

**THE PRENTICE SCHOOL**  
**Financial Statements**  
**June 30, 2020**  
**With Summarized Comparative Information**  
**June 30, 2019**  
**With Independent Auditor's Report**

**The Prentice School**

**Table of Contents**

**June 30, 2020**

**With Summarized Comparative Information for the Year Ended June 30, 2019**

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<b>Independent Auditor's Report</b>	1-2
<b>Financial Statements</b>	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-20

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors,  
The Prentice School:

We have audited the accompanying financial statements of The Prentice School, a non-profit school (the "School" or "Prentice"), which comprise the statements of financial position as of June 30, 2020 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

### **Management's Responsibility 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; this includes 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

The summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Emphasis of Matter - Change in Accounting Principle**

As discussed in Note 1 to the financial statements, during the year ended June 30, 2020, the School adopted new accounting guidance in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2018-08, *Not-for-Profit Entities* (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Made*. Our opinion is not modified with respect to this matter.

A handwritten signature in blue ink that reads "Withum Smith + Brown, PC".

November 30, 2020

**The Prentice School**  
**Statements of Financial Position**  
**June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Assets without donor restriction		
Cash and cash equivalents	\$ 1,312,956	\$ 395,123
Accounts receivable (net of allowance for doubtful accounts of \$25,000 and \$10,000, respectively)	160,387	105,819
Prepaid expenses and other assets	62,011	89,748
Investments	1,450,566	1,459,824
Property, furniture and equipment, net	<u>4,681,428</u>	<u>4,762,095</u>
Total assets	<u>\$ 7,667,348</u>	<u>\$ 6,812,609</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 25,196	\$ 32,148
Accrued liabilities	237,005	215,948
Deferred revenue	910,886	554,636
Current portion of long-term debt	<u>10,240</u>	<u>10,240</u>
Total current liabilities	1,183,327	812,972
Long-term liabilities		
Long-term debt	<u>853</u>	<u>11,094</u>
Total liabilities	<u>1,184,180</u>	<u>824,066</u>
Net assets		
Without donor restrictions		
Net investment in property and equipment	4,681,428	4,762,095
Undesignated	<u>1,801,740</u>	<u>1,226,448</u>
Total net assets	<u>6,483,168</u>	<u>5,988,543</u>
Total liabilities and net assets	<u>\$ 7,667,348</u>	<u>\$ 6,812,609</u>

The Notes to Financial Statements are an integral part of these statements.

**The Prentice School**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Changes in net assets without donor restriction</b>		
<b>Revenues and support</b>		
Tuition and fees, net	\$ 3,405,476	\$ 2,893,178
Grants and contributions	516,472	232,945
Auxiliary activities	179,096	248,786
Special events (net of direct expenses of \$98,466 and \$114,790, respectively)	176,128	371,515
Investment (loss) income	(3,979)	46,122
Miscellaneous	<u>1,151</u>	<u>400</u>
Total revenues and support without donor restrictions	<u>4,274,344</u>	<u>3,792,946</u>
 <b>Expenses</b>		
Program services		
Instruction	<u>3,117,495</u>	<u>3,126,194</u>
Supporting services		
General and administrative	549,979	478,683
Development	<u>112,245</u>	<u>155,103</u>
Total supporting services	<u>662,224</u>	<u>633,786</u>
Total expenses	<u>3,779,719</u>	<u>3,759,980</u>
 <b>Changes in net assets without donor restrictions</b>	494,625	32,966
 <b>Net assets without donor restrictions</b>		
Beginning of year	<u>5,988,543</u>	<u>5,955,577</u>
End of year	<u>\$ 6,483,168</u>	<u>\$ 5,988,543</u>

The Notes to Financial Statements are an integral part of these statements.

**The Prentice School**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2020**  
**With Summarized Comparative Information as of June 30, 2019**

