VANGUARD MUSIC AND PERFORMING ARTS

AUDITED FINANCIAL STATEMENTS

OCTOBER 31, 2024 AND 2023

VANGUARD MUSIC AND PERFORMING ARTS

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PETRINOVICH PUGH & CO LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Vanguard Music and Performing Arts
Santa Clara, California

Opinion

We have audited the accompanying financial statements of Vanguard Music and Performing Arts (the Organization) (a California nonprofit corporation), which comprise the statements of financial position as of October 31, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vanguard Music and Performing Arts as of October 31, 2024 and 2023 and the changes in its net assets and its cash flows for the years 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of the Organization 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards 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 financial statements.

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Auditors' Responsibilities for the Audit of the Financial Statements (continued)
In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 the Organization'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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.

Petrinovich Pugh & Company, LLP

Petrinovich Pugh & Company, LLP

San Jose, California
February 18, 2025

VANGUARD MUSIC AND PERFORMING ARTS

STATEMENTS OF FINANCIAL POSITION

OCTOBER 31, 2024 AND 2023

ASSETS	2024	2023
Current assets:		
Cash and cash equivalents	$ 1,431,516	$ 844,396
Investments	489,350	385,423
Accounts receivable	367,029	351,689
Other current assets	18,810	-
Total current assets	2,306,705	1,581,508
Property and equipment, net	1,503,489	1,533,809
Right of use assets, net	107,150	6,331
	$ 3,917,344	$ 3,121,648
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 139,612	$ 185,625
Accrued expenses	92,412	63,113
Contract liabilities	1,200	2,000
Current portion of lease liabilities	26,568	1,820
Current portion of equipment notes payable	62,762	-
Current portion of term note payable	39,886	57,807
Current portion of EIDL note payable	3,984	27,408
Total current liabilities	366,424	337,773
Non-current liabilities:		
Lease liabilities, net of current portion	80,535	4,733
Equipment note payable, less current portion	137,579	-
Term note payable, less current portion	-	39,807
PPP note payable	-	18,247
EIDL note payable, less current portion	119,617	110,618
Total non-current liabilities	337,731	173,405
Total liabilities	704,155	511,178
Net assets:		
Net assets without donor restrictions:		
Board-designated endowment	492,015	389,653
Unrestricted	2,619,611	2,165,824
Total net assets without donor restrictions	3,111,626	2,555,477
Net assets with donor restrictions	101,563	54,993
Total net assets	3,213,189	2,610,470
	$ 3,917,344	$ 3,121,648

See accompanying independent auditors' report and notes to financial statements.

VANGUARD MUSIC AND PERFORMING ARTS

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED OCTOBER 31, 2024
(with summarized totals for the year ended October 31, 2023)

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	For Comparative Purposes Only
Support and revenues:				
Support:				
Donations	$ 339,905	$ 46,570	$ 386,475	$ 336,302
Total support	339,905	46,570	386,475	336,302
Revenues:				
Merchandise sales	83,357	-	83,357	14,296
Bingo revenue, net of payouts	7,281,399	-	7,281,399	5,065,464
Membership fees, net of discounts	957,275	-	957,275	40,579
Other income	8,000	-	8,000	-
Appearance fee	91,754	-	91,754	14,317
Miscellaneous income	207,137	-	207,137	1,056,272
SBAD tear grant	-	-	-	25,000
Investment return	95,854	-	95,854	14,827
Total revenues	8,724,776	-	8,724,776	6,230,755
Net assets released from restrictions	-	-	-	-
Total support and revenues	9,064,681	46,570	9,111,251	6,567,057
Expenses:				
Program services	6,430,168	-	6,430,168	3,697,236
General and administrative	2,035,554	-	2,035,554	1,199,960
Fundraising	42,810	-	42,810	47,097
Total expenses	8,508,532	-	8,508,532	4,944,293
Change in net assets	556,149	46,570	602,719	1,622,764
Net assets, beginning of year	2,555,477	54,993	2,610,470	987,706
Net assets, end of year	$ 3,111,626	$ 101,563	$ 3,213,189	$ 2,610,470

See accompanying independent auditors' report and notes to financial statements.

