

**John Tracy Clinic dba John Tracy Center
and Affiliate**

Consolidated Financial Statements

August 31, 2021
(With Comparative Totals for 2020)



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 22

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
John Tracy Clinic dba John Tracy Center and Affiliate
Los Angeles, California

We have audited the accompanying consolidated financial statements of John Tracy Clinic dba John Tracy Center and Affiliate (the "Center"), which comprise the consolidated statement of financial position as of August 31, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

Auditor's 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 auditor's 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 John Tracy Clinic dba John Tracy Center and Affiliate as of August 31, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Center has adopted ASU 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 11 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited John Tracy Clinic dba John Tracy Center and Affiliate's 2020 consolidated financial statements, and our report dated January 29, 2021 expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Armanino^{LLP}
Los Angeles, California

February 28, 2022

John Tracy Clinic dba John Tracy Center and Affiliate
Consolidated Statement of Financial Position
August 31, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 1,150,410	\$ 515,576
Investments	11,850,943	7,007,986
Accounts receivable	299,887	35,001
Pledges receivable, net	1,558,033	402,216
Investments in partnerships	2,749,045	3,159,509
Other current assets	39,264	41,629
Investment in trusts	77,254	77,254
Endowment investments	578,887	578,392
Property and equipment, net	<u>16,883,102</u>	<u>17,583,488</u>
Total assets	<u>\$ 35,186,825</u>	<u>\$ 29,401,051</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 350,295	\$ 232,327
Executive retirement liability	353,292	407,497
Note payable - Paycheck Protection Program	<u>442,905</u>	<u>410,000</u>
Total liabilities	<u>1,146,492</u>	<u>1,049,824</u>
Net assets		
Without donor restrictions		
Undesignated	14,626,691	9,548,951
Investment in property and equipment	<u>16,883,102</u>	<u>17,583,488</u>
Total without donor restrictions	31,509,793	27,132,439
With donor restrictions	<u>2,530,540</u>	<u>1,218,788</u>
Total net assets	<u>34,040,333</u>	<u>28,351,227</u>
Total liabilities and net assets	<u>\$ 35,186,825</u>	<u>\$ 29,401,051</u>

The accompanying notes are an integral part of these consolidated financial statements.

John Tracy Clinic dba John Tracy Center and Affiliate
Consolidated Statement of Activities
For the Year Ended August 31, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Revenues				
Contributions	\$ 5,220,130	\$ 1,619,398	\$ 6,839,528	\$ 1,908,912
Contract revenue	348,105	-	348,105	105,904
Proceeds from fundraising events, net of direct benefit costs of \$31,944 and \$0	155,292	-	155,292	-
Tuition and fees	575,606	-	575,606	507,550
Other revenue	865,230	-	865,230	6,816
Investment income, net of fees	<u>1,307,009</u>	<u>53,340</u>	<u>1,360,349</u>	<u>1,203,102</u>
Total revenues	<u>8,471,372</u>	<u>1,672,738</u>	<u>10,144,110</u>	<u>3,732,284</u>
Net assets released from restriction	<u>360,986</u>	<u>(360,986)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>8,832,358</u>	<u>1,311,752</u>	<u>10,144,110</u>	<u>3,732,284</u>
Functional expenses				
Program services				
Social services	2,896,385	-	2,896,385	2,700,495
Public information and education	150,376	-	150,376	100,886
Teacher education	<u>366,226</u>	<u>-</u>	<u>366,226</u>	<u>445,790</u>
Total program services	<u>3,412,987</u>	<u>-</u>	<u>3,412,987</u>	<u>3,247,171</u>
Support services				
Fundraising	587,095	-	587,095	471,257
Management and general	<u>454,922</u>	<u>-</u>	<u>454,922</u>	<u>527,720</u>
Total support services	<u>1,042,017</u>	<u>-</u>	<u>1,042,017</u>	<u>998,977</u>
Total functional expenses	<u>4,455,004</u>	<u>-</u>	<u>4,455,004</u>	<u>4,246,148</u>
Property sale and sublease				
Gain/(loss) on disposal of fixed assets	-	-	-	(52,517)
Sublease income	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,997</u>
Total property sale and sublease	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,520)</u>
Change in net assets	4,377,354	1,311,752	5,689,106	(536,384)
Net assets, beginning of year	<u>27,132,439</u>	<u>1,218,788</u>	<u>28,351,227</u>	<u>28,887,611</u>
Net assets, end of year	<u>\$ 31,509,793</u>	<u>\$ 2,530,540</u>	<u>\$ 34,040,333</u>	<u>\$ 28,351,227</u>

The accompanying notes are an integral part of these consolidated financial statements.