	<u>Program Services</u>	<u>Supporting Services</u>			<u>Total</u>	<u>Total</u>
	<u>Instruction</u>	<u>General and Administrative</u>	<u>Development</u>	<u>Total</u>	<u>Expenses</u>	<u>Expenses</u>
					<u>2020</u>	<u>2019</u>
Salaries	\$ 1,967,600	\$ 273,533	\$ 74,055	\$ 347,588	\$ 2,315,188	\$ 2,260,747
Payroll taxes and employee benefits	450,302	62,601	16,948	79,549	529,851	502,510
Total salaries and related expenses	<u>2,417,902</u>	<u>336,134</u>	<u>91,003</u>	<u>427,137</u>	<u>2,845,039</u>	<u>2,763,257</u>
Other expense						
Advertising and marketing	14,996	-	-	-	14,996	124,318
Bad debt	-	34,507	-	34,507	34,507	33,749
Bank fees	-	8,676	5,193	13,869	13,869	20,338
Board meeting	-	494	-	494	494	483
Books and curriculum	20,185	-	-	-	20,185	24,337
Donor recognition	-	-	-	-	-	6,142
Equipment expenses	25,690	-	-	-	25,690	16,193
Events	-	98,466	-	98,466	98,466	114,790
Insurance	-	26,914	-	26,914	26,914	23,564
Outside services	169,845	65,218	184	65,402	235,247	84,657
Payroll fees	5,866	1,100	367	1,467	7,333	8,210
Postage and shipping	-	2,923	731	3,654	3,654	3,746
Professional and development fees	45,753	24,774	144	24,918	70,671	203,277
Rent	-	-	-	-	-	64,308
Repairs and maintenance	217,851	-	-	-	217,851	47,378
Student activities	28,823	-	-	-	28,823	46,786
Supplies	17,390	1,373	-	1,373	18,763	24,864
Taxes, licenses and permits	10,151	23,494	-	23,494	33,645	38,197
Technology and utilities	26,060	9,749	-	9,749	35,809	100,291
Total other expense before depreciation	<u>582,610</u>	<u>297,688</u>	<u>6,619</u>	<u>304,307</u>	<u>886,917</u>	<u>985,628</u>
Depreciation	116,983	14,623	14,623	29,246	146,229	125,885
Total expenses	3,117,495	648,445	112,245	760,690	3,878,185	3,874,770
Less: Expenses included within revenues						
Direct cost of donor benefits	-	(98,466)	-	(98,466)	(98,466)	(114,790)
Total expenses included in the expense section of the statement of activities and changes in net assets	<u>\$ 3,117,495</u>	<u>\$ 549,979</u>	<u>\$ 112,245</u>	<u>\$ 662,224</u>	<u>\$ 3,779,719</u>	<u>\$ 3,759,980</u>
Percentage of total	<u>82%</u>	<u>15%</u>	<u>3%</u>	<u>18%</u>	<u>100%</u>	<u>100%</u>

The Notes to Financial Statements are an integral part of these statements.

**The Prentice School**  
**Statements of Cash flows**  
**Year Ended June 30, 2020**  
**With Summarized Comparative Information as of June 30, 2019**

	<u>2020</u>	<u>2019</u>
<b>Operating activities</b>		
Changes in net assets	\$ 494,625	\$ 32,966
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	146,229	125,885
Provision for bad debts	15,000	(947)
Net gains on investment	(56,315)	(52,423)
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable, net	(69,568)	(44,430)
Prepaid expenses and other assets	27,737	(12,775)
Increase (decrease) in		
Accounts payable	(6,952)	3,181
Accrued liabilities	21,057	(69,606)
Deferred revenue	356,250	47,508
Net cash provided by operating activities	<u>928,063</u>	<u>29,359</u>
<b>Investing activities</b>		
Proceeds from sale of marketable securities	250,882	554,930
Purchases of marketable securities	(185,309)	(592,057)
Purchases of property and equipment	<u>(65,562)</u>	<u>(72,954)</u>
Net cash provided by (used in) investing activities	<u>11</u>	<u>(110,081)</u>
<b>Financing activities</b>		
Repayments on long-term debt	<u>(10,241)</u>	<u>(10,240)</u>
Net cash provided by (used in) financing activities	<u>(10,241)</u>	<u>(10,240)</u>
Net change in cash and cash equivalents	917,833	(90,962)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>395,123</u>	<u>486,085</u>
End of year	<u>\$ 1,312,956</u>	<u>\$ 395,123</u>

The Notes to Financial Statements are an integral part of these statements.

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**1. NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**School**

The Prentice School (the “School” or “Prentice”) is a private, nonprofit, co-educational, nonpublic day school (“NPS”) dedicated to providing innovative education and a nurturing environment for students with learning differences to succeed in life. The School’s support consists of tuition and contributions from donors primarily located in Southern California.

The School continues to maintain a healthy enrollment and operate with a positive net income and a positive cash flow from operations for the past two years. The School has actively addressed its multi-year losses and has reached positive net income and positive cash flow in the current year.

