

CLARE | MATRIX
Financial Statements
June 30, 2023
With Independent Auditor's Report

CLARE|MATRIX
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June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
CLARE|MATRIX:

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of CLARE|MATRIX (the "Organization"), which comprise the statement of financial position as of June 30, 2023, 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, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of CLARE|MATRIX as of June 30, 2023, 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 Qualified Opinion

The Organization has not maintained sufficient accounting records and supporting documentation relating to government contracts. Accordingly, we were unable to obtain sufficient appropriate audit evidence about the government contracts revenue of \$10,204,833 as presented in the accompanying statement of activities for the year ended June 30, 2023. Consequently, we were unable to determine whether any adjustments to this amount was necessary.

Substantial Doubt About the Organization's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 1 to the financial statements, the Organization has suffered recurring losses from operations and has stated that substantial doubt exists about the Organization's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of the uncertainty. Our opinion is not modified with respect to this matter.

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 for 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 auditing standards generally accepted in the United States of America ("GAAS") 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 GAAS, 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.

Withum Smith + Brown, PC

October 2, 2025

CLARE|MATRIX
Statement of Financial Position
June 30, 2023

Assets

Current assets

Cash and cash equivalents	\$ 1,119,822
Contracts and grants receivable, net	2,015,973
Prepaid expenses and other current assets	298,902
Other receivables	<u>814,597</u>
Total current assets	<u>4,249,294</u>

Deposits	104,293
Right-of-use assets - operating, net	5,480,849
Property and equipment, net	<u>2,505,718</u>
Total assets	<u>\$ 12,340,154</u>

Liabilities and Net Assets

Current liabilities

Accounts payable	\$ 738,372
Accrued expenses	1,470,544
Deferred revenue	1,843,113
Current portion of lease liabilities - operating	<u>1,204,069</u>
Total current liabilities	<u>5,256,098</u>

Long-term debt	3,168,750
Lease liabilities - operating, net of current portion	<u>4,482,256</u>
Total liabilities	<u>12,907,104</u>

Net assets

Without donor restrictions	<u>(566,950)</u>
Total liabilities and net assets	<u>\$ 12,340,154</u>

The Notes to Financial Statements are an integral part of this statement.

CLARE|MATRIX
Statement of Activities
Year Ended June 30, 2023

	Net Assets Without Donor Restrictions
Support and revenues	
Government contracts	\$ 10,204,833
Contributions	1,684,502
COVID relief funds	1,999,997
Training income	1,159,382
Service fees, net of discounts	798
Miscellaneous support	<u>216,719</u>
Total support and revenues	<u>15,266,231</u>
Expenses	
Program services	13,291,158
Management and general	2,849,510
Fundraising	<u>608,875</u>
Total expenses	<u>16,749,543</u>
Other income	
Gain on sale of property and equipment	<u>200,000</u>
Total other income	<u>200,000</u>
Change in net assets	(1,283,312)
Net assets (deficit)	
Beginning of year	<u>716,362</u>
End of year	<u>\$ (566,950)</u>

The Notes to Financial Statements are an integral part of this statement.

