

# LOS CABOS CHILDREN'S FOUNDATION

Financial Statements  
With Independent Auditors' Report

June 30, 2022

# LOS CABOS CHILDREN'S FOUNDATION

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Los Cabos Children's Foundation  
Eagan, Minnesota

### ***Opinion***

We have audited the accompanying financial statements of Los Cabos Children's Foundation (LCCF), 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 Los Cabos Children's Foundation 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 for Opinion***

We conducted our audit 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 Audit of the Financial Statements section of our report. We are required to be independent of Los Cabos Children's Foundation 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.

### ***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.

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 Los Cabos Children's Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Board of Directors  
Los Cabos Children's Foundation  
Eagan, Minnesota

***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.

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 Los Cabos Children's Foundation'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 Los Cabos Children's Foundation'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.

*Capin Crouse LLP*

Indianapolis, Indiana  
February 20, 2023

# LOS CABOS CHILDREN'S FOUNDATION

## Statement of Financial Position

June 30, 2022

### ASSETS:

|                                |                |
|--------------------------------|----------------|
| Cash and cash equivalents      | \$ 407,188     |
| Restricted cash - fiscal agent | 30,228         |
| Restricted cash - endowment    | <u>150,000</u> |
|                                | 587,416        |
| Investments                    | 1,273,573      |
| Promises to give, net          | 50,000         |
| Property and equipment, net    | <u>1,272</u>   |

Total Assets \$ 1,912,261

### LIABILITIES AND NET ASSETS:

#### Liabilities:

|                      |               |
|----------------------|---------------|
| Accounts payable     | \$ 14,160     |
| Grant payable        | 9,611         |
| Fiscal agent payable | 30,228        |
| Accrued expenses     | <u>8,746</u>  |
| Total liabilities    | <u>62,745</u> |

#### Net assets:

|                            |                  |
|----------------------------|------------------|
| Without donor restrictions | 1,585,414        |
| With donor restrictions    | <u>264,102</u>   |
| Total net assets           | <u>1,849,516</u> |

Total Liabilities and Net Assets \$ 1,912,261

See notes to financial statements

# LOS CABOS CHILDREN'S FOUNDATION

## Statement of Activities

Year Ended June 30, 2022

|  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total        |
|--|-------------------------------|----------------------------|--------------|
| <b>SUPPORT AND REVENUE:</b>            |                               |                            |              |
| Contributions                          | \$ 347,869                    | \$ 132,132                 | \$ 480,001   |
| Contributed nonfinancial assets        | 284,454                       | -                          | 284,454      |
| Gross special events revenue           | 1,445,679                     | -                          | 1,445,679    |
| Less cost of direct benefits to donors | (84,162)                      | -                          | (84,162)     |
| Net special events revenue             | 1,361,517                     | -                          | 1,361,517    |
| Investment income, net                 | 2,098                         | -                          | 2,098        |
| Loss on foreign currency exchange      | (38,945)                      | -                          | (38,945)     |
| Total Support and Revenue              | 1,956,993                     | 132,132                    | 2,089,125    |
| <b>RECLASSIFICATIONS:</b>              |                               |                            |              |
| Net assets released from restrictions  | 280,287                       | (280,287)                  | -            |
| <b>EXPENSES:</b>                       |                               |                            |              |
| Program services                       | 1,191,645                     | -                          | 1,191,645    |
| Supporting services:                   |                               |                            |              |
| Management and general                 | 133,017                       | -                          | 133,017      |
| Fundraising                            | 369,635                       | -                          | 369,635      |
| Total Expenses                         | 1,694,297                     | -                          | 1,694,297    |
| Change in Net Assets                   | 542,983                       | (148,155)                  | 394,828      |
| Net Assets, Beginning of Year          | 1,042,431                     | 412,257                    | 1,454,688    |
| Net Assets, End of Year                | \$ 1,585,414                  | \$ 264,102                 | \$ 1,849,516 |