Despite the challenges faced due to the unprecedented mandates relating to the novel coronavirus pandemic, during the years ended June 30, 2020 and 2019, Prentice was still able to achieve positive net income and positive cashflow from operations. This was primarily due to Prentice’s successful pivot to virtual learning starting in March 2020 as well as the ability to secure the PPP loan and forgiveness. Additionally, continuing to focus on delivering a specialized instruction to specifically address its student population and managing operating costs has resulted in long term financial sustainability. New fundraising initiatives have resulted in a five-fold increase in funds raised prior to 2017. The School considers annual tuition increases to offset general operating cost inflation as well as provide annual teacher salary increases in order to retain highly qualified educators. Further, Prentice continues to have their program offering invest heavily in multiple “gold standard” Dyslexia training and certification programs, such as Orton-Gillingham and Lindamood-Bell, for their teachers which is the core for the teaching excellence of the School and resulted in more positive learning outcomes, increased referrals, and student retention.

Through closely managing operating costs, tuition increases to balance inflation, successful fundraising and positive changes to Program, Prentice has created favorable results that are expected to continue over the next few years.

**Basis of Presentation**

The financial statements of the School have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), which requires the School 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 School. These net assets may be used at the discretion of the School’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 School or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2020 and 2019, there were no net assets with donor restrictions.

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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The School records gifts of cash and other assets as with donor restricted contributions 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 statements of activities and changes in net assets 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 statements of activities and changes in net assets.

**Summarized Comparative Information**

The financial statements include 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2019 from which the summarized information was derived.

**Use of Estimates**

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

**Contributed Services and Materials**

Donated materials and other noncash 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.

**Concentration of Credit Risk**

The School maintains cash deposits with a major bank, which is FDIC insured up to \$250,000. At certain times of the year, the School may have monies deposited in excess of the FDIC insurance limit.

**Cash and Cash Equivalents**

The School considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Accounts Receivable**

Accounts receivable consist of trade accounts arising in the normal course of business. Accounts for which no payments have been received for 30 days or in accordance with the billing cycles are considered delinquent and customary collection efforts are initiated. The School uses the allowance method to account for bad debts as required by accounting principles generally accepted in the United States of America. An allowance for doubtful accounts is estimated and recorded based on management's judgment and past experience. The allowance as of June 30, 2020 and 2019, is \$25,000 and \$10,000, respectively.

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**Grants Receivable**

Grants receivable are classified as conditional promises to the extent that conditions have been met but reimbursement from the grantor has not yet been received. Grants receivable are reported unrestricted support unless explicit donor stipulations or circumstances surrounding the grant make clear the donor intended it to be used to support activities of the current period.

**Investments**

Investments consist primarily of assets invested in marketable equity and debt securities, and money-market accounts. The School accounts for investments in equity securities with readily determinable fair values and all investments in debt securities at fair value in the statements of financial position. The School also received shares of a privately held limited liability company from a donor approximating \$56,000 in fair value. The School expects to receive cash from the investment upon the sale of the limited liability company. The following is a description of the valuation methodologies used for assets measured at fair value.

*Common Stocks, Exchange-Traded Funds, Mutual Funds* - Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual Funds* - Valued at the net asset value of shares held at year end. The value of mutual funds is determined by fair market value for each fund and is based upon quotations obtained from national securities exchanges and over-the-counter associations.

*Private Equity Investment* - Valued at the most recent round of equity financing reported on the limited liability company agreement.

The realized and unrealized gain or loss on investments is reflected in the statements of activities and changes in net assets. Investments are exposed to various risks such as significant world events, interest rates, credit, and overall market volatility risks.

**Property, Furniture and Equipment**

Property, furniture and equipment are stated at cost, if purchased or estimated fair value at the date of donation, if donated. Depreciation and amortization expenses are calculated on the straight-line method. The depreciation and amortization methods are designed to amortize the cost of the assets over the estimated useful lives, in years, of the respective assets as follows:

<u>Description</u>	<u>Estimated Life (Years)</u>
Buildings	39-40
Building improvements	5-39
Furniture and fixtures	5-7
Office equipment	5-10
Computers	3-5
Textbooks	3-7

Maintenance and repairs are charged to expense as incurred. Renewals and improvements of a significant nature are capitalized. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in income.