VANGUARD MUSIC AND PERFORMING ARTS

STATEMENTS OF ACTIVITIES (CONTINUED)

FOR THE YEAR ENDED OCTOBER 31, 2023
(with summarized totals for the year ended October 31, 2022)

	2023			Restated 2022
	Without Donor Restrictions	With Donor Restrictions	Total	For Comparative Purposes Only
Support and revenues:				
Support:				
Donations	$ 336,302	$ -	$ 336,302	$ 294,386
Total support	336,302	-	336,302	294,386
Revenues:				
Merchandise sales	14,296	-	14,296	49,460
Bingo revenue, net of payouts	5,065,464	-	5,065,464	4,016,528
Membership fees, net of discounts	40,579	-	40,579	1,008,865
Gain on disposal of property and equipment	-	-	-	22,000
Appearance fee	14,317	-	14,317	220,241
Miscellaneous income	1,056,272	-	1,056,272	23,115
SBAD tear grant	25,000	-	25,000	254,005
Investment return	14,827	-	14,827	(320,847)
Total revenues	6,230,755	-	6,230,755	5,273,367
Net assets released from restrictions	-	-	-	-
Total support and revenues	6,567,057	-	6,567,057	5,567,753
Expenses:				
Program services	3,697,236	-	3,697,236	5,152,446
General and administrative	1,199,960	-	1,199,960	3,184,698
Fundraising	47,097	-	47,097	78,450
Total expenses	4,944,293	-	4,944,293	8,415,594
Change in net assets	1,622,764	-	1,622,764	(2,847,841)
Net assets, beginning of year	932,713	54,993	987,706	3,661,006
Restatement adjustment	-	-	-	174,541
Net assets, beginning of year, restated	932,713	54,993	987,706	3,835,547
Net assets, end of year	$ 2,555,477	$ 54,993	$ 2,610,470	$ 987,706

See accompanying independent auditors' report and notes to financial statements.

VANGUARD MUSIC AND PERFORMING ARTS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED OCTOBER 31, 2024

	Program Services	General and Administrative	Fundraising	Total
Advertising	$ 14,746	$ 9,144	$ 224	$ 24,114
Bad debt expense	34,263	-	-	34,263
Bank charges	33,366	20,691	507	54,564
Cards and supplies	3,154,267	-	-	3,154,267
Depreciation	156,812	97,241	2,385	256,438
Employee benefits	64,520	40,010	981	105,511
Fleet expenses	192,520	119,384	2,928	314,832
Information technology	105,572	65,467	1,606	172,645
Insurance expense	76,101	47,191	1,157	124,449
Interest expense	5,975	3,705	91	9,771
Investment expense	-	5,492	-	5,492
Legal fees	4,092	2,538	62	6,692
Occupancy	94,851	58,818	1,443	155,112
Office supplies	44,235	27,431	673	72,339
Other	1,634	1,016	27	2,677
Payroll services	76,228	47,270	1,159	124,657
Payroll taxes	100,379	62,246	1,527	164,152
Professional fees	154,390	95,739	2,348	252,477
Program expenses	764,615	474,149	11,629	1,250,393
Property tax	15,665	9,714	238	25,617
Repairs and maintenance	35,165	21,806	535	57,506
Salaries	1,222,522	777,978	12,100	2,012,600
Travel	78,250	48,524	1,190	127,964
	$ 6,430,168	$ 2,035,554	$ 42,810	$ 8,508,532

See accompanying independent auditors' report and notes to financial statements.

