

## **Pacific Autism Center for Education**

Financial Statements  
and Other Audit Report

June 30, 2022  
(With Comparative Totals for 2021)



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Pacific Autism Center for Education  
Santa Clara, California

### **Opinion**

We have audited the accompanying financial statements of Pacific Autism Center for Education (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year 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 Pacific Autism Center for Education as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis of Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pacific Autism Center for Education and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Report on Summarized Comparative Information**

We have previously audited Pacific Autism Center for Education's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Responsibilities of Management 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, 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.



An independent firm  
associated with Moore  
Global Network Limited

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 Pacific Autism Center for Education's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's 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 auditor's 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 and *Government 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, including omissions, 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.

In performing an audit in accordance with generally accepted auditing standards and *Government 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 Pacific Autism Center for Education'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 Pacific Autism Center for Education'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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2022, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Armanino LLP".

Armanino<sup>LLP</sup>  
San Jose, California

October 3, 2022

Pacific Autism Center for Education  
Statement of Financial Position  
June 30, 2022  
(With Comparative Totals for 2021)

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,572,394	\$ 4,006,758
Restricted cash	23,229	34,042
Investments	9,599,778	9,953,746
Accounts receivable, net	1,227,791	1,005,943
Prepaid expenses and other current assets	66,260	30,735
Total current assets	15,489,452	15,031,224
Property and equipment, net	6,445,839	6,408,220
Total assets	\$ 21,935,291	\$ 21,439,444
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 57,861	\$ 68,334
Accrued expenses	638,306	555,252
Custodial liability	23,229	34,042
Refundable advances - PPP	-	1,350,725
Current portion of notes payable	79,532	91,185
Total current liabilities	798,928	2,099,538
Long-term notes payable, net	3,342,584	3,524,678
Total liabilities	4,141,512	5,624,216
Net assets		
Without donor restrictions	16,996,500	15,008,452
With donor restrictions	797,279	806,776
Total net assets	17,793,779	15,815,228
Total liabilities and net assets	\$ 21,935,291	\$ 21,439,444

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

Pacific Autism Center for Education  
Statement of Activities  
For the Year Ended June 30, 2022  
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Revenue and support				
Educational	\$ 7,592,874	\$ -	\$ 7,592,874	\$ 6,667,160
Residential	3,128,715	-	3,128,715	3,375,729
Government grant - PPP	1,350,725	-	1,350,725	380,415
Events income, net	587,372	-	587,372	214,949
SSI revenue	400,904	-	400,904	419,673
Grants and contributions	182,660	18,358	201,018	328,559
Adult day revenue	175,410	-	175,410	166,993
Contributions in-kind	13,364	-	13,364	23,182
Other income	7,015	-	7,015	5,524
Investment income (loss), net	(1,578,486)	-	(1,578,486)	1,549,997
Net assets released from restriction	<u>27,855</u>	<u>(27,855)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>11,888,408</u>	<u>(9,497)</u>	<u>11,878,911</u>	<u>13,132,181</u>
Functional expenses				
Program services				
Educational	4,607,499	-	4,607,499	4,084,420
FACES	723,862	-	723,862	536,087
Adult Day Program	257,663	-	257,663	236,102
Residential	<u>3,163,225</u>	<u>-</u>	<u>3,163,225</u>	<u>3,220,801</u>
Total program services	<u>8,752,249</u>	<u>-</u>	<u>8,752,249</u>	<u>8,077,410</u>
Support services				
Management and general	839,227	-	839,227	598,615
Fundraising	<u>308,884</u>	<u>-</u>	<u>308,884</u>	<u>297,557</u>
Total support services	<u>1,148,111</u>	<u>-</u>	<u>1,148,111</u>	<u>896,172</u>
Total functional expenses	<u>9,900,360</u>	<u>-</u>	<u>9,900,360</u>	<u>8,973,582</u>
Change in net assets	1,988,048	(9,497)	1,978,551	4,158,599
Net assets, beginning of year	<u>15,008,452</u>	<u>806,776</u>	<u>15,815,228</u>	<u>11,656,629</u>
Net assets, end of year	<u>\$ 16,996,500</u>	<u>\$ 797,279</u>	<u>\$ 17,793,779</u>	<u>\$ 15,815,228</u>

