

**STUDENTS RUN AMERICA (DBA STUDENTS RUN LA)
(A NONPROFIT ORGANIZATION)**

FINANCIAL STATEMENTS

JUNE 30, 2020

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7 - 13

R.H. JOHNSTON ACCOUNTANCY INC.

**A Professional Corporation
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INDEPENDENT AUDITOR'S REPORT

September 8, 2020

Board of Directors
Students Run America (dba Students Run LA)
Tarzana, California

We have audited the accompanying financial statements of Students Run America (dba Students Run LA) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Students Run America (dba Students Run LA) as of June 30, 2020, and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

R.H. Johnston Accountancy LLC

**STUDENTS RUN AMERICA (DBA STUDENTS RUN LA)
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STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

ASSETS:

Cash and cash equivalents	\$ 421,186
Investments (Notes A and B)	895,577
Grants receivable (Note C)	129,500
Prepaid expenses	51,518
Property and equipment (Note D)	<u>4,278</u>
	<u>\$ 1,502,059</u>

LIABILITIES AND NET ASSETS:

Note payable (Note E)	\$ 72,016
Scholarships payable (Note F)	<u>51,500</u>
	<u>123,516</u>

CONTINGENCIES (Note J)

NET ASSETS:

Without donor restrictions	1,139,600
With donor restrictions (Note G)	<u>238,943</u>
	<u>1,378,543</u>

TOTAL LIABILITIES AND NET ASSETS \$ 1,502,059

See notes to the financial statements.

**STUDENTS RUN AMERICA (DBA STUDENTS RUN LA)
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STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT:			
Grants and contributions (Note A)	\$ 1,850,137	\$ 441,556	\$ 2,291,693
Race fees	91,270	-	91,270
Interest income	26,617	-	26,617
Unrealized gains on investments	10,280	-	10,280
Other	1,322	-	1,322
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>454,566</u>	<u>(454,566)</u>	<u>-</u>
Total revenue and support	<u>2,434,192</u>	<u>(13,010)</u>	<u>2,421,182</u>
FUNCTIONAL EXPENSES:			
Program services	2,295,442	-	2,295,442
Management and general services	65,686	-	65,686
Fundraising	<u>50,072</u>	<u>-</u>	<u>50,072</u>
Total functional expenses	<u>2,411,200</u>	<u>-</u>	<u>2,411,200</u>
CHANGE IN NET ASSETS	22,992	(13,010)	9,982
NET ASSETS - BEGINNING	<u>1,116,608</u>	<u>251,953</u>	<u>1,368,561</u>
NET ASSETS - ENDING	<u>\$ 1,139,600</u>	<u>\$ 238,943</u>	<u>\$ 1,378,543</u>

See notes to the financial statements.

**STUDENTS RUN AMERICA (DBA STUDENTS RUN LA)
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STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	<u>Program Services</u>	<u>Management and General Services</u>	<u>Fundraising</u>	<u>Total</u>
Personnel:				
Salaries	\$ 283,052	\$ 35,382	\$ 35,381	\$ 353,815
Payroll taxes	22,426	2,803	2,804	28,033
Health insurance	8,990	1,124	1,123	11,237
Total personnel	<u>314,468</u>	<u>39,309</u>	<u>39,308</u>	<u>393,085</u>
Operations:				
Bank charges	-	6,252	-	6,252
Depreciation	801	94	47	942
Development	-	-	3,052	3,052
Dues and subscriptions	4,522	532	266	5,320
Equipment rentals	1,220	144	71	1,435
Evaluation	3,870	-	-	3,870
Insurance	23,058	2,713	1,356	27,127
Licenses and fingerprinting	1,543	81	-	1,624
Meetings and conferences	18,429	3,252	-	21,681
Miscellaneous	1,666	196	98	1,960
Occupancy	9,600	1,200	1,200	12,000
Office supplies	5,046	594	297	5,937
Postage	1,655	195	97	1,947
Printing	8,027	446	446	8,919
Professional services	53,228	9,980	3,327	66,535
Race costs	80,478	-	-	80,478
Race entry fees	877,744	-	-	877,744
Repairs and maintenance	329	39	19	387
Scholarships	59,000	-	-	59,000
Shoes and clothes	557,224	-	-	557,224
Staff travel	2,878	339	169	3,386
Stipends (Note H)	65,000	-	-	65,000
Telephone	2,556	320	319	3,195
Transportation	203,100	-	-	203,100
Total operations	<u>1,980,974</u>	<u>26,377</u>	<u>10,764</u>	<u>2,018,115</u>
Total functional expenses	<u>\$ 2,295,442</u>	<u>\$ 65,686</u>	<u>\$ 50,072</u>	<u>\$ 2,411,200</u>
Percentage of total expenses	<u>95.2%</u>	<u>2.7%</u>	<u>2.1%</u>	<u>100.0%</u>

See notes to the financial statements.