John Tracy Clinic dba John Tracy Center and Affiliate
Consolidated Statement of Functional Expenses
For the Year Ended August 31, 2021
(With Comparative Totals for 2020)

	Social services	Public information and education	Teacher education	Total Program Services	Fundraising	Management and general	Total Support Services	2021 Total	2020 Total
Personnel expenses									
Salaries	\$ 1,756,640	\$ 74,320	\$ 268,722	\$ 2,099,682	\$ 256,435	\$ 69,676	\$ 326,111	\$ 2,425,793	\$ 2,094,750
Payroll taxes and employee benefits	<u>308,888</u>	<u>13,703</u>	<u>44,517</u>	<u>367,108</u>	<u>44,956</u>	<u>17,196</u>	<u>62,152</u>	<u>429,260</u>	<u>390,862</u>
Total personnel expenses	2,065,528	88,023	313,239	2,466,790	301,391	86,872	388,263	2,855,053	2,485,612
Outside service fees	19,823	15,986	28,048	63,857	46,781	182,999	229,780	293,637	448,993
Occupancy	148,287	5,485	3,008	156,780	28,452	25,440	53,892	210,672	197,308
Nonpersonnel expenses	64,677	6,804	3,015	74,496	13,287	27,973	41,260	115,756	171,264
Other expenses	42,952	7,275	2,334	52,561	76,968	13,219	90,187	142,748	88,468
Equipment rental	45,840	3,583	1,265	50,688	6,816	12,928	19,744	70,432	88,306
Insurance	31,716	2,488	878	35,082	4,733	8,978	13,711	48,793	61,310
Scholarships	-	-	3,000	3,000	-	-	-	3,000	27,000
Depreciation of property and equipment	<u>477,562</u>	<u>20,732</u>	<u>11,439</u>	<u>509,733</u>	<u>108,667</u>	<u>96,513</u>	<u>205,180</u>	<u>714,913</u>	<u>36,464</u>
Total expenses	<u>830,857</u>	<u>62,353</u>	<u>52,987</u>	<u>946,197</u>	<u>285,704</u>	<u>368,050</u>	<u>653,754</u>	<u>1,599,951</u>	<u>1,119,113</u>
	<u>\$ 2,896,385</u>	<u>\$ 150,376</u>	<u>\$ 366,226</u>	<u>\$ 3,412,987</u>	<u>\$ 587,095</u>	<u>\$ 454,922</u>	<u>\$ 1,042,017</u>	<u>\$ 4,455,004</u>	<u>\$ 3,604,725</u>

The accompanying notes are an integral part of these consolidated financial statements.

John Tracy Clinic dba John Tracy Center and Affiliate
Consolidated Statement of Cash Flows
For the Year Ended August 31, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 5,689,106	\$ (536,384)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation & amortization	714,913	677,887
Contribution of investments	-	(100,579)
Interest and dividends reinvested, net of investment fees paid	(313,026)	(324,383)
Realized and unrealized (gains) losses on investments	(1,047,323)	(878,719)
(Gain) loss on sale of property and equipment	-	52,517
Contributions for long-term purposes	(84,950)	(883,613)
Loan forgiveness - Paycheck Protection Program	(410,000)	-
Changes in operating assets and liabilities		
Accounts receivable	(264,886)	38,664
Pledges receivable	(1,155,817)	(392,566)
Other current assets	2,365	(24,049)
Accounts payable and accrued expenses	117,968	(1,266,106)
Executive retirement liability	(54,205)	(15,732)
Net cash provided by (used in) operating activities	<u>3,194,145</u>	<u>(3,653,063)</u>
Cash flows from investing activities		
Proceeds from sale of investments	-	3,933,978
Purchase of investments	(3,072,639)	-
Purchases of property and equipment	(14,527)	(1,540,851)
Purchases of limited partnership interests	-	(125,000)
Net cash provided by (used in) investing activities	<u>(3,087,166)</u>	<u>2,268,127</u>
Cash flows from financing activities		
Paycheck Protection Program loan proceeds	442,905	410,000
Contributions for long-term purposes	84,950	883,613
Net cash provided by financing activities	<u>527,855</u>	<u>1,293,613</u>
Net increase (decrease) in cash and cash equivalents	634,834	(91,323)
Cash and cash equivalents, beginning of year	<u>515,576</u>	<u>606,899</u>
Cash and cash equivalents, end of year	<u>\$ 1,150,410</u>	<u>\$ 515,576</u>