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

Pacific Autism Center for Education  
Statement of Functional Expenses  
For the Year Ended June 30, 2022  
(With Comparative Totals for 2021)

	Educational	FACES	Adult Day Program	Residential	Total Program Services	Management and General	Fundraising	Total Support Services	2022 Total	2021 Total
Personnel expenses										
Salaries and wages	\$ 3,123,432	\$ 584,377	\$ 206,160	\$ 2,125,179	\$ 6,039,148	\$ 511,179	\$ 180,334	\$ 691,513	\$ 6,730,661	\$ 6,033,334
Employee benefits and taxes	609,497	97,439	40,925	379,802	1,127,663	119,005	31,467	150,472	1,278,135	1,172,496
Total personnel expenses	<u>3,732,929</u>	<u>681,816</u>	<u>247,085</u>	<u>2,504,981</u>	<u>7,166,811</u>	<u>630,184</u>	<u>211,801</u>	<u>841,985</u>	<u>8,008,796</u>	<u>7,205,830</u>
Occupancy	368,345	474	47	151,047	519,913	97,550	4,827	102,377	622,290	643,479
Independent contractors	76,094	156	281	175,881	252,412	17,032	52,205	69,237	321,649	237,160
Event expenses included in event income	-	-	-	-	-	-	283,118	283,118	283,118	43,669
Depreciation	117,535	-	-	56,417	173,952	4,986	4,985	9,971	183,923	173,037
Food	241	40	5,377	131,854	137,512	-	-	-	137,512	140,839
Professional services	39,862	17,094	597	20,400	77,953	53,316	4,378	57,694	135,647	113,034
Program expenses	68,077	1,924	1,759	16,164	87,924	-	-	-	87,924	67,277
Vehicle expenses	46,974	-	754	16,451	64,179	-	-	-	64,179	31,270
Employee welfare	33,687	4,891	826	14,502	53,906	7,211	1,938	9,149	63,055	52,134
Personal and incidental	-	-	-	50,238	50,238	-	-	-	50,238	62,233
Furniture and equipment	34,832	2,940	-	8,943	46,715	2,648	256	2,904	49,619	59,192
Telephone	25,114	1,671	646	921	28,352	6,138	1,115	7,253	35,605	24,605
Office supplies	26,772	120	-	221	27,113	3,774	1,676	5,450	32,563	38,443
Advertising	13,360	5,141	11	6,799	25,311	5,660	23	5,683	30,994	32,808
Bank charges	16	281	-	-	297	1,123	16,734	17,857	18,154	9,388
Dues and subscriptions	6,146	505	36	4,179	10,866	5,761	1,437	7,198	18,064	18,375
Staff development	12,004	2,211	-	37	14,252	185	865	1,050	15,302	32,138
Licenses and fees	5,280	2,200	244	4,190	11,914	1,874	-	1,874	13,788	12,008
Annual campaign expenses	-	-	-	-	-	-	6,206	6,206	6,206	5,647
Postage	48	7	-	-	55	1,333	234	1,567	1,622	2,757
Mileage	289	374	-	-	663	354	70	424	1,087	370
Meetings and conferences	724	159	-	-	883	41	134	175	1,058	862
Bad debts	(1,134)	1,858	-	-	724	57	-	57	781	123
Contributions	284	-	-	-	284	-	-	-	284	-
Transportation	20	-	-	-	20	-	-	-	20	79
Loss on disposal of property and equipment	-	-	-	-	-	-	-	-	-	10,494
Total	<u>4,607,499</u>	<u>723,862</u>	<u>257,663</u>	<u>3,163,225</u>	<u>8,752,249</u>	<u>839,227</u>	<u>592,002</u>	<u>1,431,229</u>	<u>10,183,478</u>	<u>9,017,251</u>
Event expenses included in event income	-	-	-	-	-	-	(283,118)	(283,118)	(283,118)	(43,669)
	<u>\$ 4,607,499</u>	<u>\$ 723,862</u>	<u>\$ 257,663</u>	<u>\$ 3,163,225</u>	<u>\$ 8,752,249</u>	<u>\$ 839,227</u>	<u>\$ 308,884</u>	<u>\$ 1,148,111</u>	<u>\$ 9,900,360</u>	<u>\$ 8,973,582</u>
Percentage of total	<u>47 %</u>	<u>7 %</u>	<u>3 %</u>	<u>32 %</u>	<u>89 %</u>	<u>8 %</u>	<u>3 %</u>	<u>11.0 %</u>	<u>100 %</u>	

