

BREAKTHROUGH SILICON VALLEY

INDEPENDENT AUDITORS' REPORT

Financial Statements

May 31, 2020

BREAKTHROUGH SILICON VALLEY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Breakthrough Silicon Valley

We have audited the accompanying financial statements of Breakthrough Silicon Valley (a nonprofit organization), which comprise the statement of financial position as of May 31, 2020, the related statements of activities, functional expenses, and cash flows for the four-month period 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.

Auditors' 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 auditors consider 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.

The Board of Directors
Breakthrough Silicon Valley
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Breakthrough Silicon Valley as of May 31, 2020, and the changes in its net assets and its cash flows for the four-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Gahol & Hunt Accountancy Corporation

San Jose, California
February 2, 2021

BREAKTHROUGH SILICON VALLEY

STATEMENT OF FINANCIAL POSITION

May 31, 2020

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 2,240,915
Pledges receivable, current portion	228,536
Prepaid expenses	<u>17,424</u>

Total current assets 2,486,875

PLEDGES RECEIVABLE, long-term 119,907

\$ 2,606,782

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$ 39,496
Accrued vacation	48,558
Deferred revenue	<u>40,000</u>

Total current liabilities 128,054

NOTE PAYABLE 202,218

Total liabilities 330,272

NET ASSETS:

Without donor restrictions	1,974,767
With donor restrictions	<u>301,743</u>

Total net assets 2,276,510

\$ 2,606,782

See notes to financial statements.

BREAKTHROUGH SILICON VALLEY

STATEMENT OF ACTIVITIES

Four-month period ended May 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
GRANTS AND SUPPORT:			
Individuals	\$ 154,904	-	154,904
Corporations	171,038	-	171,038
Foundations	276,000	1,000	277,000
Fundraising events	330	-	330
In-kind support	13,054	-	13,054
Other income	7,083	-	7,083
Net assets released from restrictions	<u>45,186</u>	<u>(45,186)</u>	<u>-</u>
Total revenue	<u>667,595</u>	<u>(44,186)</u>	<u>623,409</u>
EXPENSES:			
Programs:			
Middle school	220,920	-	220,920
High school	<u>174,986</u>	<u>-</u>	<u>174,986</u>
Total programs	395,906	-	395,906
Management and general	43,042	-	43,042
Fundraising	<u>85,888</u>	<u>-</u>	<u>85,888</u>
Total expenses	<u>524,836</u>	<u>-</u>	<u>524,836</u>
Change in net assets	142,759	(44,186)	98,573
NET ASSETS, beginning of the period	<u>1,832,008</u>	<u>345,929</u>	<u>2,177,937</u>
NET ASSETS, end of the period	<u>\$ 1,974,767</u>	<u>301,743</u>	<u>2,276,510</u>

See notes to financial statements.

BREAKTHROUGH SILICON VALLEY

STATEMENT OF FUNCTIONAL EXPENSES

Four-month period ended May 31, 2020

	Programs			Management and General	Fundraising	Total
	Middle School	High School	Total			
Salaries	\$ 137,366	110,234	247,600	20,983	66,457	335,040
Payroll taxes	10,043	8,185	18,228	1,568	5,162	24,958
Employee benefits	13,687	11,827	25,514	2,384	6,021	33,919
Teacher stipends	7,187	7,683	14,870	3,499	3,500	21,869
Curriculum	6,839	-	6,839	-	-	6,839
Field trips and tours	-	19,915	19,915	-	-	19,915
Food	331	78	409	-	-	409
Scholarships	-	15	15	-	-	15
Student workshops	66	(12)	54	-	-	54
Student transportation	22	170	192	3	10	205
Recruitment and recognition	3,938	3,333	7,271	358	740	8,369
Supplies and equipment	11,903	1,250	13,153	204	702	14,059
Marketing materials	228	114	342	2	250	594
Professional services	8	6	14	12,416	4	12,434
Consulting	13,357	5,917	19,274	14	32	19,320
In-kind space rental	10,146	1,846	11,992	647	415	13,054
Insurance	2,292	1,719	4,011	424	1,082	5,517
Postage	69	51	120	13	43	176
Other	<u>3,438</u>	<u>2,655</u>	<u>6,093</u>	<u>527</u>	<u>1,470</u>	<u>8,090</u>
	<u>\$ 220,920</u>	<u>174,986</u>	<u>395,906</u>	<u>43,042</u>	<u>85,888</u>	<u>524,836</u>

See notes to financial statements.