Supplemental schedule of noncash investing and financing activities

Contribution of investments	\$ 22,640	\$ 100,579
Disposal of fixed assets	\$ 91,552	\$ 1,623,396

The accompanying notes are an integral part of these consolidated financial statements.

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

1. NATURE OF OPERATIONS

The mission of John Tracy Clinic dba John Tracy Center (the "Center") is to provide worldwide parent-centered services to young children with hearing loss. With campuses in Los Angeles and Long Beach, the Center offers an innovative, spoken language model to prepare deaf and hard of hearing children for a mainstream education with their hearing peers. Founded in 1942, the Center is a pioneer in the field of deaf education and a recognized leader in early detection and intervention. Its continuum of integrated services for families with children ages 0-5 includes comprehensive hearing assessment; mental health and developmental services; parent education and social support services; and parent/infant and preschool programs. The Center also provides parent distance education nationally and worldwide, and a Master's and credential program in collaboration with its partners in higher education.

Effective July 12, 2018, the Center established the John Tracy Center, LLC (the "LLC"), a Delaware Limited Liability Company for the purpose of acquiring and operating a building in the Jefferson Park District of Los Angeles to be used for the Center's operations. The Center is the sole member of the LLC. Accordingly, the assets, liabilities, revenues and expenses of the LLC are consolidated in these financial statements and are collectively referred to as "the Center."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in accounting principles

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Center adopted ASU 2014-09 with a date of the initial application of September 1, 2020, using the modified retrospective method. There was no change to the Center's net assets as a result of the adoption of the standard.

Tax status

The Center is a nonprofit public benefit corporation organized under the laws of California and, as such, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and corresponding state provisions.

The Center's federal income tax and informational returns for tax years ending 2018 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the Center's only state tax jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ending 2017 and subsequent.

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation

The Center reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

- *Net assets without donor restrictions* - Net assets available for use in general operations and investments in property and equipment. Net assets available for these uses are 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. 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.

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 and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Short term investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents. Cash and cash temporarily held as part of investment activities are included within investments. Cash and cash equivalents are reported at cost which approximates market value.

Investments

Investments with readily determinable fair values are stated at fair value at the consolidated financial statement date. Investments without readily determinable fair values are stated at the lower of cost or estimated net realizable value (see Note 3). Marketable securities acquired by donation are stated at the fair market value at the date of donation.

The Center reports investment revenues net of related expenses, such as custodial and investment advisory fees, in the consolidated statement of activities.

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of investments

The Center's investment policy allows for investments in the consolidated financial instruments that are inherently subject to a certain amount of risk. Certain financial instruments potentially subject the Center to concentrations of credit risk. The Center's investment policy limits the amount of credit exposure and the investment committee of the Board of Directors monitors investment performance. Additionally, the Center reduces risk related to investments by investing in fixed income and equity mutual funds that lower the amount of credit risk.

Property and equipment

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	30 years
Furniture and equipment	5 - 10 years
Computers	3 - 5 years

Normal repairs and maintenance are expensed as incurred, whereas significant charges that materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

The cost of assets retired or otherwise disposed of and the related accumulated depreciation is eliminated from the accounts in the year of disposal and any resulting gains or losses are charged to operations.

