDATION, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR YEAR ENDED JUNE 30, 2021)



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MAKING WAVES FOUNDATION, INC.
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(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2021)

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

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, 2022, 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.

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, 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Making Waves Foundation, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Making Waves Foundation, Inc.'s ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Making Waves Foundation, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Making Waves Foundation, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Directors
Making Waves Foundation, Inc.

Report on Summarized Comparative Information

We have previously audited Making Waves Foundation, Inc.'s 2021 consolidated financial statements, and expressed an unmodified opinion on those statements in our report dated November 16, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Glendora, California
January 30, 2023

MAKING WAVES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2021)

ASSETS	2022	2021
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 13,844,312	\$ 8,889,220
Investments	18,847,370	22,112,310
Accounts Receivable	18,767	7,114
Pledges Receivable, Current	72,623	173,000
Prepaid Expenses and Other Assets	334,821	199,483
Property - Held for Sale, Current	23,537,592	27,979,161
Total Current Assets	56,655,485	59,360,288
LONG-TERM ASSETS		
Restricted Cash and Cash Equivalents	1,690,828	1,688,179
Pledges Receivable, Net of Current Portion	10,000	540,697
Other Long-Term Assets	838,179	1,332,015
Property and Equipment - Program Related		
Investments (PRI), Net	181,259,746	171,929,765
Property and Equipment - Other, Net	6,066,710	6,845,397
Total Long-Term Assets	189,865,463	182,336,053
Total Assets	\$ 246,520,948	\$ 241,696,341
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	3,131,205	\$ 1,781,319
Bonds Payable, Current Portion	1,837,052	1,762,150
Total Current Liabilities	4,968,257	3,543,469
LONG-TERM LIABILITIES		
Bonds Payable, Net of Current Portion	34,205,891	35,967,722
Total Long-Term Liabilities	34,205,891	35,967,722
Total Liabilities	39,174,148	39,511,191
NET ASSETS		
Without Donor Restrictions	173,134,550	176,819,964
With Donor Restrictions	34,212,250	25,365,186
Total Net Assets	207,346,800	202,185,150
Total Liabilities and Net Assets	\$ 246,520,948	\$ 241,696,341

See accompanying Notes to Consolidated Financial Statements.

MAKING WAVES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total 2022	Total 2021
REVENUES AND OTHER SUPPORT				
Individuals and Trusts	\$ 1,738,032	\$ 50,418	\$ 1,788,450	\$ 2,297,747
Private Foundations	11,557,122	5,902,878	17,460,000	5,773,434
In-Kind Services	31,492	-	31,492	48,000
Rental Income	2,280,695	-	2,280,695	2,380,661
Other Income	3,165,459	-	3,165,459	(1,947)
Interest Income	2,650	-	2,650	2,603
Investment Income	-	504,310	504,310	426,104
Realized and Unrealized Gain (Loss)	26,773	(3,795,708)	(3,768,935)	4,447,084
Net Assets Released from Restriction	2,814,834	(2,814,834)	-	-
Total Revenues and Net Assets Released from Restriction	21,617,057	(152,936)	21,464,121	15,373,686
EXPENSES				
Program Services:				
Direct Program Expenses	2,124,925	-	2,124,925	1,641,986
Contributions to Related Party	150,311	-	150,311	60,809
Personnel	3,810,761	-	3,810,761	3,730,275
Other	9,393,539	-	9,393,539	10,919,840
Management and General	3,212,452	-	3,212,452	2,604,373
Fundraising	328,093	-	328,093	382,321
Total Expenses	19,020,081	-	19,020,081	19,339,604
CHANGE IN OPERATING NET ASSETS	2,596,976	(152,936)	2,444,040	(3,965,918)
NONOPERATING ACTIVITIES				
Gain on Sale of Asset	6,550,833	-	6,550,833	(1,565,597)
Impairment Loss	(3,833,223)	-	(3,833,223)	1,036,021
Redesignation of Net Assets	(9,000,000)	9,000,000	-	-
Total Nonoperating Other Expenses (Gains)	(6,282,390)	9,000,000	2,717,610	(529,576)
CHANGE IN NET ASSETS	(3,685,414)	8,847,064	5,161,650	(3,436,342)
Net Assets - Beginning of Year	176,819,964	25,365,186	202,185,150	205,621,492
NET ASSETS - END OF YEAR	<u>\$ 173,134,550</u>	<u>\$ 34,212,250</u>	<u>\$ 207,346,800</u>	<u>\$ 202,185,150</u>

See accompanying Notes to Consolidated Financial Statements.