BREAKTHROUGH SILICON VALLEY

STATEMENT OF CASH FLOWS

Four-month period ended May 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 98,573
Adjustments to reconcile change in net assets to cash provided by operating activities:	
(Increase) decrease in:	
Pledges receivable	(40,500)
Prepaid expenses	(1,548)
Increase (decrease) in:	
Accounts payable and accrued expenses	(16,091)
Accrued vacation	5,590
Deferred revenue	<u>40,000</u>
Net cash provided by operating activities	<u>86,024</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from long-term financing	<u>202,218</u>
Net cash provided by financing activities	<u>202,218</u>
Net increase in cash and cash equivalents	288,242

CASH AND CASH EQUIVALENTS, beginning of the period 1,952,673

CASH AND CASH EQUIVALENTS, end of the period \$ 2,240,915

See notes to financial statements.

BREAKTHROUGH SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS

May 31, 2020

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Date of Management's Review

Subsequent events were evaluated through February 2, 2021, which is when the financial statements were available to be issued.

Nature of Activities

Breakthrough Silicon Valley (the "Organization") is a nonprofit public benefit corporation formed in 2007. Its mission is two-fold:

- To prepare academically motivated middle and high school students with limited educational opportunities for success in rigorous college-preparatory high school programs and four-year colleges.
- To inspire outstanding high school and college students to enter careers in education.

To that end, the Organization provides a tuition-free academic and college readiness program that launches students on the road to college. Breakthrough Silicon Valley operates as an out-of-school time organization, providing summer and after-school academic enrichment and intensive college guidance to students from 7th through 12th grade. The Organization also provides summer teaching internships for talented high school and college students.

The Organization is an affiliate of Breakthrough Collaborative, a national organization. Breakthrough Silicon Valley offers its program in the San Jose, California area.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Change in Fiscal Year

In January 2020, the Board of Directors elected to change the fiscal year end of the Organization to May 31. The change was made to better align the programs offered by the Organization with their students' academic year. The financial statements are presented for the period, February 1, 2020 to May 31, 2020. The new fiscal year will commence June 1, 2020 and end May 31, 2021.

Use of Estimates

The preparation of 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Petty cash on hand, cash in bank accounts and short-term investments with a maturity date of less than 24 months are considered cash and cash equivalents.

BREAKTHROUGH SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

May 31, 2020

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Pledges Receivable

Current promises to give are those expected to be received within 12 months. Long-term promises to give are those expected to be received in one to four years.

Allowance for Doubtful Accounts

The Organization considers pledges receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Fair Value of Financial Instruments

The Organization's financial instruments are cash, pledges receivable, accounts payable and accrued expenses. The recorded values approximate their fair values based on their short-term nature. If a pledge is not expected to be collected within one year, it is discounted to its estimated fair value using a present value technique.

Deferred Revenue

Deferred revenue consists of donor prepayment of promises to give for the succeeding fiscal year; which includes \$36,000 in donations by related parties (board members).

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statement of Activities.

Expiration of Donor-Imposed Restrictions

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires, and at that time the related resources are reclassified to net assets without donor restrictions. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

BREAKTHROUGH SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

May 31, 2020

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Expiration of Donor-Imposed Restrictions, Continued

The Organization follows the policy of reporting donor-imposed restricted contributions whose restrictions are met in the same period as received as support without donor restrictions.

Contributed Support

The Organization recognizes all unconditional gifts and promises to give in the period notified. Contributed support is reported as with or without donor restrictions depending on the existence of donor stipulations that limit the use of the support. Conditional promises to give are recognized as revenue when the conditions are met.

Unconditional promises to give are recorded as pledges receivable and revenue when the promise is made. In the first year a pledge is made, the pledge receivable is recorded at its fair value by applying a discount rate using a present value calculation. Pledges that are expected to be received within one year are reported without a discount.

In-kind Support

The Organization records various types of in-kind support including space rental and professional services. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Space rental is recognized at fair value.

Additionally, the Organization receives contributed time which does not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Other Income

The Organization has certificate of deposit (CD) accounts with the California Bank of Commerce and Avid Bank. The CD's are expected to be held to maturity, at which time the Organization can withdraw the funds and interest is paid. The Organization records interest earned on CD accounts as other income without donor restrictions.