VANGUARD MUSIC AND PERFORMING ARTS

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

FOR THE YEAR ENDED OCTOBER 31, 2023

	Program Services	General and Administrative	Fundraising	Total
Advertising	$ 13,082	$ 8,112	$ 199	$ 21,393
Bank charges	83,045	51,497	1,263	135,805
Cards and supplies	1,717,026	-	-	1,717,026
Depreciation	151,422	93,899	2,303	247,624
Employee benefits	94,755	58,759	1,441	154,955
Fleet expenses	100,622	62,398	1,530	164,550
Information technology	54,150	33,580	824	88,554
Insurance expense	35,537	22,037	541	58,115
Interest expense	28,450	14,315	351	43,116
Investment expense	3,010	1,866	46	4,922
Legal fees	23,900	14,821	363	39,084
Occupancy	61,346	38,041	933	100,320
Office supplies	34,962	21,903	532	57,397
Payroll services	35,157	21,801	535	57,493
Payroll taxes	69,798	43,283	1,062	114,143
Professional fees	178,497	110,688	2,715	291,900
Program expenses	156,063	96,777	2,373	255,213
Property tax	15,696	9,733	238	25,667
Repairs and maintenance	50,463	31,293	767	82,523
Salaries	775,240	455,846	28,853	1,259,939
Travel	15,015	9,311	228	24,554
	$ 3,697,236	$ 1,199,960	$ 47,097	$ 4,944,293

See accompanying independent auditors' report and notes to financial statements.

VANGUARD MUSIC AND PERFORMING ARTS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED OCTOBER 31, 2024 AND 2023

	2024	2023
Cash flows from operating activities:		
Change in net assets	$ 602,719	$ 1,622,764
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	256,438	247,624
Bad debt expense	34,263	-
Net realized and unrealized gain on investments	(84,587)	(5,301)
Right of use assets, net	(269)	222
Interest on EIDL note payable	4,557	9,600
PPP loan forgiveness	(18,247)	(657,853)
Changes in certain assets and liabilities:		
Accounts receivable	(49,604)	(335,491)
Other current assets	(18,810)	26,596
Accounts payable	(46,012)	(289,375)
Accrued expenses	29,299	9,686
Contract liabilities	(800)	2,000
Net cash provided by operating activities	708,947	630,472
Cash flows from investing activities:		
Proceeds from sale of investments	463,616	113,034
Purchases of investments	(482,956)	(34,306)
Purchases of property and equipment	(226,118)	(10,031)
Net cash (used for) provided by investing activities	(245,458)	68,697
Cash flows from financing activities:		
Proceeds from equipment notes payable	205,000	-
Principal payments on equipment notes payable	(4,659)	-
Principal payments on notes payable	(57,728)	(55,148)
Principal payments on EIDL note payable	(18,982)	(26,401)
Net cash provided by (used for) financing activities	123,631	(81,549)
Net increase in cash and cash equivalents	587,120	617,620
Cash and cash equivalents, beginning of year	844,396	226,776
Cash and cash equivalents, end of year	$ 1,431,516	$ 844,396

See accompanying independent auditors' report and notes to financial statements.

VANGUARD MUSIC AND PERFORMING ARTS

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED OCTOBER 31, 2024 AND 2023

Supplemental disclosure of cash flow information:

	2024	2023
Cash paid during the year for:		
Operating cash flow used for operating lease agreements	$ 62,156	$ 67,781
Interest	9,771	16,593
	$ 71,927	$ 84,374

Supplemental disclosures of non-cash investing activities:

During the year ended October 31, 2024, the Organization obtained right of use assets under operating lease obligations totaling $104,382.

During the year ended October 31, 2023, the Organization disposed of fully depreciated property and equipment with an original cost and accumulated depreciation of $187,748.

See accompanying independent auditors' report and notes to financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Vanguard Music and Performing Arts (the Organization) is a nonprofit 501(c)(3), performing arts education and youth development organization headquartered in Santa Clara, CA. The Organization is dedicated to its mission to inspire communities and enrich lives by increasing opportunities for participation, education, and excellence in the performing arts–through its programs.

Currently, the Organization supports its flagship program, the Santa Clara Vanguard Drum & Bugle Corps (SCV), which was formed in 1967. SCV strives to create a positive atmosphere where young people of all backgrounds are brought together by a shared passion for music and movement in a tightly woven and elite performance group.