See notes to financial statements

# LOS CABOS CHILDREN'S FOUNDATION

## Statement of Functional Expenses

Year Ended June 30, 2022

|  | Program<br>Services | Supporting Activities     |                   |                                | TOTAL               |
|--|---------------------|---------------------------|-------------------|--------------------------------|---------------------|
|  |                     | Management and<br>General | Fundraising       | Total Supporting<br>Activities |                     |
| Grant expense  | \$ 871,153          | \$ -                      | \$ -              | \$ -                           | \$ 871,153          |
| Salaries and wages   | 183,718             | 23,486                    | 96,796            | 120,282                        | 304,000             |
| Contributed goods and services<br>for special events auction | -                   | -                         | 252,873           | 252,873                        | 252,873             |
| Professional fees  | 50,859              | 103,291                   | 2,965             | 106,256                        | 157,115             |
| Communication and design tools                               | 7,107               | -                         | 12,944            | 12,944                         | 20,051              |
| Office supplies and rent                                     | 9,680               | 5,301                     | 59                | 5,360                          | 15,040              |
| Training   | 11,049              | -                         | -                 | -                              | 11,049              |
| Travel   | 3,969               | -                         | 977               | 977                            | 4,946               |
| Marketing and advertising                                    | -                   | -                         | 2,351             | 2,351                          | 2,351               |
| Other  | 54,110              | 939                       | 84,832            | 85,771                         | 139,881             |
|  | <u>1,191,645</u>    | <u>133,017</u>            | <u>453,797</u>    | <u>586,814</u>                 | <u>1,778,459</u>    |
| Less: cost of direct benefits to donors                      | -                   | -                         | (84,162)          | (84,162)                       | (84,162)            |
| Total Expenses on Statement of Activities                    | <u>\$ 1,191,645</u> | <u>\$ 133,017</u>         | <u>\$ 369,635</u> | <u>\$ 502,652</u>              | <u>\$ 1,694,297</u> |

See notes to financial statements

# LOS CABOS CHILDREN'S FOUNDATION

## Statement of Cash Flows

Year Ended June 30, 2022

### CASH FLOWS FROM OPERATING ACTIVITIES:

|   |    |                |
|---|----|----------------|
| Change in net assets  | \$ | 394,828        |
| Adjustments to reconcile change in net assets<br>to net cash provided (used) by operating activities: |    |                |
| Depreciation  |    | 939            |
| Net realized gain on investments  |    | (2,098)        |
| Gain on change in discount on promises to give, net   |    | (6,649)        |
| Changes in:   |    |                |
| Promises to give, net   |    | 100,000        |
| Accounts payable  |    | (31,123)       |
| Grant payable   |    | (6,914)        |
| Fiscal agent payable  |    | (55,681)       |
| Accrued expenses  |    | 8,746          |
| Net Cash Provided by Operating Activities   |    | <u>402,048</u> |

### CASH FLOWS FROM INVESTING ACTIVITIES:

|                                       |  |                  |
|---------------------------------------|--|------------------|
| Purchases of investments              |  | (209,276)        |
| Purchases of property and equipment   |  | <u>(1,571)</u>   |
| Net Cash Used by Investing Activities |  | <u>(210,847)</u> |

|  |    |                       |
|--|----|-----------------------|
| Change in Cash, Cash Equivalents, and Restricted Cash          |    | 191,201               |
| Cash, Cash Equivalents, and Restricted Cash, Beginning of Year |    | <u>396,215</u>        |
| Cash, Cash Equivalents, and Restricted Cash, End of Year       | \$ | <u><u>587,416</u></u> |

See notes to financial statements



# LOS CABOS CHILDREN'S FOUNDATION

## Notes to Financial Statements

June 30, 2022

### 1. NATURE OF ORGANIZATION:

Los Cabos Children's Foundation (LCCF) is a nonprofit organization established to assist children by providing medical, educational, and humanitarian assistance in the Los Cabos area and in the United States.

LCCF is organized as a South Dakota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). LCCF is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, LCCF is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. LCCF has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

LCCF believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. LCCF would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### 2. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the statements to the reader. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; 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.

#### CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

LCCF considers all highly liquid investments with a maturity of three months or less, and which are neither held as the fiscal agent nor restricted by donors for long-term purposes, to be cash and cash equivalents. As of June 30, 2022, approximately \$337,200 was not covered by FDIC insurance.

#### INVESTMENTS

LCCF records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at fair value in the statement of financial position. Net investment return is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees. As of June 30, 2022, all investments were held at cost value.