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



Pacific Autism Center for Education  
Statement of Cash Flows  
For the Year Ended June 30, 2022  
(With Comparative Totals for 2021)

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 1,978,551	\$ 4,158,599
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	183,923	173,037
Amortization of debt issuance costs	3,068	-
Loss on disposal of property and equipment	-	10,494
Net realized and unrealized (gains) losses on investments	2,033,768	(1,431,748)
Changes in operating assets and liabilities		
Accounts receivable, net	(221,848)	606,897
Prepaid expenses and other current assets	(35,525)	30,072
Accounts payable	(10,473)	(183,722)
Accrued expenses	83,054	(117,613)
Deferred revenue	-	(27,500)
Custodial liability	(10,813)	5,769
Refundable advances - PPP loans	(1,350,725)	970,310
Net cash provided by operating activities	2,652,980	4,194,595
Cash flows from investing activities		
Purchases of property and equipment	(221,542)	(21,794)
Proceeds from sale of equipment	-	4,596
Purchases of investments	(3,727,246)	(5,208,718)
Proceeds from sale of investments	2,047,446	2,986,602
Net cash used in investing activities	(1,901,342)	(2,239,314)
Cash flows from financing activities		
Principal payments on note payable with Wells Fargo Bank	(3,615,863)	(492,390)
Proceeds from note payable with First Republic Bank	3,600,000	-
Payment of debt issuance costs related to note payable with First Republic Bank	(122,534)	-
Principal payments on note payable with First Republic Bank	(58,418)	-
Net cash used in financing activities	(196,815)	(492,390)
Net increase in cash, cash equivalents and restricted cash	554,823	1,462,891
Cash, cash equivalents and restricted cash, beginning of year	4,040,800	2,577,909
Cash, cash equivalents and restricted cash, end of year	\$ 4,595,623	\$ 4,040,800
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 4,572,394	\$ 4,006,758
Restricted cash	23,229	34,042
	\$ 4,595,623	\$ 4,040,800

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 109,708	\$ 151,805
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The accompanying notes are an integral part of these financial statements.

Pacific Autism Center for Education  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

1. NATURE OF OPERATIONS

Pacific Autism Center for Education ("PACE" or the "Organization") is a non-profit public benefit corporation. PACE provides residential and educational services to autistic and developmentally disabled children and adults throughout Northern California.

2. PROGRAM SERVICES

The following program services are included in the accompanying financial statements:

Educational

The educational program operates a school for persons with autism and related developmental disabilities, serving students 3 to 22 years of age. The teaching philosophy is based on a child-centered approach, allowing each child to work on his/her specific learning needs by utilizing their strengths and interests. Students experience an age appropriate academic curriculum, taught individually and in small groups and the full-time, on-site, occupational, speech and language therapists play an integral part in the design and implementation of the program. Additionally, the three-step vocational and independent life skills program prepares students to achieve independence and workplace success in the future.

FACES

FACES's mission is to enable children with autism to reach their full potential by providing the community a resource for early intervention therapies (ages 2-10), services for adolescents with autism (ages 11-22), and community awareness of childhood autistic disorders.

Residential

The residential program consists of two group homes for children in Cupertino and four group homes for adults in Sunnyvale and San Jose. The clients residing in the group homes are individuals with disabilities, which include autism and various related developmental disabilities. In the group homes, clients are taught daily living skills and the appropriate social behavior. They spend time in the community on outings such as grocery shopping, roller-skating, camping and much more.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

Pacific Autism Center for Education  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial statement presentation

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. The Organization reports its financial position and operating activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- *Net assets without donor restrictions* - Net assets not subject to donor imposed stipulations.
  