CLARE|MATRIX
Statement of Functional Expenses
Year Ended June 30, 2023

	<u>Program Services</u>				<u>Supporting Services</u>		<u>Totals</u>
	<u>Treatment Programs</u>	<u>Sober Living Programs</u>	<u>Outpatient and Other Services</u>	<u>Program Services Total</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries and wages	\$ 1,698,357	\$ 87,252	\$ 2,815,720	\$ 4,601,329	\$ 1,290,640	\$ 258,451	\$ 6,150,420
Payroll taxes and benefits	147,327	7,334	685,130	839,791	108,310	22,683	970,784
Total payroll expense	<u>1,845,684</u>	<u>94,586</u>	<u>3,500,850</u>	<u>5,441,120</u>	<u>1,398,950</u>	<u>281,134</u>	<u>7,121,204</u>
Bad debt expense	716,206	71,621	1,599,526	2,387,353	-	-	2,387,353
Bank charges and fees	2,287	404	3,983	6,674	7,091	3,909	17,674
Client hospitality and medical	401,421	6,454	399,408	807,283	27,891	329	835,503
Depreciation	39,439	6,960	124,699	171,098	122,270	-	293,368
Dues and subscriptions	10,838	975	36,049	47,862	14,329	10,594	72,785
Information technology	122,797	6,661	216,040	345,498	98,413	19,857	463,768
Insurance	28,932	1,744	150,677	181,353	30,635	32	212,020
Interest expense	41,208	3,792	134,381	179,381	53,588	-	232,969
Lease expense	287,820	178,674	1,608,694	2,075,188	616,987	-	2,692,175
Miscellaneous expenses	-	-	114,838	114,838	-	-	114,838
Office equipment and supplies	43,125	4,274	75,277	122,676	25,237	6,254	154,167
Printing and postage	9,849	873	22,856	33,578	9,035	14,921	57,534
Professional fees	181,122	14,466	549,038	744,626	254,131	46,610	1,045,367
Repairs and maintenance	46,435	3,982	199,805	250,222	35,310	58	285,590
Special projects	-	29,399	-	29,399	59,741	-	89,140
Staff and board development	26,456	4,465	259,539	290,460	78,427	225,158	594,045
Telephone	31,154	1,695	21,471	54,320	14,321	-	68,641
Transportation	1,528	191	6,510	8,229	3,154	19	11,402
Total expenses	<u>\$ 3,836,301</u>	<u>\$ 431,216</u>	<u>\$ 9,023,641</u>	<u>\$ 13,291,158</u>	<u>\$ 2,849,510</u>	<u>\$ 608,875</u>	<u>\$ 16,749,543</u>

The Notes to Financial Statements are an integral part of this statement.

CLARE|MATRIX
Statement of Cash Flows
Year Ended June 30, 2023

Operating activities

Change in net assets	\$ (1,283,312)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	293,368
Amortization of right-of-use assets - operating, net	1,251,581
Forgiveness of debt	(1,999,997)
Gain on sale of property	(200,000)
Bad debt expense	2,387,353
Changes in operating assets and liabilities	
Contracts and grants receivable	(1,786,094)
Other receivables	2,548,034
Prepaid expenses and other assets	(223,880)
Deposits	(60,931)
Accounts payable	(1,248,141)
Accrued expenses	701,937
Deferred revenue	514,322
Lease liabilities - operating	<u>(1,149,955)</u>
Net cash used in operating activities	<u>(255,715)</u>

Investing activities

Purchases of property and equipment	<u>(148,516)</u>
Net cash used in investing activities	<u>(148,516)</u>

Net change in cash and cash equivalents (404,231)

Cash and cash equivalents

Beginning of year	<u>1,524,053</u>
End of year	<u>\$ 1,119,822</u>

Supplemental disclosure of cash flow information

Cash paid during the year for	
Interest	<u>\$ 246,720</u>

Supplemental disclosure of non-cash activities

Right-of-use assets-operating obtained in exchange for lease liabilities-operating	<u>\$ 1,503,990</u>
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The Notes to Financial Statements are an integral part of this statement.

CLARE|MATRIX
Notes to Financial Statements
June 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

On April 2, 2018, CLARE|MATRIX (the "Organization") was formed through the merger of CLARE Foundation and The Matrix Institute on Addictions. The Organization is a nonprofit organization that changes the lives of individuals and families and strengthens communities affected by alcohol, substance use, and behavioral health issues by providing proven and effective treatment, education, research, and training. The CLARE Foundation and Matrix Institute on Addictions joined forces and today, have become an industry defining organization that successfully combines the CLARE Foundation's 50+ years of expertise delivering an extensive continuum of residential services with the Matrix Model – an evidenced-based practice that has worldwide recognition for its outpatient treatment model, research and training. The Organization's continuum of care includes assessment and referral, detoxification, residential or outpatient treatment, prevention and mental health services. The Organization's program services have been certified by the Commission on Accreditation of Rehabilitation Facilities ("CARF"), an international accrediting agency.