Revenue recognition and deferred revenue

Contributions, gifts and grants are recorded on an accrual basis. Noncash gifts are recorded at their fair market value at the date of donation. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Operating revenues and gains and losses on investments are reported as increases or decreases to the appropriate net asset category. Expirations of net assets with donor restrictions are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions.

Contract revenues are recorded as performance obligations are satisfied.

Revenues from rental activities are recorded as earned and are net of allocated costs collected from the lessee.

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of risk

Occasionally the Center's cash balances exceed the FDIC-insured limits. The Center has not experienced and does not anticipate any losses related to these balances.

For the year ended August 31, 2021, three donors comprised 51%, 18%, and 15% of the Center's total contribution revenue, respectively. As of August 31, 2021, there was one customer who comprised 83% of accounts receivable. As of August 31, 2021, there was one donor who comprised 77% of pledges receivable. There were no other significant concentrations in 2021.

Guild and auxiliary groups

The consolidated financial statements do not include the accounts of the Center's guilds and auxiliaries, which are independent organizations that maintain their own separate accounts. The primary function of the guilds and auxiliaries is to conduct fundraising activities for the Center, the net proceeds of which are included in the consolidated financial statements as contributions.

Subsequent events

The Center has evaluated events subsequent to August 31, 2021, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through February 28, 2022, the date the consolidated financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the consolidated financial statements.

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

3. INVESTMENTS

Investments consisted of the following:

	<u>2021</u>	<u>2020</u>
Investments	\$ 11,850,943	\$ 7,007,986
Investment in trusts	77,254	77,254
Endowment investments	578,887	578,392
Investments in limited partnerships	<u>2,749,045</u>	<u>3,159,509</u>
	<u>\$ 15,256,129</u>	<u>\$ 10,823,141</u>

The Center uses net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair values of certain hedge funds which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy. Additionally, the Center has elected to use the measurement alternative for investments that do not have readily determinable fair values and do not report at net assets value. These investments are recorded at cost, adjusted for observable price changes and any subsequent impairment. The Center's investments using the measurement alternative include limited partnership interests which are carried on a cost basis or under the equity method, as well as investments in certain charitable trusts described in Note 4. The limited partnership interests primarily consist of investments in mortgage loans.

The following table sets forth by level, within the fair value hierarchy, the Center's assets at fair value as of August 31, 2021 (excludes investments in trusts):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Mutual funds	\$ 2,771,822	\$ -	\$ -	\$ 2,771,822
Fixed income funds	1,242,085	-	-	1,242,085
Exchange traded funds	4,130,169	-	-	4,130,169
Cash and money market fund	97,731	-	-	97,731
Equities	491,417	-	-	491,417
Options and short positions	<u>38,936</u>	<u>-</u>	<u>-</u>	<u>38,936</u>
	<u>\$ 8,772,160</u>	<u>\$ -</u>	<u>\$ -</u>	8,772,160
Investments measured at NAV				2,791,670
Investments measured at cost				<u>3,692,299</u>
				<u>\$ 15,256,129</u>

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

3. INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Center's assets at fair value as of August 31, 2020 (excludes investment in trusts):

	Level 1	Level 2	Level 3	Fair Value
Equities	\$ 1,569,530	\$ -	\$ -	\$ 1,569,530
Fixed income funds	2,309,463	-	-	2,309,463
Exchange traded funds	1,164,332	-	-	1,164,332
Cash and money market fund	359,979	-	-	359,979
Options and short positions	<u>34,488</u>	<u>-</u>	<u>-</u>	<u>34,488</u>
	<u>\$ 5,437,792</u>	<u>\$ -</u>	<u>\$ -</u>	5,437,792
Investments measured at NAV				2,148,586
Investments measured at cost				<u>3,159,509</u>
				<u>\$ 10,745,887</u>

Investments in certain entities that are measured at fair value using NAV per share as a practical expedient are as follows as of August 31:

	2021	2020
Lido Cap & Cushion Fund	\$ 1,428,348	\$ 812,389
Mapleton Platinum Investors LLC	<u>1,363,322</u>	<u>1,336,197</u>
	<u>\$ 2,791,670</u>	<u>\$ 2,148,586</u>