- *Net assets with donor restrictions* - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization, and/or the passage of time, or are maintained in perpetuity by the Organization. When the donor-imposed stipulation ends or the Organization satisfies an action, the Organization reclassifies net assets with donor restrictions to net assets without donor restrictions. Donor-imposed stipulations which are met in the same reporting period are reported as net assets without donor restrictions.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue, support, and expenses during the period. Accordingly, actual results could differ from those estimates.

Comparative financial information

The 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 U.S. GAAP. Accordingly, such information should be read in conjunction with PACE's financial statements for the year ended June 30, 2021 from which the summarized information was derived.

Cash and cash equivalents

Cash equivalents include highly liquid investments and investments with an original maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. PACE maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. PACE has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Pacific Autism Center for Education  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted cash

Restricted cash consists of cash totaling \$23,229 and \$34,042 as of June 30, 2022 and 2021, respectively, held by PACE on behalf of the residents living in group homes restricted for personal spending.

Accounts receivable, net

PACE computes the allowance for doubtful accounts based on actual uncollectible accounts receivable. An allowance for doubtful accounts is set to be equal to the accounts still considered collectible, but are over two years old. Allowance for doubtful accounts as of June 30, 2022 and 2021 was \$0 and \$1,134, respectively.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the change in net assets.

Fair value measurements

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of PACE. Unobservable inputs reflect PACE's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Pacific Autism Center for Education  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 30 years. Equipment purchases over \$5,000 are capitalized. Depreciation is recorded as a decrease in unrestricted net assets and the expense is charged to the activity benefiting from the use of the facilities or equipment. Amounts expended for maintenance and repairs are charged to operations as incurred.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2022 and 2021. The accrued vacation balance as of June 30, 2022 and 2021 was \$198,233 and \$198,142, respectively, and is included in "accrued expenses" on the statement of financial position.

Deferred revenue

Deferred revenue consists of PACE BARER and Classic golf tournament event fees received in advance of the event. Revenue is recognized in the year the event occurs.

Revenue recognition

Revenue consists primarily of educational and residential activities. Education revenue is derived from local school districts and other state agencies and is recognized over the period attended by the student. Adult day revenue is primarily comprised of a direct service rate for Supported Living Services (SLS). Residential revenue is derived from a combined rate that is comprised of three components, monthly rate, SSI (Supplemental Security Income) revenue, and Personal and Incidental, from various regional centers and is based on monthly attendance in the group home. The majority of the PACE's program revenue arrangements consist of a single performance obligation to transfer promised services.

The Organization follows the following steps to determine revenue recognition:

- Identifying the contract(s) with a customer,
- Identifying the performance obligations in the contract(s),

Pacific Autism Center for Education  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- Determining the transaction price,
- Allocating the transaction price to the performance obligations in the contract(s), and
- Recognizing revenue when, or as, the Organization satisfies a performance obligation

Contributions

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as with or without donor restrictions, depending on the nature of donor restrictions. Restricted contributions are reported as increases in net assets with donor restrictions. When the restriction is met the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions. Restricted contributions, where restrictions are met in the same period as the donation is made, is shown as additions to contributions without donor restrictions.

Contributions that are considered conditional promises to give which contain barriers and a right of return or right of release are not recognized until the conditions on which they depend are substantially met, at which time, the gift is recognized as either grants and contributions revenue with or without restriction.

Contributions in-kind

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation. Donated materials are reflected in the financial statements at fair value based on the estimated purchase price of similar items. Donations of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Contributions in-kind consisted of the following:

	2022	2021
Materials	\$ 13,364	\$ 23,182

Donated materials were used for educational activities and events.

Pacific Autism Center for Education  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expenses

The costs of providing for PACE's various programs and support services have been summarized on a functional basis in the statement of activities and are based on actual cost, when available, or on salaries, head counts, or square footage, whichever is most appropriate. Expenses such as worker's compensation insurance, and cyber insurance expenses are allocated across all departments based on percentages estimated by management, janitorial and copy/print expense are allocated among the three departments that use the services the most based on percentages estimated by management. Accordingly, certain costs have been allocated among the programs and support services benefited.

Debt issuance costs

Debt issuance costs are amortized over the life of the mortgage loan. The Organization presents debt issuance costs as a reduction of the carrying amount of the related debt rather than as an asset. See Note 6.