MAKING WAVES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2021)

	Program Services	Management and General	Fundraising	Total 2022	Total 2021
Salaries and Wages	\$ 3,154,754	\$ 2,276,611	\$ 161,921	\$ 5,593,286	\$ 5,139,227
Pension and Retirement Plan	97,225	47,420	7,316	151,961	142,951
Other Employee Benefits	317,900	220,913	-	538,813	512,023
Payroll Taxes	240,882	142,907	7,856	391,645	341,436
Legal Expenses	11,534	17,328	-	28,862	17,973
Accounting Expenses	-	64,412	-	64,412	59,824
Other Fees for Services	316,370	90,969	110,485	517,824	634,064
Advertising and Promotion	2,025	-	2,076	4,101	-
Office Expenses	366,157	42,216	4,347	412,720	404,197
Printing and Postage	4,993	1,431	5,461	11,885	8,271
Information Technology	139,285	72,521	5,974	217,780	286,282
Occupancy Expenses	404,859	207,612	17,101	629,572	526,097
Program Related-Investment					
Direct Expenses	1,293,165	-	-	1,293,165	2,581,214
Travel Expenses	3,080	4,369	1,005	8,454	1,088
Conference Expenses	9,277	920	1,602	11,799	22,896
Interest Expense - PRI	1,568,009	-	-	1,568,009	1,639,857
Depreciation Expense - PRI	3,952,186	-	-	3,952,186	3,952,186
Depreciation Expense - Other	784,673	-	-	784,673	790,871
Insurance Expense	400,317	13,972	1,151	415,440	405,391
Direct Program Expenses	2,124,925	-	-	2,124,925	1,641,986
Grant to Other Organization	10,000	-	-	10,000	17,370
Grant to Related Party	150,311	-	-	150,311	60,809
Other Expenses	127,609	8,851	1,798	138,258	153,591
2022 Total Functional Expenses	<u>\$ 15,479,536</u>	<u>\$ 3,212,452</u>	<u>\$ 328,093</u>	<u>\$ 19,020,081</u>	
2021 Total Functional Expenses		<u>\$ 2,604,373</u>	<u>\$ 382,321</u>		<u>\$ 19,339,604</u>

See accompanying Notes to Consolidated Financial Statements.

MAKING WAVES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 5,161,650	\$ (3,436,342)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	4,736,859	4,743,057
Impairment Loss	(3,833,223)	1,036,021
Loss (Gain) on Sale of Assets	6,550,833	(1,565,597)
Amortization of Bond Costs	75,222	78,669
Realized and Unrealized Loss (Gain)	3,768,935	(4,447,084)
(Increase) Decrease in Assets:		
Accounts Receivable	(11,653)	(1,827)
Pledges Receivable	(135,338)	10,890
Prepaid Expenses and Other Assets	631,074	(66,246)
Other Long-Term Assets	493,836	451,871
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Liabilities	1,349,886	(96,113)
Other Long-Term Liabilities	-	(30,000)
Net Cash Provided (Used) by Operating Activities	18,788,081	(3,322,701)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property, Plant, and Equipment - PRI	(20,825,922)	(4,107,823)
Proceeds on Sale of Property, Plant, and Equipment	9,261,728	10,658,477
Purchases of Investments	(503,995)	(534,152)
Net Cash Provided (Used) by Investing Activities	(12,068,189)	6,016,502
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of Notes and Bonds Payable	(1,762,151)	(1,690,301)
Net Cash Used by Financing Activities	(1,762,151)	(1,690,301)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	4,957,741	1,003,500
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	10,577,399	9,573,899
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	\$ 15,535,140	\$ 10,577,399
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 1,568,009	\$ 1,639,857
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH REPORTED WITHIN THE STATEMENT OF FINANCIAL POSITION		
Cash and Cash Equivalents	\$ 13,844,312	\$ 8,889,220
Restricted Cash and Cash Equivalents	1,690,828	1,688,179
Total Cash, Cash Equivalents, and Restricted Cash Shown in the Statement of Cash Flows	\$ 15,535,140	\$ 10,577,399

See accompanying Notes to Consolidated Financial Statements.

MAKING WAVES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

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 (U.S. GAAP) 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, 2022

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, 2022. 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, 2022, Making Waves incurred an impairment loss of \$3,833,223 for real estate improvements. This loss is presented on consolidated statement of activities.

MAKING WAVES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022:

Property Held as Program Related Investments:	
Land	\$ 26,706,235
Building and Building Improvements	157,248,680
Equipment	1,160,168
Construction in Progress	19,484,813
Less: Accumulated Depreciation	<u>(23,340,150)</u>
Subtotal Property Held as Program Related Investments	<u>\$ 181,259,746</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, 2022:

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>(8,176,001)</u>
Total Other Property and Equipment	<u>\$ 6,066,710</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, 2022

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.

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, 2022, the value of contributed services recognized as revenues amounted to \$31,492 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 (IRC) 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.

**MAKING WAVES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

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, 2022, MWF paid excise tax of \$10,000. 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, 2021, from which the summarized comparative information was derived.

Evaluation of Subsequent Events

Making Waves has evaluated subsequent events through January 30, 2023, 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	\$ 13,844,312
Investments	18,847,370
Accounts Receivable	18,767
Pledges Receivable, Current	72,623
Restricted Cash and Cash Equivalents	1,690,828
Pledges Receivable, Net of Current Portion	10,000
Less: Net Assets With Donor Restrictions	(34,212,250)
Total	<u>\$ 271,650</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, 2022

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, 2022, approximately 91% of the Making Waves' total contributions, was derived from one major donor. There was no related accounts receivable balance as of June 30, 2022.