SCV provides top-tier instruction and education for up to 165 advanced level student members–primarily between ages of 17 and 22–in the areas of brass, percussion, and color guard. SCV tours between six to eight weeks in the summer, in several states in the US, performing a 12-minute production and competing against other groups. Over the years, SCV and the Organization's other programs have been awarded numerous national championships within their competitive classes. SCV's audiences and fans number over one hundred thousand, who follow SCV on social media platforms and watch performances in live settings or via a streaming service.

For over 55 years, the Organization's performing groups have been foundational in providing opportunities to thousands of young adults to experience performance, leadership development, and togetherness through the values of hard work and determination. Student members study and receive advanced degrees in the arts to become educators themselves and performers to enrich their local communities. Student members also excel in their professional careers outside of the arts having gained valuable life experience through the Organization's programs.

The Organization is proud to have a positive societal impact helping create individuals who strive to continuously improve themselves, the people around them, and their communities. The Organization now looks ahead to create long-term strategic plans and bolster their sustainability so they may further their mission that provides opportunities for young adults to develop through performing arts.

Basis of Presentation: The financial statements of the Organization have been prepared in accordance with the accounting principles generally accepted in the United States of America (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 without donor restrictions consist of net assets for which there are no donor-imposed restrictions, or such donor-imposed restrictions were temporary and expired during the current or previous years. Net assets without donor restrictions include those expendable funds that are available for support of the Organization's operations, including board-designated funds.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued):

Net Assets with Donor Restrictions – Net assets with donor restrictions are subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature and 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 statements of activities. As of October 31, 2024 and 2023, net assets with donor restrictions consisted of $101,563 and $54,993, respectively for member scholarships.

The Organization accounts for certain endowment funds in accordance with ASC Subtopic 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. ASC 958-205 provides guidance on the net asset classification of endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of California enacted a version of UPMIFA known as the State Prudent Management of Institutional Funds Act (SPMIFA) effective January 1, 2010 (see Note I).

Comparative Financial Information: The accompanying 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 GAAP. Accordingly, such information should be read in conjunction with our audited financial statements for the year ended October 31, 2022, from which the summarized information was derived.

Reclassification: Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentations.

Use of Estimates: The preparation of financial statements in conformity with GAAP 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. The Organization’s estimates include allowance for credit losses, functional expense allocations and useful lives of property and equipment.

Revenue Recognition: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the guidance is that the Organization should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. In addition, the guidance requires the disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued):

The most significant aspects of the standard include the following:

- Topic 606 provides a five-step model for recognizing revenue from contracts with customers as follows:

    1. Identify the contract with the customer.
    2. Identify the performance obligations in the contract.
    3. Determine the transaction price.
    4. Allocate the transaction price to the performance obligations in the contract.
    5. Recognize revenue when or as the performance obligations are satisfied.

- Products and Services: The Organization's revenue for which Topic 606 applies is derived from merchandise sales, bingo revenue, membership fees, events, and miscellaneous income. The operations of the Organization are substantially affected by economic conditions and can be impacted by customer preferences and disposable income levels.

- Performance Obligations: Topic 606 provides that revenues are to be recognized when the control of promised goods or services are transferred to a customer in satisfaction of all related performance obligations, in an amount that reflects the considerations expected to be received for those goods or services. The Organization's contracts are considered to have a single performance obligation. Customers typically have no right to return or refund goods and services.

- Merchandise Sales: Merchandise sales are recognized when the goods are transferred to the customer.

- Bingo: Bingo sales are recognized on the date the bingo games are held.

- Membership Fees: Membership fees are recognized evenly throughout the year in which they are paid.

- Events: Event sales include parades, auditions, tickets, and other events. Event sales are recognized when the event is held.

Total revenue recognized over time and at a point in time during the years ended October 31 are as follows:

Revenues recognized over time	$ 957,275	$ 40,579
Revenues recognized as a point in time	7,759,501	6,190,176
	$ 8,716,776	$ 6,230,755

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued):

- Transaction Price: The Organization's price are based upon a fixed transaction price, which is the amount the Organization expects to collect for the agreed upon services rendered. Revenue is recorded based on the fixed transaction price.