# LOS CABOS CHILDREN'S FOUNDATION

## Notes to Financial Statements

June 30, 2022

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### PROMISES TO GIVE, NET

LCCF records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At June 30, 2022, the allowance and the discount was \$0 as all promises to give are due and expected to be collected within one year of the statement of financial position date. At June 30, 2022, one donor accounted for 100% of the total promises to give.

#### PROPERTY AND EQUIPMENT, NET

Purchases of property and equipment are capitalized at cost. Donated assets are capitalized at their fair market value on the date of the gift. Donations of property and equipment without donor-imposed restrictions are recorded as net assets without donor restrictions in the year of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally ranging from three to five years. Asset purchases under \$500 and expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense for the year ending June 30, 2022, was \$939.

#### GRANT PAYABLE

LCCF makes grants to certain charitable organizations within Los Cabos and the surrounding area that complement their mission to assist children by providing medical, educational, and humanitarian assistance in the Los Cabos area. LCCF recognizes grants as expenses at the time recipients are entitled to receive them. Generally, this occurs when the board of directors approves a specific grant, or when management, pursuant to grant-authorization policies established by the board of directors, approves a grant. Unconditional grants approved but not yet disbursed are reported as grants payable in the statement of financial position. Conditional grants approved but contingent upon fulfillment of certain specified conditions by the grantee are not recorded until the conditions have been met.

# LOS CABOS CHILDREN'S FOUNDATION

## Notes to Financial Statements

June 30, 2022

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### NET ASSETS

The financial statements report amounts by classification of net assets:

- *Net assets without donor restrictions* include net assets that are currently available for operational purposes under the direction of the board.
- *Net assets with donor restrictions* are those funds with donor stipulations for specific operating purposes or programs, including those not currently available for use until commitments regarding their use have been fulfilled.

#### CONTRIBUTIONS

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been met.

LCCF reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

#### CONTRIBUTED NONFINANCIAL ASSETS

Volunteers contribute significant amounts of time to LCCF's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. LCCF records donated professional services at the respective fair values of the services received (see Note 8).

#### CONCENTRATION OF SUPPORT RISK

LCCF is supported by contributions from the public. It is always considered reasonably possible that contributors might be lost in the near term. In the year ended June 30, 2022, no individual contributors contributed more than 10% of total contributions.

# LOS CABOS CHILDREN'S FOUNDATION

## Notes to Financial Statements

June 30, 2022

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### EXPENSES, ADVERTISING AND JOINT COSTS

Expenses are recorded when incurred and reported on the functional basis on the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. All expenses are coded directly to each function, except for payroll expenses that are allocated based upon management's estimate of time and effort. For the year ended June 30, 2022, LCCF incurred \$2,351 in advertising costs. LCCF incurred no joint costs for the year ended June 30, 2022.

#### ADOPTION OF NEW ACCOUNTING STANDARDS

Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure.

### 3. LIQUIDITY AND FUNDS AVAILABLE:

The following reflects LCCF's financial assets, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of June 30, 2022.

#### Financial assets:

|                               |                  |
|-------------------------------|------------------|
| Cash                          | \$ 587,416       |
| Investments                   | 1,273,573        |
| Promises to give, net         | 50,000           |
| Financial assets, at year end | <u>1,910,989</u> |

#### Less those unavailable for general expenditures within one year, due to:

|                              |                 |
|------------------------------|-----------------|
| Cash - fiscal agent          | (30,228)        |
| Cash - endowment             | (150,000)       |
| Donor restricted for purpose | (64,102)        |
| Donor restricted for time    | <u>(50,000)</u> |

#### Financial assets available to meet cash needs for general expenditures within one year

\$ 1,616,659

LCCF strives to maintain liquid financial assets enough to cover twelve months of general expenditures. Financial assets in excess of monthly cash requirements are invested in money markets, treasury bonds, or other short-term investments.