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**Impairment of Long-Lived Asset**

The School considers the impairment of long-lived assets in accordance with *Accounting for Impairment or Disposal of Long-Lived Assets*, which requires long-lived assets and certain identifiable intangible assets be reviewed for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered impaired, the impairment recognized is the difference between the asset's carrying amount and fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The School has determined that there has not been any impairment of its long-lived assets as of June 30, 2020 and 2019.

**Deferred Revenue**

Deferred revenue results from the School recognizing registration and tuition revenue in the period in which the related educational instruction is performed and from deferring the recognition of a portion of the forgiveness of the Payroll Protection Program (PPP loan) to offset costs occurring in the next fiscal year. Accordingly, registration and tuition fees received for the next school term and revenues offsetting costs of the PPP loan are deferred until the instruction commences.

Deferred revenue is summarized as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Tuition	\$ 575,186	\$ 554,636
Payroll Protection Program	<u>335,700</u>	<u>-</u>
	<u>\$ 910,886</u>	<u>\$ 554,636</u>

**Tuition, Scholarships and Financial Aid**

Gross tuition and fees reflect the School's tuition rates for all students. Scholarships given on the basis of financial need are netted against gross tuition and fees. Dependents of the School's teachers and administrative staff pay reduced tuition rates. The dependent tuition reduction amount is included in net tuition and fees in the statements of activities and changes in net assets. There were one and two dependent students attending the School during the years ended June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, scholarships have been netted as a component of tuition and fee revenue for \$310,269 and \$249,571, respectively.

**Contributions and Recently Adopted Accounting Policies**

In January 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-01 (ASU 2016-01) *Financial Instruments-Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*, which amends various aspects of the recognition, measurement, presentation, and disclosure of financial instruments. The School adopted ASU 2016-01 as of July 1, 2019 using the modified retrospective method for marketable equity securities. The amendments have been applied retrospectively to all periods presented, with no effect on net assets. The adoption of ASU 2016-01 increases the possibility of increased volatility of investment income, as a result of the requirement to remeasure equity securities each reporting period.

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Made*. This update requires a recipient of funds from a resource provider to determine if those funds should be classified as a reciprocal exchange transaction or as a contribution based on the value that the resource provider is receiving from the transaction. Additionally, the update requires recipient organizations to determine whether a contribution is conditional based on if the agreement includes barriers that must be overcome, and either a right of return of assets transferred, or a right of release of a resource provider’s obligation to transfer assets. If the agreement includes both characteristics, the recipient is not entitled to the transferred assets, and therefore does not recognize the associated revenues, until the barrier is overcome.

The School adopted the requirements of the new guidance as of July 1, 2019, utilizing the modified prospective method of transition. No adjustment to net assets as of July 1, 2019 was necessary. The School applied the new guidance using the practical expedient provided in Topic 958 that allows the guidance to be applied only to agreements that were not complete as of July 1, 2019. Adoption of the new guidance did not have a material impact on the School’s financial statements.

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 statements of activities and changes in net assets as net assets released from restrictions. The School’s policy is to record restricted gifts that are received and spent in the same year as unrestricted support.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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. The discount rate adopted at the time of the gift is the incremental borrowing rate of the organization or the US Treasury bill rate for the term of the agreement. The discount rate remains consistent annually.

**Income Tax Status**

The School is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal and state income taxes. However, the School is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption.

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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The School considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability or discloses potential significant changes that management believes are more likely than not to occur upon examination by taxing authorities, including changes to the School's status as a not-for-profit entity. The School believes there are no material uncertain tax positions that require recognition or disclosure in the accompanying financial statements. The School is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2014. Further, there are no income tax related penalties and interest included in these financial statements.

**Compensated Absences**

Full-time teaching employees earn two paid personal days a year. The School's policy is to recognize the cost of compensated absences for full-time employees when paid. The days must be used by the last day of school in June of each year. Any unused time is paid to the teaching staff in their June paycheck.

Office and support staff earn credits during the current year for future vacation benefits. The expense and corresponding liability are accrued when vacations are earned rather than when vacations are paid. Accrued vacation expense as of June 30, 2020 and 2019 was \$42,646 and \$11,199, respectively.

**Advertising Expense**

Advertising and marketing costs are charged to operations when incurred. For the years ended June 30, 2020 and 2019, advertising and marketing costs totaled \$14,996 and \$124,318, respectively.

**Fair Value Measurements**

The carrying value of financial instruments in the financial statements approximates fair value.

For fair value measurements of financial assets and financial liabilities (Note 3), and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis, the School has adopted generally accepted accounting principles in the United States of America ("GAAP") standards that define fair value 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.