The following represents Breakthrough Silicon Valley's other income for the four-month period ended May 31, 2020 -

Interest earned	\$ <u>7,083</u>
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BREAKTHROUGH SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

May 31, 2020

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the middle school program, high school program and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries	Time and effort
Payroll taxes	Time and effort
Employee benefits	Time and effort
Teacher stipends	Actual usage
Curriculum	Actual usage
Field trips and tours	Actual usage
Food	Actual usage
Scholarships	Actual usage
Student workshops	Actual usage
Student transportation	Actual usage
Recruitment and recognition	Percent of direct costs
Supplies and equipment	Percent of direct costs
Marketing materials	Percent of direct costs
Professional services	Percent of direct costs
Consulting	Actual usage
In-kind space rental	Percent of direct costs
Insurance	Percent of direct costs
Postage	Actual usage
Other	Percent of direct costs

Income Taxes

Breakthrough Silicon Valley is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

BREAKTHROUGH SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

May 31, 2020

(2) RELATED PARTY TRANSACTIONS

Breakthrough Silicon Valley made payments of \$6,000 for membership dues to Breakthrough Collaborative for the four-month period ended May 31, 2020.

During the four-month period ended May 31, 2020 \$16,196 was received in donations from board members and Breakthrough Silicon Valley employees.

(3) AVAILABILITY AND LIQUIDITY

The following represents Breakthrough Silicon Valley's financial assets for the four-month period ended May 31, 2020:

Financial assets at period end:

Cash and cash equivalents	\$ 2,240,915
Pledges receivable	<u>348,443</u>

Total financial assets	<u>2,589,358</u>
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Less amounts not available to be used within one year:

Net assets with donor restrictions	301,743
Less net assets with purpose restrictions to be met in less than a year	(25,000)
Board-designated funds for future use	<u>781,000</u>

1,057,743

Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,531,615</u>
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Breakthrough Silicon Valley's goal is generally to maintain financial assets to meet six months of operating expenses (approximately \$790,000). As part of its liquidity plan, excess cash is invested in short-term investments, including certificates of deposit.

BREAKTHROUGH SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

May 31, 2020

(4) NOTE PAYABLE

On May 3, 2020, the Organization received \$202,058 under the United States Small Business Administration's Paycheck Protection Program (PPP) through Wells Fargo Bank, as a result of the public health emergency brought on by the novel Coronavirus (COVID-19). The terms of the promissory note and funding agreement state that the loan proceeds must be used to fund or offset qualifying expenses. Principal and accrued interest at 1% are due in two years, May 3, 2022. The loan, including accrued interest, may be forgiven in whole or in part upon completion of agreed-upon terms. The amount forgiven will be considered an unrestricted contribution. Management believes the entire loan will be forgiven and will apply for 100% loan forgiveness when the forgiveness program commences.

(5) NET ASSETS

Net assets without donor restrictions for the four-month period ended May 31, 2020 are as follows:

Undesignated	\$ 1,193,767
Board-designated net assets	<u>781,000</u>
	<u>\$ 1,974,767</u>

The board has designated funds to be set aside as an operating reserve.

Net assets with donor restrictions were as follows for the four-month period ended May 31, 2020:

Specific purpose:	
Middle school program	\$ 47,197
High school program	54,546
Passage of time -	
Stipulated time restriction - general operations	<u>200,000</u>
	<u>\$ 301,743</u>

Net assets released from net assets with donor restrictions are as follows:

Satisfaction of purpose restrictions -

High school program	\$ <u>45,186</u>
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BREAKTHROUGH SILICON VALLEY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

May 31, 2020

(6) IN-KIND SUPPORT

The Organization receives in-kind support in the form of space rental at Hoover Middle School and Franklin-McKinley School District. The value of support was \$13,054 for the four-month period ended May 31, 2020.

(7) RETIREMENT PLAN

The Organization has a 401(k) profit sharing plan (the Plan) that covers all eligible employees. Employees are eligible to participate in the Plan immediately upon reaching age 21. Each participant may elect to contribute up to the maximum allowed by federal law. The Organization makes a 3% matching contribution and may also make discretionary contributions. Employer contributions totaled \$8,943 for the four-month period ended May 31, 2020.

(8) CONCENTRATIONS OF CREDIT RISK

Cash includes accounts at Wells Fargo Bank, California Bank of Commerce and Avid Bank in excess of \$250,000. The accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. Therefore, a portion of the Organization's cash balance is uninsured at May 31, 2020.

(9) UNCERTAINTIES

COVID-19 was declared a public health emergency in March 2020. Mandates from various international, federal, state and local authorities have required closures of schools, businesses and other facilities and organizations. Although the closures are temporary, the financial impact to the Organization cannot be estimated at this time. Should the closures continue for an extended period of time, or should the coronavirus continue to spread, the effects could have a materially adverse impact on the Organization's activities, financial position and cash flows.