- Payment Terms: Payment terms with customers are typically due upon the date of the transaction is established. In instances where the timing of the revenue recognition differs from the timing of the right to invoice, the Organization has determined that a significant financing component does not exist. The Organization has elected a permitted practical expedient which allows the Organization to not recognize a significant financing component if the time between the transfer of a good or service and payment is one year or less.

- Accounts Receivable and Allowance for Credit Losses: Accounts receivable are stated at their estimated collectible amounts and primarily consist of member dues and charges. Credit risk is mitigated by periodic review of delinquent accounts, including specific collection issues, and an allowance for credit losses is maintained based on historical experience adjusted for current conditions and reasonable forecasts considering geographical and industry-specific economic factors. As of October 31, 2024, there was a provision for credit losses of $34,263 related to accounts deemed uncollectible. There were no provisions or write-offs to the allowance for credit losses during the year ended October 31, 2023.

- Contract Assets and Liabilities: The Organization records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. The Organization recognizes contract assets when services have been performed but the right to invoice has not yet been established. Contract liabilities consist of amounts received in advance for bingo events, performance deposits, and membership fees for services that have not yet been performed. These liabilities are recorded within current liabilities and are recognized as performance obligation is removed. As of November 1, 2022, accounts receivable and contract liabilities were $83,044 and $7,367 respectively.

- Costs to Obtain Contracts: Costs to obtain contracts are expensed as incurred as the majority of the contracts have enforceable durations of one year or less and thus qualify for the practical expedient to expense costs to obtain contracts as incurred.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donations, In-Kind Donations, and Donated Services: Donations are recognized at their fair market value when received. All donations are considered available for unrestricted use of the Organization unless specifically restricted by the donor or by the activity for which the contribution was solicited. These monies are considered earned when expenditures have been incurred in accordance with specific instructions or restrictions. When a restriction expires, temporarily restricted balances are reclassified to unrestricted net assets. The Organization receives donated goods from third party vendors. The donated goods are measured at fair value and recognized as contributions when received. The Organization recognizes donated services in accordance with ASC 958-605, *Revenue Recognition for Not-for-Profit Entities*, which states contributed services are to be recognized for specialized skills. The Organization did not receive any donated services during the years ended October 31, 2024 and 2023.

Unconditional Promises to Give: The Organization recognizes unconditional promises to give as revenue in the period in which the donors give oral or written promises. The Organization considers its promises to give to be fully collectible within one year. During the years ended October 31, 2024 and 2023, the Organization did not receive any unconditional promises to give.

Cash and Cash Equivalents: For purposes of the statements of financial position and cash flows, the Organization considers all highly liquid instruments with an original maturity of ninety days or less to be cash equivalents.

Investments: The financial statements are prepared in accordance with ASC 958-320, *Accounting for Certain Investments Held by Not-for-Profit Entities*. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Realized and unrealized gains and losses are included in investment return in the statements of activities.

Property and Equipment: Property and equipment are stated at cost and depreciated over the estimated useful lives ranging between three and thirty-five years using the straight line method. Major repairs or replacements of property and equipment are capitalized. Maintenance, repairs and minor replacements are charged to expense as incurred.

Right of Use Assets and Leases: Effective November 1, 2022, the Organization evaluates all contracts at inception, to determine whether the contract contains a lease. A contract contains a lease if the contract conveys the right to control the use of the identified asset for a period of time, in exchange for consideration. The Organization recognizes a right of use asset and liability, for all leases with lease terms over 12 months, at the lease commencement date and determines whether the right of use asset qualifies as a financing or operating right of use asset. Finance lease right of use assets will be included within property and equipment and operating lease right of use assets are included within other assets on the statements of financial position. The right of use asset and liability, including any initial direct costs and non-lease components, is recognized at the present value of lease payments over the lease term using either the implicit rate in the lease, the incremental borrowing rate or the risk-free rate of return as allowed by ASC 842. Right of use assets are amortized over the term of the lease or the estimated useful life. Amortization is reported in depreciation expense for finance leases and lease expense for operating leases. The Organization does not have any finance lease right of use assets as of October 31, 2024 and 2023.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets: The Organization accounts for impairment of assets in accordance with ASC 360-10, *Property, Plant, and Equipment*, which requires the Organization to review long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the recorded. The Organization believes the carrying amount of its long-lived assets are recoverable during the years ended October 31, 2024 and 2023.