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, 2022

NOTE 4 FAIR VALUE OF INVESTMENTS (CONTINUED)

At June 30, 2022, 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	\$ 5,415,977	\$ 5,415,977	\$ -	\$ -
Equity Funds	13,327,372	13,327,372	-	-
Cash Settlements	104,021	104,021	-	-
Total Investments	<u>\$ 18,847,370</u>	<u>\$ 18,847,370</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, 2022 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, 2022 are expected to be received as follows:

In One Year or Less	\$ 72,623
Between Two and Five Years	10,000
Total Gross Pledges Receivable	<u>\$ 82,623</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, 2022

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, 2022. 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, 2022

NOTE 6 ENDOWMENT (CONTINUED)

Endowment net asset composition by type of fund as of June 30, 2022:

	Without Donor Restriction	With Donor Restriction	Total
With Donor Restriction Endowment Funds	<u>\$ -</u>	<u>\$ 18,720,849</u>	<u>\$ 18,720,849</u>

Endowment activity for the year ended June 30, 2022 is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment Net Assets - Beginning of Year	\$ -	\$ 22,012,247	\$ 22,012,247
Investment Return:			
Investment Income	-	504,310	504,310
Net Depreciation	-	(3,795,708)	(3,795,708)
Total Investment Return	-	(3,291,398)	(3,291,398)
Endowment Net Assets - End of Year	<u>\$ -</u>	<u>\$ 18,720,849</u>	<u>\$ 18,720,849</u>

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, 2022 was \$36,641,565.

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, 2022 was \$598,622.

MAKING WAVES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 7 LONG-TERM DEBT (CONTINUED)

Future maturities of bond payable outstanding as of June 30, 2022 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 1,837,052
2024	1,915,139
2025	1,996,544
2026	2,081,410
2027	2,169,882
Thereafter	<u>26,641,538</u>
Total Future Maturities	36,641,565
Less: Unamortized Debt Issue Costs	<u>(598,622)</u>
Total	<u><u>\$ 36,042,943</u></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, 2022 was \$151,961.

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, 2022 was \$2,280,695. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 312,184
2024	276,920
2025	261,128
Total	<u><u>\$ 850,232</u></u>

MWF as Lessee

MWF leases its facilities under agreements which have various terms with the final lease agreement expiring August 2022. Lease expense under these agreements for the year ended June 30, 2022 was \$310,940.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	<u><u>\$ 1,970</u></u>

MAKING WAVES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 10 CONDITIONAL PROMISE TO GIVE

Making Waves has received a pledge from John H. & Regina K. Scully Foundation (JRSF) to donate up to \$2,500,000 annually, if required for Making Waves to meet its obligations under the loan agreement described in Note 7. The pledge is for the period of ten years beginning with the 2018 fiscal year. During the fiscal year ended June 30, 2022, 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, 2022. There was no conditional promise to be received at June 30, 2022.

NOTE 11 REDESIGNATION OF NET ASSETS

During the year ended June 30, 2022, \$9 million was redesignated by the donor to be restricted for a new real estate reserve fund. The purpose of the real estate reserve is to fund any significant expense related to the properties owned and managed by MWF.

The redesignation is a result of a March 2018 contribution where JRSF granted MWF \$9 million to purchase a building with the purpose of converting it into a school. MWF shifted its strategic plan in 2019 and determined that this property would no longer be converted into a school. In the original agreement between JRSF and MWF, any funds used to buy properties that no longer served its original purpose were supposed to be returned to JRSF, if not used after five years.

The property was held for sale in 2019 and was sold in May 2022 for \$9.26 million. In May 2022, JRSF signed an addendum to the original grant document to state MWF can use the proceeds of the sale of the property to establish The Real Estate Reserve Fund. Of the property sales amount, \$9 million was re-designated to net assets with donor restriction for the purpose of establishing the real estate reserve fund and the remaining sales proceeds are included in net assets without donor restrictions.

MAKING WAVES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

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	\$ 493,416
Construction	5,902,880
Real Estate Reserve Fund	9,000,000
Total	<u>15,396,296</u>
Subject to the Passage of Time:	
Promises to Give that are Not Restricted by Donors, but Which are Unavailable for Expenditure Until Due	95,105
Total	<u>95,105</u>
Endowments:	
Subject to Appropriation and Expenditure When a Specified Event Occurs:	
Restricted by Donors for:	
Available for General Use	5,720,847
Total	<u>5,720,847</u>
Subject to NFP Endowment Spending Policy and Restricted to General Endowment	13,000,002
Total	<u>13,000,002</u>
Total Endowments	<u>18,720,849</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 34,212,250</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, 2022:

Release of Restrictions:	
Satisfaction of Purpose Restrictions:	
Educational Programs	\$ 2,624,431
Expiration of Time Restrictions	190,403
Total Net Assets Released from Donor Restrictions	<u><u>\$ 2,814,834</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.



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