Advertising costs

Advertising costs are charged to operations when incurred. Advertising costs were \$30,994 and \$32,808 for the years ended June 30, 2022 and 2021, respectively.

Income taxes

Pacific Autism Center for Education is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements.

U.S. GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by PACE in its federal and state exempt organization tax returns are more-likely-than-not to be sustained upon examination.

Subsequent events

Management of PACE has evaluated events and transactions subsequent to June 30, 2022 for potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2022. Subsequent events have been evaluated through the date the financial statements became available to be issued, October 3, 2022.

Pacific Autism Center for Education  
Notes to Financial Statements  
June 30, 2022  
(With Comparative Totals for 2021)

4. INVESTMENTS

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2022. The Organization did not have any liabilities measured at fair value on a recurring basis as of June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equities	\$ 5,854,284	\$ -	\$ -	\$ 5,854,284
Fixed income	<u>-</u>	<u>3,745,494</u>	<u>-</u>	<u>3,745,494</u>
	<u>\$ 5,854,284</u>	<u>\$ 3,745,494</u>	<u>\$ -</u>	<u>\$ 9,599,778</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equities	\$ 6,083,114	\$ -	\$ -	\$ 6,083,114
Fixed income	<u>-</u>	<u>3,870,632</u>	<u>-</u>	<u>3,870,632</u>
	<u>\$ 6,083,114</u>	<u>\$ 3,870,632</u>	<u>\$ -</u>	<u>\$ 9,953,746</u>

Investment income (loss), net consisted of the following:

	<u>2022</u>	<u>2021</u>
Interest, dividends and capital gains	\$ 506,018	\$ 154,980
Net realized and unrealized gains (losses)	(2,033,768)	1,431,748
Management fees	<u>(50,736)</u>	<u>(36,731)</u>
	<u>\$ (1,578,486)</u>	<u>\$ 1,549,997</u>



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5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

	2022	2021
Land	\$ 4,335,417	\$ 4,335,417
Buildings	3,790,234	3,753,755
Vehicles	653,595	653,595
Buildings improvements	651,722	521,232
Land improvements	261,414	223,238
Machinery and equipment	78,902	67,368
Furniture	3,790	29,407
Computers and software	16,060	16,060
	9,791,134	9,600,072
Accumulated depreciation	(3,345,295)	(3,191,852)
	\$ 6,445,839	\$ 6,408,220

Depreciation expense was \$183,923 and \$173,037 for the years ended June 30, 2022 and 2021, respectively.

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6. NOTES PAYABLE

Notes payable are detailed as follows:

	2022	2021
Note payable to Wells Fargo Bank, a tax exempt bond, is comprised of two components. The fixed rate component of 3.82% is determined based on bank SWAP rates, and the variable rate component is adjusted relative to LIBOR, monthly principal payments, at approximately 0.18%, due December 2025, secured by real properties. Monthly principal payments for the year ended June 30, 2022 were \$11,058. The note was paid off in September 2021.	\$ -	\$ 3,615,863
Note payable to First Republic Bank, dated September 1, 2021, with a fixed interest rate of 2.75%. The note is due September 2051 with a monthly payment of \$14,773, secured by real properties.	3,541,582	-
Less unamortized debt issuance costs	(119,466)	-
Current portion	3,422,116	3,615,863
	(79,532)	(91,185)
	\$ 3,342,584	\$ 3,524,678

Debt issuance costs of \$122,534 incurred in obtaining the note payable to First Republic Bank is amortized on the straight-line method over the 30-year life of the loan. Amortization of debt issuance costs for the year ended June 30, 2022 was \$3,068.