Allocation of Functional Expenses: The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Costs are allocated between program services, general and administrative, and fundraising expenses based upon an analysis of the related benefits. General and administrative expenses include expenditures that are not directly identifiable with any specific function but provide for the overall support and direction of the Organization.

Advertising: Advertising costs are expensed as incurred and totaled approximately $24,114 and $21,393 for the years ended October 31, 2024 and 2023, respectively.

Income Taxes: The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and State of California Revenue and Taxation Code 23701(d). Accordingly, no provision for income taxes has been provided for in the financial statements.

The Organization accounts for the requirements associated with uncertainty in income taxes using the provisions of FASB 740-10-25, *Recognition of Income Taxes*. Accordingly, an entity shall initially recognize the financial statement effects of a tax position when it is more-likely than not, based on the technical merits, that the position will be sustained upon examination. It also provides guidance for derecognition, classification, interest and penalties accounting in interim periods, disclosure and transaction. As of October 31, 2024 and 2023, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Organization files tax returns in the U.S. federal jurisdiction and state of California. The Organization's federal tax returns for the tax years 2021 and forward remain subject to examination by the Internal Revenue Service. The Organization's California income tax returns for the years 2020 and forward remain subject to examination by the California Franchise Tax Board.

Concentration of Credit Risk: Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of cash and cash equivalents. The Organization maintains a majority of its cash in a money market account and in bank deposit accounts. The Organization has approximately $1,101,000 of deposits in excess of the federally insured limit of $250,000. Management believed the Organization is not exposed to any significant credit risk related to cash.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements: ASC 820-10, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments: Consist of equity securities, fixed income securities and mutual funds and are valued based on quoted prices in active markets for identical assets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued): The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of October 31, 2024:

	Level 1	Level 2	Level 3	Total
Investments	$ 489,350	$ -	$ -	$ 489,350

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of October 31, 2023:

	Level 1	Level 2	Level 3	Total
Investments	$ 385,423	$ -	$ -	$ 385,423

Recent Accounting Pronouncements: On November 1, 2023, the Organization adopted Accounting Standards Update (ASU) 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which replaces the incurred loss allowance for doubtful accounts methodology with the current expected credit loss (CECL) methodology. The measurement of the CECL methodology is applicable to financial assets measured at amortized cost, including accounts receivable due from Organization members. The Organization adopted Topic 326 using the modified retrospective method for all financial assets measured at amortized cost. The Organization's adoption of Topic 326 did not have a material effect on the Organization's net assets.

Subsequent Events: ASC 855-10, Subsequent Events, requires additional disclosure for event or transactions that occur after the statement of financial position date. Except as described in Note F, the Organization had no other significant subsequent events as of February 18, 2025, which is the date the statements were available to be issued.

NOTE B – AVAILABILITY AND LIQUIDITY

The Organization's goal is to generally maintain financial assets to meet current operating expenses (approximately $800,000 for a three month period). The Organization has exceeded this threshold and continues to manage expenditures. Assets available to meet cash needs for general expenditures within one year of the statements of financial position date as of October 31, consist of the following:

	2024	2023
Cash and cash equivalents	$ 1,431,516	$ 844,396
Accounts receivable	367,029	351,689
	$ 1,798,545	$ 1,196,085

NOTE C – INVESTMENTS

Investments held at October 31, are summarized as follows:

	2024	2023
Equity securities:		
Domestic	$ 313,765	$ 223,325
Total equity securities	313,765	223,325
Fixed income securities:		
Domestic	175,585	162,098
Total fixed income securities	175,585	162,098
Total investments	$ 489,350	$ 385,423

These investments are unrestricted and represent board-designated amounts set aside to be used at the Board of Directors' (The Board) discretion (see Note I). Investment return is classified as unrestricted in the statements of activities. The following schedule summarizes the investment return:

	2024	2023
Net realized and unrealized gain	$ 84,587	$ 5,301
Interest and dividends	11,267	9,526
	$ 95,854	$ 14,827

Total investment expense which consists mainly of brokerage fees was approximately $5,500 and $5,000 for the years ended October 31, 2024 and 2023, respectively.