# LOS CABOS CHILDREN'S FOUNDATION

## Notes to Financial Statements

June 30, 2022

4. INVESTMENTS:

LCCF's investments are as follows as of June 30, 2022:

Held at cost:

|                        |              |
|------------------------|--------------|
| Cash and money markets | \$ 1,273,573 |
|------------------------|--------------|

Investment returns for the year ended June 30, 2022, are summarized as follows:

|                           |          |
|---------------------------|----------|
| Interest and dividends    | \$ 1,497 |
| Realized gains            | 601      |
|                           | <hr/>    |
| Total investment earnings | \$ 2,098 |

5. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following as of June 30, 2022:

|                          |          |
|--------------------------|----------|
| Office equipment         | \$ 6,223 |
| Accumulated depreciation | (4,951)  |
|                          | <hr/>    |
|                          | \$ 1,272 |

6. NET ASSETS:

Net assets with donor restrictions consist of the following as of June 30, 2022:

Net assets with donor restrictions—purpose:

|               |           |
|---------------|-----------|
| Special cases | \$ 32,418 |
| COVID-19      | 21,169    |
| Other         | 10,515    |
|               | <hr/>     |
|               | 64,102    |

Net assets with donor restrictions—timing:

|                       |        |
|-----------------------|--------|
| Promises to give, net | 50,000 |
|-----------------------|--------|

Net assets with donor restrictions—endowment:

|         |
|---------|
| 150,000 |
|---------|

|            |
|------------|
| <hr/>      |
| \$ 264,102 |

# LOS CABOS CHILDREN'S FOUNDATION

## Notes to Financial Statements

June 30, 2022

### 7. ENDOWMENT FUNDS:

LCCF's endowment funds consist of a donor restricted endowment fund. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of LCCF has interpreted the South Dakota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2022, there were no such donor stipulations. As a result of this interpretation, LCCF retains in perpetuity (a) the original value of the initial and subsequent gifts donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

# LOS CABOS CHILDREN'S FOUNDATION

## Notes to Financial Statements

June 30, 2022

7. ENDOWMENT FUNDS, continued:

The following summarizes endowment net assets at June 30, 2022:

|  | Without<br>Donor<br>Restrictions | With<br>Donor<br>Restrictions | Total      |
|--|----------------------------------|-------------------------------|------------|
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | \$ -                             | \$ 150,000                    | \$ 150,000 |

LCCF is in the process of setting up investment policies including planned spending policies as it relates to the endowed funds.

The following summarizes the change in endowment net assets for the year ended June 30, 2022:

|   | Without<br>Donor<br>Restrictions | With<br>Donor<br>Restrictions | Total      |
|---|----------------------------------|-------------------------------|------------|
| Endowment net assets, beginning of year | \$ -                             | \$ 100,000                    | \$ 100,000 |
| Contributions to endowment              | -                                | 50,000                        | 50,000     |
| Endowment net assets, end of year       | \$ -                             | \$ 150,000                    | \$ 150,000 |

8. CONTRIBUTED NONFINANCIAL ASSETS:

LCCF received various donated nonfinancial assets as follows during the year ended June 30, 2022:

|                                  |            |
|----------------------------------|------------|
| Entertainment                    | \$ 131,461 |
| Travel                           | 67,414     |
| Food and beverage                | 34,800     |
| Professional fees and consulting | 28,800     |
| Medical                          | 1,946      |
| Rent                             | 835        |
| Other                            | 19,198     |
|                                  | \$ 284,454 |

LCCF values the donated nonfinancial assets at fair value on the date of donation. Many of the contributed assets are donated as a part of the auction that LCCF holds each year for fundraising purposes. Each item donated is recorded at the final auction price. Professional fees and consulting are valued based on the rate charged per hour to other clients. All donated items are used to further the programmatic mission of LCCF. \$153,200 was monetized during their auction.

# LOS CABOS CHILDREN'S FOUNDATION

## Notes to Financial Statements

June 30, 2022

9. OPERATING LEASES:

LCCF is obligated on a lease to rent its office space. Rent expense under the lease for the year ended June 30, 2022, was approximately \$7,000. The outstanding agreement for rent expense expires in June 2024.

LCCF has committed the following payments for non-cancelable operating leases as follows:

| <u>Year Ending June 30,</u> |             |
|-----------------------------|-------------|
| 2023                        | \$ 14,480   |
| 2024                        | 14,400      |
|                             | <hr/>       |
|                             | \$ 28,880   |
|                             | <hr/> <hr/> |

10. RELATED PARTIES:

Several board members contributed amounts to LCCF totaling approximately \$535,430 for the year ended June 30, 2022. In-kind goods and services provided by board members totaled approximately \$124,306 for the year ended June 30, 2022.

11. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through February 20, 2023, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.