**STUDENTS RUN AMERICA (DBA STUDENTS RUN LA)
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STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 9,982
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized gains on investments	(10,280)
Depreciation	942
Change in assets and liabilities:	
Increase in grants receivable	(24,000)
Increase in prepaid expenses	(13,665)
Decrease in accounts payable and accrued expenses	(8,337)
Increase in scholarships payable	(3,000)
Net cash provided in operating activities	<u>(48,358)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Change in investments - Net	(25,972)
Acquisition of property and equipment	<u>(1,740)</u>
Net cash used in investing activities	<u>(27,712)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Increase in note payable	<u>72,016</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,054)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>425,240</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 421,186</u>

See notes to the financial statements.

**STUDENTS RUN AMERICA (DBA STUDENTS RUN LA)
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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

Students Run America (dba Students Run LA) (“SRLA”) is a nonprofit corporation founded in California in 1993. SRLA focuses on helping at-risk youth in the greater Los Angeles area. The primary objective during the course of the 10-month season is to encourage students to stay in school and to experience the benefits of goal setting, character development, adult mentoring and improved health by training for and participating in the annual City of Los Angeles marathon, as well as other local long-distance events.

Financial Statement Presentation

SRLA implemented Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

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 the general operations and not subject to donor restrictions.

Net Assets with Donor Restrictions - Net assets subject to donor-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. 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.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value for financial statements. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on available inputs to measure the fair value of its investments.

**STUDENTS RUN AMERICA (DBA STUDENTS RUN LA)
(A NONPROFIT ORGANIZATION)**

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fair Value Measurements (Continued)

Level 1 Fair Value Measurements

The fair values of common stock, most corporate bonds and debentures, and U.S. Government securities are based on quoted market value.

Level 2 Fair Value Measurements

The fair value of certain corporate bonds and debentures for which quoted market price are not available are valued based on observable inputs other than the quoted prices included in Level 1; for example, quoted market-based prices of similar assets.

Level 3 Fair Value Measurements

The fair value of certain investments which have no quoted market price or similar assets with quoted market-based prices are considered to have no observable inputs. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. Therefore, unobservable inputs shall reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset.

Cash and Cash Equivalents

For purposes of the statement of cash flows, SRLA considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

Accounting for Grants and Pledges

Grants received are recorded as without donor restrictions or with donor restrictions depending on the existence and/or nature of any restrictions. Additionally, promises to contribute in future periods are recognized as with donor restrictions. When restrictions are satisfied, either by the passage of time or by accomplishing their purpose they are reclassified to without donor restrictions and reported in the activity statement as net assets released from restriction. When restrictions are satisfied in the same accounting period as the receipt of the contribution, SRLA reports both the revenue and the related expense, if any, in the net assets without donor restrictions class.

Unconditional promises to contribute in future periods are measured at their present value of estimated cash flows at the time of the promise is made. The present value discount is amortized to contribution revenue over the term of the pledge.

**STUDENTS RUN AMERICA (DBA STUDENTS RUN LA)
(A NONPROFIT ORGANIZATION)**

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Equipment and Computer Software

Equipment and computer software are stated at cost, or in the case of donated items, at fair market value. Internal computer software development costs are capitalized as incurred. SRLA capitalizes expenditures for equipment items in excess of \$1,000, lesser amounts are expensed. Depreciation is provided by use of the straight-line method over the estimated useful lives of the assets of five years.

In-Kind Contributions

SRLA receives in-kind contributions of services, materials and facility rent. Under accounting standards, the fair value of the donated services are recognized in the financial statements if the services either (a) create or enhanced a nonfinancial asset or (b) require specialized skills, are provided by entities or persons possessing those skills and would need to be purchased if they were not donated. Services that do not meet either of these of these criteria should not be recognized.

SRLA receives various donated items which are recorded at their estimated or donor-designated fair values. Significant items include donated inventory items of running shoes and clothes, entry fees to various races, transportation to various races and use of facilities from the Los Angeles Unified School District rent free.

During the year ended June 30, 2020, SRLA received in-kind contributions of approximately \$1,167,000, which are included in grants and contributions on the Statement of Activity.