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

3. INVESTMENTS (continued)

The following table provides additional information on investments measured at net asset value at August 31, 2021:

Product	Strategy	NAV in Funds	Redemption Terms	Redemption Restrictions	Redemption Price at Year End
Hedge Funds - Lido Cap & Cushion Fund	Fund investment objective is capital appreciation by investing in domestic exchange-traded funds and exchange-traded notes and related options, options on indexes, future contracts and options on future contracts tied to broad-based market indexes and cash or cash equivalents.	\$ 1,428,348	Monthly redemptions offered	Generally withdrawals require 30 days notice. Two days notice is required with consent of General Partner. All withdrawals are subject to holdback or reserve. Withdrawals of substantially all of investors capital account may be retained after completion of the audit of the funds financials statements.	None
Hedge Funds - Mapleton Platinum Investors, LLC	Maximize capital appreciation by aggressively trading, and investing in, domestic equity securities of small, medium and large capitalization companies, across all industry sectors.	<u>\$ 1,363,322</u>	Monthly redemptions offered after two years from investment date	A portion of any withdrawal of 90% or more of an investors capital account may be withheld until completion of the fund's year end financial statements, for the year in which the withdrawal occurs.	None
		<u><u>\$ 2,791,670</u></u>			

- * There are no unfunded commitments for either investment as of August 31, 2021. The same two investments were carried in the prior year, with no additional purchases made during the fiscal year ended August 31, 2021.

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

3. INVESTMENTS (continued)

Beneficial interest in remainder trusts are as follows at August 31, 2020:

Product	Strategy	NAV in Funds	Redemption Terms	Redemption Restrictions	Redemption Price at Year End
Hedge Funds - Lido Cap & Cushion Fund	Fund investment objective is capital appreciation by investing in domestic exchange-traded funds and exchange-traded notes and related options, options on indexes, future contracts and options on future contracts tied to broad-based market indexes and cash or cash equivalents.	\$ 812,389	Monthly redemptions offered	Generally withdrawals require 30 days notice. Two days notice is required with consent of General Partner. All withdrawals are subject to holdback or reserve. Withdrawals of substantially all of investors capital account may be retained after completion of the audit of the funds financials statements.	None
Hedge Funds - Mapleton Platinum Investors, LLC	Maximize capital appreciation by aggressively trading, and investing in, domestic equity securities of small, medium and large capitalization companies, across all industry sectors.	\$ 1,336,197	Monthly redemptions offered after two years from investment date	A portion of any withdrawal of 90% or more of an investors capital account may be withheld until completion of the fund's year end financial statements, for the year in which the withdrawal occurs.	None

4. INVESTMENT IN TRUSTS

In 2014, the Center acquired certain rights, title and interest held by charitable trusts and remainder trusts from a bankrupt non-profit organization for \$100,000. This investment is held at cost in the statement of financial position since management has determined that there is no market for the trusts.

As of August 31, 2021 and 2020, the investment in trusts are held at \$77,254.

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

5. PLEDGES RECEIVABLE

Pledges receivable consisted of the following:

	<u>2021</u>	<u>2020</u>
Due in less than one year	\$ 1,348,950	\$ 110,050
Due in two to ten years	<u>214,600</u>	<u>299,550</u>
	1,563,550	409,600
Discount to net present value	<u>(5,517)</u>	<u>(7,384)</u>
	<u><u>\$ 1,558,033</u></u>	<u><u>\$ 402,216</u></u>

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2021</u>	<u>2020</u>
Buildings and improvements	\$ 17,534,274	\$ 17,540,725
Furniture and equipment	674,478	752,796
Computers	<u>133,078</u>	<u>125,334</u>
	18,341,830	18,418,855
Accumulated depreciation	<u>(1,458,728)</u>	<u>(835,367)</u>
	<u><u>\$ 16,883,102</u></u>	<u><u>\$ 17,583,488</u></u>

7. ENDOWMENT

The Center's endowment consists of several individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

7. ENDOWMENT (continued)

Interpretation of relevant law

The Center's Board of Directors has interpreted 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, the Center classifies as net assets with donor restriction (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 permanently restricted net assets is classified as net assets without donor restriction until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (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 the Center
- (7) The investment policies of the Center

Return objectives and risk parameters

The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Center must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the Center diversifies its investments, subject to practicality constraints, among a variety of asset classes so as to provide a balance that will enhance total real return while avoiding undue risk concentration in any single asset class or investment category.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Center to retain as a fund of perpetual duration. There were no deficiencies of this nature as of August 31, 2021 or 2020.