Going Concern Uncertainty

The financial statements of the Organization have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, the Organization has been experiencing operating cash flow deficits, which were \$255,715 during the year ended June 30, 2023, and its overall financial position has decreased with a net asset deficit of \$566,950. These factors create substantial doubt about the Organization's ability to continue as a going concern. Management is monitoring the operations, cutting costs where it is able, aggressively pursuing collections on receivables, applying for new grant funds, and improving efficiency of operations in order to generate cash and continue as a going concern. However, there can be no assurances that management will be successful in these efforts. The financial statements do not include any adjustments that might result from this uncertainty.

Basis of Presentation

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

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

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

The Organization records gifts of cash and other assets as net assets with donor restriction if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from donor restrictions. Contributions with donor-imposed restrictions that are received and spent in the same year have been recorded as net assets without donor restrictions in the accompanying statement of activities.

CLARE|MATRIX
Notes to Financial Statements
June 30, 2023

Cash and Cash Equivalents

For purposes of the statement of financial position and statement of cash flows, the Organization considers highly liquid investments and investments with original maturities of three months or less to be cash and cash equivalents.

Receivables and Allowance for Doubtful Accounts

Contracts, grants and other receivables are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for potential unrecoverable contract costs or for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts and other circumstances, which may affect the collectability of the various receivables. As of June 30, 2023, the Organization recorded an allowance for doubtful accounts of \$2,251,995.

Debt Issuance Costs

Debt issuance costs are reported on the statement of financial position as a direct deduction from the face amount of the debt. The debt issuance costs are being amortized over the term of the debt on a method that approximates the effective interest method. The Organization reflects amortization of debt issuance costs within interest expense.

Property and Equipment

Property and equipment are recorded at cost for purchased items, and at an estimated fair market value at date of gift, for donated items. The Organization uses the straight-line method of depreciation with a useful life of from three to ten years for transportation equipment, furniture and fixtures and other equipment and thirty-one years for buildings. Amounts over \$1,000 are capitalized when such amounts are determined to benefit future periods.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Concentrations of Credit Risk

The Organization has significant cash balances at financial institutions which throughout the year regularly exceed the federally insured limit of \$250,000. Any loss incurred or lack of access to such funds could have a significant adverse impact on the Organization's financial condition, results of operations, and cash flows.

Contributed Services and Contributed Nonfinancial Assets

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), which is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements.

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Notes to Financial Statements
June 30, 2023

Donated materials and other nonfinancial contributions are reflected in the accompanying financial statements at their estimated market values at date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis of deriving their value.

The Organization did not receive any donation of non-cash items for the year ended June 30, 2023.

Revenue

For training courses provided to individuals and other organizations, revenues are recognized as the services have been provided, the appropriate party has been billed, and collection is likely.

Special event revenue is recognized upon completion of the events and recorded net of direct costs.

Grants and Contributions

Grants

The Organization receives funding under grants from federal, state and county agencies, as well as from private grantors. This funding is subject to contractual conditions which must be met through incurring qualifying expenses for particular programs. Revenue is recognized only when the funds are utilized to carry out the activity stipulated in the grant agreement. Contracts and grants receivable represent amounts due from organizations for reimbursable expenses incurred.

Contributions

Contributions, including unconditional promises to give, are recognized when received or pledged by the donor. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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. The Organization's policy is to record restricted gifts that are received and spent in the same year as unrestricted support.

Unconditional promises to give are reported at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected.

Deferred Revenue

Funds received in advance of program services or activities to be performed or delivered in future periods are recorded as deferred revenue in the accompanying statement of financial position. Revenues relating to such advance payments are recognized as the required services or activities are performed and related exchange transaction is completed. The Organization had deferred revenues totaling \$1,328,791 as of July 1, 2022.

Compensated Absences

Employees earn credits during the year for future compensated absences. The expense and corresponding liability are accrued when the benefits are earned rather than when benefits are paid.

CLARE|MATRIX
Notes to Financial Statements
June 30, 2023

Leases

The Organization categorizes leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that allow the Organization to substantially utilize or pay for the entire asset over its estimated life. All other leases are categorized as operating leases. Leases with contractual terms of 12 months or less are not recorded on the statement of financial position. The Organization had no finance leases during the year ended June 30, 2023.