Functional Expenses

Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Certain expenses are associated with more than one program or supporting service have been allocated among the programs and supporting services benefitted based on management's estimates of time spent on various programs and services.

Income Taxes

SRLA is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. SRLA is classified by the Internal Revenue Service as other than a private foundation.

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Items which potentially expose SRLA to concentrations of credit risk consist primarily of cash and certificates of deposit and sources of revenue and support.

Cash is placed in high-credit quality financial institutions. At times the amounts on deposit at a bank may be in excess of the FDIC insurance limits. SRLA has not incurred losses related to the cash.

SRLA routinely assesses the financial strengths of its contributors and, as a consequence, believes that the receivable credit risk exposure is limited. During the year ended June 30, 2020, SRLA received 66% of its grants and contributions from nine donors of which 49% were in-kind donations from three donors.

Date of Management's Review

Subsequent events were evaluated through September 8, 2020, which is the date the financial statements were available to be issued.

B. FAIR VALUE MEASUREMENT

Fair value measurement at June 30, 2020 is as follows:

	<u>Fair Value</u>	Quoted Prices In Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	\$ 895,577	\$ 895,577	\$ -	\$ -

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

C. GRANTS RECEIVABLE

At June 30, 2020 grants receivable are due to be received within one year.

D. PROPERTY AND EQUIPMENT

At June 30, 2020, equipment, computer software and depreciations were as follows:

Website	\$	13,000
Equipment		16,506
Computer software		<u>8,981</u>
		38,487
Less: Accumulated depreciation and amortization		<u>34,209</u>
	\$	<u><u>4,278</u></u>

Depreciation expense for the year ended June 30, 2020 was \$942.

E. NOTE PAYABLE

In May 2020, SRLA obtained a note payable to a bank under the SBA Paycheck Protection Program and Coronavirus Aid, Relief, and Economic Security Act enacted March 27, 2020, in the amount of \$72,016. The term of the loan is 24 months and matures May 2022. Interest is at 1% per annum with no payment of interest for the first 6 months but interest does accrue. Prior to the end of 6 months following the date of the note, the lender shall determine if the note, in full or in part, shall be forgiven in accordance with the provisions of the Paycheck Protection Program and the rules and guidelines of the SBA. SRLA must submit any financial, tax or business records as requested to assist the lender in making the debt forgiveness determination. Lender will notify SRLA of the debt forgiveness and the remaining balance, if any, shall continue to be due. Any remaining balance plus accrued interest shall be paid over the remaining 18 months. SRLA may prepay 20% or less of the outstanding principal anytime without notice but must obtain written notice to prepay more than 20%. The proceeds from the loan will remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven and the Organization has been “legally released” or (2) the note is paid in full.

The aggregate maturities of notes payable at June 30, 2020 are as follows:

Year Ended		
<u>June 30</u>		
2021	\$	27,600
2022		44,400

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

F. SCHOLARSHIPS PAYABLE

SRLA offers college scholarships of \$500 each to students who are graduating seniors and have participated in the training program and marathon. The scholarships are awarded to students who have submitted applications, met certain criteria and have been selected by a group of outside readers.

G. NET ASSETS WITH RESTRICTIONS

Net assets with donor restrictions are available for basic support and training in SRLA's running program and scholarships.

H. RELATED PARTY TRANSACTIONS

SRLA entered into an agreement totaling \$25,000 with a member of the Board of Directors to provide coordination, training and assisting the teacher-leader volunteers in their preparation of the students running in the Los Angeles Marathon and other local long-distance events.

I. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that are without donor or other restrictions limiting their use, within one year of the statement of financial position are comprised as follows:

Cash and cash equivalents	\$ 421,186
Investments	895,577
Grants and contributions receivable	129,500
Prepaid expenses	<u>51,518</u>
	<u>\$ 1,497,781</u>

As part of the liquidity management plan, SRLA invests cash in excess of working requirements in money market funds which were approximately \$186,000 at June 30, 2020.

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

J. CONTINGENCIES

Coronavirus Pandemic

On March 1, 2020, the World Health Organization declared the outbreak of a coronavirus (Covid-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact the operations of the Organization. The ultimate disruption which may be caused by the outbreak is uncertain, however, it may result in a material adverse impact on the Organization's financial position, operations and cash flows. Possible effects may include, but not limited to, disruptions to the Organization's donors and contributors, curtailment of running events and a decline in the value of the underlying securities in the investments.

SRLA is currently exploring the possibilities of coordinating running events in a virtual environment.