The future maturities of the note payable are as follows:

<u>Year ending June 30,</u>	
2023	\$ 79,533
2024	81,516
2025	84,081
2026	86,455
2027	88,897
Thereafter	3,121,100
	\$ 3,541,582

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7. REFUNDABLE ADVANCES - PAYCHECK PROTECTION PROGRAM (PPP) LOANS

The Organization was granted two loans under promissory notes issued by Wells Fargo Bank, under the Paycheck Protection Program ("PPP") which was established under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, and is administered by the U.S. Small Business Administration ("SBA"). On May 3, 2020, the Organization received its first round of funding for \$380,415 and on May 3, 2021, the Organization received its second round of funding for \$1,350,725. The terms of the loans are five years and the interest rate is 1%. 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 the 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 Organization has recognized the first PPP loan as government grant - PPP in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed and formal approval of forgiveness from the bank / SBA was received. The Organization recognized \$380,415 as government grant - PPP revenue on the accompanying statement of activities for the year ended June 30, 2021 based on the formal approval of forgiveness by the bank / SBA on May 14, 2021. The Organization has recorded the second PPP loan for \$1,350,725 as a refundable advance - PPP loan on the accompanying statement of financial position as of June 30, 2021. The Organization recognized \$1,350,725 as government grant - PPP revenue on the accompanying statement of activities for the year ended June 30, 2022 based on the formal approval of forgiveness by the bank/ SBA on June 8, 2022.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2022	2021
Educational	\$ 572,273	\$ 583,905
FACES	118,636	118,636
Administration	47,402	47,473
Vocational	40,860	40,860
Fundraising	18,108	-
Residential	-	15,902
	\$ 797,279	\$ 806,776

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8. NET ASSETS WITH DONOR RESTRICTIONS (continued)

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

	2022	2021
Educational	\$ 11,882	\$ 26,683
Residential	15,902	-
Administration	71	332
Fundraising	-	2,170
	\$ 27,855	\$ 29,185

9. COMMITMENTS AND CONTINGENCIES

Contingencies

PACE has received state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, in the opinion of management any required reimbursements will not be material.

PACE receives a substantial amount of its support from local school districts and other state agencies. A significant reduction in the level of support, if this were to occur, may have an effect on the Organization's operations and activities.

Operating leases

PACE leases school space and office equipment under operating leases. The school space expires in June 2024. The office equipment expire between July 2023 to March 2024.

Future maturities of operating lease obligations are as follows:

<u>Year ending June 30,</u>	
2023	\$ 138,821
2024	123,786
	\$ 262,607

Rent expense under the school space lease for the fiscal years ended June 30, 2022 and 2021 was \$105,724 and \$115,267, respectively.

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10. RETIREMENT PLAN

The Organization has a defined contribution retirement plan ("Plan") under Section 403(b) of the Internal Revenue Code. PACE provides a payroll deduction plan under Internal Revenue Code section 403(b). Full-time employees may elect to participate after six months of service. Each participating employee declares an amount of pretax compensation to be withheld by PACE, who in turn deposits the withholdings into a personal tax-deferred annuity.

11. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of PACE's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Short-term receivables consist of accounts receivable expected to be received within one year from June 30, 2022. Short-term receivables without donor restrictions will be available to support general operations of PACE.

The following is a quantitative disclosure of financial assets as of June 30, 2022 and 2021 available to fund general expenditures and obligations within one year from June 30, 2022 and 2021:

	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 4,572,394	\$ 4,006,758
Investments	9,599,778	9,953,746
Accounts receivable, net	1,227,791	1,005,943
	15,399,963	14,966,447
Less: amounts unavailable for general expenditures within one year:		
Net assets with donor restrictions	(797,279)	(806,776)
	\$ 14,602,684	\$ 14,159,671

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12. RISKS AND UNCERTAINTIES

During the COVID-19 pandemic, PACE's services have generally been considered essential in nature and have not been materially interrupted. PACE has adapted to current and ongoing pandemic concerns by developing an educational platform that can quickly pivot between on-site and distance learning requirements on an individual student basis so as to not adversely impact the educational support levels for each student and subsequently maintain stabilized revenue funding. As the situation continues to evolve, the Organization is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business, including how it impacts the Organization's patients, vendors, employees and ability to provide services. The Organization believes, the ultimate impact of the COVID-19 pandemic on its program services and financial conditions is likely to be determined by factors which are uncertain, unpredictable and outside of its control. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially adversely impact PACE.

OTHER AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Pacific Autism Center for Education  
Santa Clara, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pacific Autism Center for Education (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 3, 2022.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.



## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armanino<sup>LLP</sup>  
San Jose, California

October 3, 2022