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment as of October 31, consist of the following:

	2024	2023
Building and building improvements	$ 2,139,027	$ 2,139,027
Vehicles	1,508,925	1,293,925
Corps equipment	298,955	298,955
Land and land improvements	244,097	244,097
Computer equipment	177,906	177,906
Furniture and fixtures	187,419	176,301
Total property and equipment	4,556,329	4,330,211
Less accumulated depreciation	(3,052,840)	(2,796,402)
	$ 1,503,489	$ 1,533,809

NOTE E – LINE OF CREDIT

In May 2024, the Organization entered into a $85,000 revolving line of credit with Wells Fargo Bank. The interest rate is based on the Prime rate, which was 8.0% as of October 31, 2024, plus 6.75%.

NOTE F – NOTES PAYABLE

Equipment Note: In September 2024, the Organization entered into an equipment finance agreement with First Citizens Bank to purchase a motor coach. The note payable was funded for $205,000 with a fixed interest rate of 6.40%. The agreement outlines 36 monthly installments of $6,299, including interest through maturity at October 2027. The note payable is secured by the equipment.

Term Note: In February 2015, the Organization entered into a $500,000 term note with Wells Fargo Bank. The note is secured by real property owned by the Organization. Interest will accrue at a fixed rate of 4.15%. Principal and interest payments of $5,113 are due monthly through maturity in February 2020.

In February 2020, the Organization extended the maturity date of its $500,000 term note through May 2020. All other terms of the agreement remained unchanged. In June 2020, the Organization entered into a $272,215 term note with Wells Fargo Bank to refinance the remaining balance on its $500,000 term note. The note is secured by real property owned by the Organization. Interest is accrued at a fixed rate of 4.50%. The agreement outlines 36 monthly installments of $5,033, including interest through maturity in June 2025. As of October 31, 2024, the remaining principal payment of $39,886 is due during the year ending October 31, 2025.

NOTE F – NOTES PAYABLE (CONTINUED)

Economic Injury Disaster Loan: In June 2020, the Organization obtained a $149,900 Economic Injury Disaster Loan (EIDL) with the U.S. Small Business Administration. The EIDL matures 30 years from the date of the promissory note and bears interest at a fixed 2.75% per annum. The EIDL did not require payment for the first 12 months from the promissory note date and accrued interest only on funds actually advanced from the dates of each advance. For the years ended October 31, 2024 and 2023, the balance of the EIDL was $119,617 and $110,618, respectively.

Paycheck Protection Program: In April 2020, the Organization obtained a $445,725 Paycheck Protection Program note ("PPP1 Note") with the U.S. Small Business Administration. The PPP1 Note matures 30 years from the date of the promissory note and bears interest at a fixed 1.00% per annum. The PPP1 Note did not require payment for the first 12 months from the promissory note date and accrued interest only on funds actually advanced from the dates of each advance.

In February 2021, the Organization obtained a $230,375 PPP Loan ("PPP2 Note") with the U.S. Small Business Administration. The PPP2 Note matures 30 years from the date of the promissory note and bear interest at a fixed 1.00% per annum. The PPP2 Note did not require payment for the first 12 months from the promissory note date and will accrue interest only on funds actually advanced from the dates of each advance. During April 2023, the Organization received the letter for forgiveness for PPP1 Note and PPP2 Note for the amount of $650,112.