Certain lease contracts include obligations to pay for other services, such as operations, property taxes, and maintenance. For leases of property, the Organization accounts for these other services as a component of the lease. For all other leases, the services are accounted for separately and the Organization allocates payments to the lease and other services components based on estimated stand-alone prices.

Lease liabilities are recognized at the present value of the fixed lease payments, using a discount rate based on similarly secured borrowings available to the Organization. Right-of-use assets are recognized based on the initial present value of the fixed lease payments plus any direct costs from executing the leases. Lease assets are tested for impairment in the same manner as long-lived assets used in operations.

Options to extend lease terms, terminate leases before the contractual expiration date, or purchase the leased assets, are evaluated for their likelihood of exercise. If it is reasonably certain that the option will be exercised, the option is considered in determining the classification and measurement of the lease.

Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease.

Advertising Expense

Advertising and promotional costs are charged to operations when incurred.

Income Taxes

The Organization is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Accordingly, no provision for income taxes is included in the financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered 'more likely than not' to be upheld under a tax authority examination.

Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2023. Generally, the Organization's information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

CLARE|MATRIX
Notes to Financial Statements
June 30, 2023

The methods of expense allocation are as follows:

<u>Method of Allocation</u>	<u>Allocation Expense</u>
Based on % of sq ft:	Depreciation and amortization Insurance Interest expense Lease expense Repairs and maintenance
Charged directly to program:	Bad debt expense Client hospitality and medical Special projects
Based on % of FTEs:	Advertising Bank charges and fees Dues and subscriptions Information technology Office equipment and supplies Payroll taxes and benefits Printing and postage Professional fees Salaries and wages Staff and board development Telephone Transportation

Use of Estimates

The preparation of financial statements in conformity with US 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organization evaluated subsequent events through October 2, 2025, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

CLARE|MATRIX
Notes to Financial Statements
June 30, 2023

2. AVAILABILITY AND LIQUIDITY

The Organization receives significant unrestricted revenue from grantors which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization also periodically receives contributions which may or may not be restricted by donors for program use. Management of liquidity and reserves are conducted under three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization's goal is generally to maintain financial assets to meet 60 days of operating expenses. The Organization forecasts its future cash flows, and monitors liquidity on an ongoing basis and during periodic meetings with the board of directors. The following represents the Organization's financial assets at June 30, 2023:

Financial assets at year end	
Cash and cash equivalents	\$ 1,119,822
Contracts and grants receivable, net	2,015,973
Other receivables	<u>814,597</u>
Financial assets available to meet general expenditures within one year	<u>\$ 3,950,392</u>

3. CONTRACTS AND GRANTS RECEIVABLE, NET

Net contracts and grants receivable consist of the following at June 30, 2023:

Public funding agencies	\$ 4,267,968
Less: Allowance for doubtful accounts	<u>(2,251,995)</u>
	<u>\$ 2,015,973</u>

4. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2023 consist of the following:

Land	\$ 363,857
Buildings and improvements	4,400,521
Furniture and fixtures	458,351
Transportation equipment	45,218
Leasehold improvements	<u>562,054</u>
Property and equipment, at cost	5,830,001
Less: Accumulated depreciation	<u>(3,324,283)</u>
	<u>\$ 2,505,718</u>

Depreciation expense totaled \$293,368 the year ended June 30, 2023.

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Notes to Financial Statements
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5. LONG-TERM DEBT

Long-term debt at June 30, 2023 is summarized as follows:

Loan from residential financing company which originated in November 2021, secured by a deed of trust on property located at 844-846 Pico Boulevard, including interest at a rate of 10.990% with interest only payments with a maturity of September 2026.	\$ 1,462,250
Loan from residential financing company which originated in September 2021, secured by a deed of trust on property located at 1002 Pico Boulevard, including interest at a rate of 8.50% with interest only payments with a maturity of October 2026.	1,206,600
Economic Injury Disaster Loan ("EIDL") in the amount of \$500,000. The loan bears interest at a rate of 2.75%. Monthly payments of principal and interest are due beginning in 2023 and continue through maturity of the loan in 2051. Each payment will be applied first to interest accrued to the date of receipt of each payment, and the balance, if any, will be applied to principal. The loan is collateralized by substantially all of the assets of the Organization.	<u>499,900</u>
Total long-term debt	3,168,750
Less: Current portion	<u>-</u>
	<u>\$ 3,168,750</u>