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

7. ENDOWMENT (continued)

Spending policy

As of August 31, 2021, the Center has not yet adopted a formal spending policy, but has traditionally spent no more than earned in any given year for its endowment funded programs. Utilization of such funds would require authorization of the Board of Directors.

Endowment composition

As of August 31, 2021 and 2020, all of the Center's endowments were donor restricted totaling \$578,887 and \$578,392, respectively, all of which consisted of net assets restricted in perpetuity. The amounts disclosed as net assets without donor restriction and and net assets without donor restriction reflect investment activity within the endowment accounts, since earnings are recognized as with donor restriction until they are appropriated for expenditure and unrealized losses below the historical value of the endowment are reflected as an adjustment to net assets without donor restriction.

Changes in endowment net assets for the fiscal year ended August 31, 2021 is as follows:

	<u>With Donor Restrictions</u>
Balance, August 31, 2020	\$ 578,392
Investment income	16,511
Appropriation of endowment assets pursuant to spending policy	<u>(16,016)</u>
Balance, August 31, 2021	<u>\$ 578,887</u>

Changes in endowment net assets for the fiscal year ended August 31, 2020 is as follows:

	<u>With Donor Restrictions</u>
Balance, August 31, 2019	\$ 577,831
Investment income	18,719
Appropriation of endowment assets pursuant to spending policy	<u>(18,158)</u>
Balance, August 31, 2020	<u>\$ 578,392</u>

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

7. ENDOWMENT (continued)

Restrictions in perpetuity

The Center has five endowments which are restricted to investment in perpetuity.

Permanently restricted endowments consist of the following:

	<u>2021</u>	<u>2020</u>
General Clinic support		
King Endowment (95% income distribution, 5% added to the permanently restricted principal)	\$ 347,343	\$ 346,848
Educational services - general support		
Eta Gouda Grieve Memorial	<u>157,020</u>	<u>157,020</u>
Educational services - equipment purchases		
Drool Charitable Trust	32,820	32,820
Garrets Memorial	<u>30,454</u>	<u>30,454</u>
	<u>63,274</u>	<u>63,274</u>
Educational services - family scholarships		
Greensward Scholarship Fund	<u>11,250</u>	<u>11,250</u>
	<u>\$ 578,887</u>	<u>\$ 578,392</u>

8. EXECUTIVE RETIREMENT

The Board of Directors approved a retirement benefit for its former president commencing in September 2003. The benefit provides a monthly payment of \$3,200 to the retiree and his surviving spouse for the remainder of their joint lives. The initial amount of the retirement benefit accrued at August 31, 2003, was \$625,000 based on actuarial estimates of life expectancy. Payroll taxes on the entire accrual were paid in 2003. The liability is unfunded and will be paid out of the Center's available funds each month. Each year the accrual is reduced by the cash amount paid and then adjusted based on updated actuarial information. The actuarial value of the remaining liability for the years ended August 31, 2021 and 2020 were \$353,292 and \$407,497 and the required payments on the liability are as follows:

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

8. EXECUTIVE RETIREMENT (continued)

The future maturities of the notes payable are as follows:

Year ending August 31,

2022	\$ 38,400
2023	38,400
2024	38,400
2025	38,400
2026	38,400
Thereafter	<u>199,692</u>
	<u>\$ 391,692</u>

9. LEASING ACTIVITY

Lease commitments

The Center is committed under various operating leases expiring through October 2024 for facilities and equipment leases.

The scheduled minimum lease payments under the lease terms are as follows:

Year ending August 31,

2022	\$ 66,660
2023	62,310
2024	62,310
2025	<u>5,192</u>
	<u>\$ 196,472</u>

For the years ended August 31, 2021 and 2020, rent expense totaled \$90,448 and \$104,853, respectively.