The future principal payments for all the notes payable agreements are as follows:

Years ending October 31,		
2025	$	106,632
2026		70,881
2027		75,028
2028		4,353
2029		4,484
Thereafter		102,450
		363,828
Less current portion		(106,632)
	$	257,196

Subsequent to the year ended, the Organization entered into two finance agreements with First Citizens Bank. The first agreement was for $30,320 at a fixed interest rate of 6.45% to acquire a trailer, with 36 monthly payments of $930, including interest through maturity date of November 2027. The second agreement was for $108,876 at a fixed interest rate of 8.8% to acquire surveillance equipment, with 60 monthly payments of $2,152, including interest through maturity date of November 2029. The trailer and surveillance equipment serve as collateral for their respective notes payable.

NOTE G – COMMITMENTS

Operating Leases: The Organization leases certain equipment that qualifies as right of use operating assets under agreements expiring at various times through 2028. As of October 31, 2024, the cost of right of use operating assets and accumulated amortization totaled $113,802 and $6,652 and $9,420 and $3,089, respectively. The rent expense under the lease agreements was approximately $52,000 and $32,000 for the years ended October 31, 2024 and 2023, respectively.

The Organization also leases electronic gaming equipment and systems under an operating lease agreement. The lease was extended for an additional year, expiring on July 30, 2020. Upon expiration, the lease was moved to a month-to-month lease. Total rental expense was $10,156 and $35,781 for the years ended October 31, 2024 and 2023, respectively.

The future minimum lease payments under operating leases with terms of one year or more are as follows:

Year ending October 31,	
2025	$ 30,198
2026	30,198
2027	28,997
2028	25,795
Total future minimum lease payments	115,188
Less: interest	(8,085)
Less: current portion	(26,568)
Total minimum lease payments	$ 80,535

As of October 31, 2024 and 2023, the weighted average of remaining lease terms for these leases were 3.87 and 3.39 years, respectively, and the weighted average discount rate was 3.93 and 4.27 percent, respectively, using the risk-free rate of return.

NOTE H – ENDOWMENT FUND

The Organization's endowment consists of investments in common stocks and corporate bonds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds, including funds designated by The Board to function as endowments, also referred to as quasi-endowments, are classified and reported based on the existence or absence of donor-imposed or board-designated restrictions.

NOTE H – ENDOWMENT FUND (CONTINUED)

Interpretation of Relevant Law: The Board of the Organization has interpreted the SPMIFA 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 Organization would classify as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to a permanent endowment, and (c) accumulations to a 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 any donor-restricted endowment fund that is not classified in permanently restricted net assets would be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

Interpretation of Relevant Law (continued): In accordance with SPMIFA, the Organization would consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds should the Organization accept these types of funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Endowment Fund Composition: At October 31, 2024, the Organization’s endowment fund was composed of unrestricted net assets designated by The Board totaling $492,013 which consisted of investments (see Note D) and money market funds of $489,350 and $2,665, respectively. At October 31, 2023, the Organization’s endowment fund was composed of unrestricted net assets designated by The Board totaling $389,653, which consisted of investments and money market funds of $385,423 and $4,230, respectively.

NOTE H – ENDOWMENT FUND (CONTINUED)

Changes in Endowment Fund: The changes in the endowment fund for the years ended October 31, are as follows:

	2024	2023
Endowment fund, beginning of year	$ 389,653	$ 467,748
Investment return:		
Investment income	11,267	9,526
Net realized and unrealized loss	84,587	5,301
Total investment return	95,854	14,827
Contributions	12,000	12,000
Appropriation of endowment assets for expenditure:		
(Transfer to operating fund)	-	(100,000)
(Investment expense)	(5,492)	(4,922)
Endowment fund, end of year	$ 492,015	$ 389,653

Return Objectives and Risk Parameters: The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the Organization's operations supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by The Board, the endowment assets are invested in a manner that is intended to provide an income stream with preservation of principle. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Organization appropriates for distribution each year the income earned from its endowment fund on an as needed basis which is determined by The Board. The Organization considers the long-term expected return on its endowment. Accordingly, over the long-term, the Organization expects the current spending trend to allow its endowment to grow consistently with a preservation of principal. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as designated by The Board to provide additional real growth through contributions and investment return.