The maturities of long-term debt are as follows at June 30:

2024	\$ -
2025	-
2026	-
2027	2,668,850
2028	-
Thereafter	<u>499,900</u>
	<u>\$ 3,168,750</u>

6. PPP LOANS PAYABLE

On April 18, 2020, the Organization issued an unsecured promissory note for \$2,155,075 (the "PPP Loan") through the Paycheck Protection Program ("PPP") established under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") and administered by the U.S. Small Business Administration ("SBA"). The PPP Loan is guaranteed by the SBA. The PPP Loan may be forgiven, in whole or in part, if the Organization was eligible for the PPP Loan at the time of application, used the loan proceeds for eligible expenses within the defined 8 or 24-week period after the PPP Loan was disbursed ("Covered Period"), and otherwise satisfied PPP requirements. The Organization received notification of forgiveness in November 2021, at which point it recorded the forgiveness of the loan as a gain on extinguishment of debt.

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June 30, 2023

In February 2021, the Organization received a Paycheck Protection Program loan in the amount of \$1,999,997 under the Second Draw of the PPP (“PPP Loan 2”) of the CARES Act. The PPP Loan 2 was guaranteed by the SBA. The PPP Loan 2 may be forgiven, in whole or in part, if the Organization was eligible for the PPP Loan 2 at the time of application, used the loan proceeds for eligible expenses within a defined period, and otherwise satisfied PPP requirements.

During the year ended June 30, 2023, the Organization was informed that its application for forgiveness of \$1,999,997 of the PPP Loan 2 was approved. Accordingly, the Organization recorded it as forgiveness of debt in the statement of activities.

7. RETIREMENT PLANS

The Organization has a 403(b) Tax Sheltered Annuity Plan covering all eligible employees. Active participants may elect to have the Organization make salary reduction contributions on their behalf up to the maximum set by the applicable Internal Revenue Codes. The plan permits the Organization to make discretionary matching contributions on the first 6% of participant contributions. Matching contributions for the year ended June 30, 2023 totaled \$184,826.

8. LEASES

Operating Lease

The Organization leases space under various leases, which expire through October 2027. The leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Also, the agreements generally require the Organization to pay real estate taxes, insurance, and repairs.

Because the rates implicit in the leases are generally not available, the Organization utilizes its incremental borrowing rate as the discount rate. The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of June 30, 2023:

2024	\$ 1,474,502
2025	1,563,916
2026	2,598,242
2027	606,899
2028	225,475
Thereafter	-
	<u>6,469,034</u>
Less: Imputed interest	<u>(782,709)</u>
	<u>\$ 5,686,325</u>

Lease expense for the year ended June 30, 2023 totaled \$2,692,175, which includes variable lease expense of \$143,261 and a rent settlement accrual of \$940,000. The weighted average remaining lease term is 3.40 years and the weighted average discount rate associated with operating leases as of June 30, 2023 is 8.80%. Operating cash flows related to the lease liabilities during the year ended June 30, 2023 was \$1,513,525.

9. NET ASSETS

There were no net assets with donor restriction as of June 30, 2023.

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Notes to Financial Statements
June 30, 2023

10. EMPLOYEE RETENTION CREDIT

The Organization has applied for the Employee Retention Credit (“ERC”) in the total amount of \$3,116,042. The credit will be claimed against the Organization’s payroll tax obligations for each calendar quarter based on qualified wages, subject to certain limitations. The Organization recorded revenue in prior years in the statement of activities. As of June 30, 2023, the Organization has received payment for ERC in full.

11. LITIGATION

The Organization is involved in certain litigation arising in the normal course of its business. Management, having consulted with its counsel, believes these matters have either been adequately provided for in accrued expenses on the accompanying statement of financial position or will not have a material adverse impact on its operating results or financial position, either individually or in aggregate. Any estimated loss is subject to significant judgment and is based upon currently available information, a variety of assumptions, and known and unknown factors.