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

10. LOAN PAYABLE (PAYROLL PROTECTION PROGRAM)

On April 17, 2020, the Center received loan proceeds of \$410,000 from a promissory note issued by American Business Bank, under the Paycheck Protection Program ("PPP"), which was established under the Coronavirus Aid, Relief and Economic Security Act ("CARES" Act), and is administered by the U.S. Small Business Administration. The term of the loan was two years and the annual interest rate was 1%. Payments of principal and interest were deferred for the first ten months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Center has accounted for the PPP loan in accordance with the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 470-50 as a liability. Under ASC 470-50, the Center reports the PPP proceeds as a liability until the loan is forgiven or the loan is paid off. On August 27, 2021, the Center received forgiveness for \$410,000 and has been recognized as other revenue in the accompanying consolidated statement of activities.

In January 2021, the Center was informed by a bank that the U.S. Small Business Administration approved the Center's request for a second loan under the PPP. The Center signed a promissory note in the amount of \$442,905 for a PPP loan and, in accordance with the CARES Act and Economic Aid Act, the Center will use the PPP loan proceeds for eligible costs that should result in forgiveness of the PPP loan. If not forgiven, the PPP loan will bear interest at 1.0% and will mature on January 29, 2026.

11. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. The Center stopped in-person services from March through May 2020. In response to the pandemic, the U.S. Government enacted the CARES Act, which includes significant provisions to provide relief and assistance to affected organizations. Since the start of the COVID-19 pandemic, the Center has received two PPP loans of \$410,000 and \$442,905. The Center has also received \$450,806 from the Employee Retention Credit ("ERC") which was recorded as other revenue. Eligibility for the ERC is subject to judgment and returns claiming the ERC remain subject to examination by the Internal Revenue Service for five years. While the disruption is currently expected to be temporary, there is a considerable uncertainty around the duration of the closings and shelter in place orders and the ultimate impact of the CARES Act and other governmental initiatives. It is at least reasonably possible that this matter will negatively impact the Center. However, the financial impact and duration cannot be reasonably estimated at this time.

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>2021</u>	<u>2020</u>
Purpose-restricted		
Teacher education program	\$ 286,003	\$ 230,796
Capital	<u>102,100</u>	<u>-</u>
	<u>388,103</u>	<u>230,796</u>
Time-restricted		
Pledges receivable	<u>1,563,550</u>	<u>409,600</u>
	<u>1,563,550</u>	<u>409,600</u>
Restricted in perpetuity	<u>578,887</u>	<u>578,392</u>
	<u>\$ 2,530,540</u>	<u>\$ 1,218,788</u>

Net assets with donor restrictions released from restriction during the year were as follows:

	<u>2021</u>	<u>2020</u>
Audiology	\$ (128,000)	\$ (2,500)
Equipment	(6,254)	-
Information technology	-	(30,580)
Parent - infant (Long Beach)	(12,660)	(4,590)
Parent - infant	(61,122)	(68,288)
Preschool	-	(60,000)
Teacher education program	(68,000)	(28,000)
Pledges subject to the passage of time	<u>(84,950)</u>	<u>(250)</u>
	<u>\$ (360,986)</u>	<u>\$ (194,208)</u>

13. LIQUIDITY AND AVAILABILITY

The Center regularly monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize the investment of its available funds. As part of the Center's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

John Tracy Clinic dba John Tracy Center and Affiliate
Notes to Consolidated Financial Statements
August 31, 2021
(With Comparative Totals for 2020)

13. LIQUIDITY AND AVAILABILITY (continued)

Assets available to meet cash needs for general expenditures within one year, without contractual or donor restrictions as of August 31, 2021 consist of the following:

Financial assets	
Cash and cash equivalents	\$ 1,150,410
Investments	11,850,943
Accounts receivable	299,887
Pledges receivable - due in less than one year	<u>1,348,950</u>
	14,650,190
Donor restricted net assets (less time restricted net assets due in less than one year)	<u>(1,181,590)</u>
	<u><u>\$ 13,468,600</u></u>