GAAP establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

*Level 1* - fair values are based on quoted prices in active markets for identical assets and liabilities. The School's Level 1 assets include mutual funds and exchange traded funds.

*Level 2* - fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the asset.

*Level 3* - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs. The School's Level 3 assets include a donation received for shares held in a private limited liability company.

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair values may not be realized in the immediate settlement of the financial asset. The disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

**Functional Allocation of Expenses**

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

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Advertising and marketing	Service provided by function
Outside services	Service provided by function
Depreciation	Direct usage
Technology and utilities	Direct usage
Insurance	Service provided by function
Rent	Square footage
Program and office supplies	Direct usage
Other	Direct usage

Certain expenses reported on the accompanying statement of functional expenses, such as depreciation, rent, and supplies, and other expenses, have been allocated to programs based on direct usage. For certain expenses including advertising and marketing, outside services, insurance, and equipment expenses, the cost directly attributable to program or supporting services has been allocated as such. Salaries and benefits have been allocated to the program and supporting services based on time and effort of the employees involved.

**Recent Accounting Pronouncements Not Yet Adopted**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). Under Topic 606, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Topic 606 is effective for the School's year ending June 30, 2021.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). Under ASU No. 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2021. The School is in the process of assessing the potential impact of the ASU on its financial statements.

In September 2020 the Financial Accounting Standards Board issued Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958) which is effective for the School's fiscal year ending after June 30, 2022, with early adoption permitted, and 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 statements of activities and changes in net assets, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. Management does not expect this ASU to have a significant impact on the School's financial statements.

**Subsequent Events**

The School evaluated subsequent events through November 30, 2020, the date these financial statements were issued. Except for the item noted in Note 11, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

**2. AVAILABILITY AND LIQUIDITY**

The following represents the School's financial assets at June 30:

	<u>2020</u>	<u>2019</u>
Financial assets		
Cash and cash equivalents	\$ 1,312,956	\$ 395,123
Accounts receivable, net	160,387	105,819
Investments	<u>1,450,566</u>	<u>1,459,824</u>
Financial assets available to meet general expenditures over the next twelve months	 <u>\$ 2,923,909</u>	 <u>\$ 1,960,766</u>

The School receives significant unrestricted revenue from tuition which is ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The School receives contributions and promises to give which are restricted by donors for program use. Management of liquidity and reserves is 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 School's goal is generally to maintain financial assets to meet 4 months of operating expenses (approximately \$800,000-\$1,000,000). As part of the liquidity plan, excess cash is currently invested in short-term investments, such as money market accounts. The School forecasts its future cash flows, and monitors liquidity bi-monthly and monitors reserves annually during the budget review.

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**3. INVESTMENTS**

The following are the investments measured at fair value in the statements of financial position, according to the fair value hierarchy:

	<b>Assets at Fair Value as of June 30, 2020</b>			
	<b>Cost</b>	<b>Level 1</b>	<b>Level 3</b>	<b>Total</b>
Without donor restrictions				
Exchange traded funds				
Large cap dividend	\$ 210,576	\$ 310,342	\$ -	\$ 310,342
Large cap value	58,904	66,286	-	66,286
Fixed income	179,980	186,453	-	186,453
Real estate	548	528	-	528
International level 1	77,309	69,304	-	69,304
Mutual funds - bonds				
Short term	163,606	165,081	-	165,081
Multisector	150,035	142,580	-	142,580
Mutual funds - equities				
Large cap blend	121,843	263,845	-	263,845
Foreign large cap value	70,160	76,362	-	76,362
Large cap value	4,840	5,315	-	5,315
Small cap blend	51,004	69,916	-	69,916
Real estate	23,313	38,515	-	38,515
Private equity investment (a)	56,039	-	56,039	56,039
	<u>\$ 1,168,157</u>	<u>\$ 1,394,527</u>	<u>\$ 56,039</u>	<u>\$ 1,450,566</u>

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

	<b>Assets at Fair Value as of June 30, 2019</b>			
	<b>Cost</b>	<b>Level 1</b>	<b>Level 3</b>	<b>Total</b>
Without donor restrictions				
Exchange traded funds				
Large cap dividend	\$ 175,335	\$ 193,183	\$ -	\$ 193,183
Fixed income	167,337	170,119	-	170,119
Real estate	548	667	-	667
International level 1	74,298	81,815	-	81,815
Mutual funds - bonds				
Short term	160,315	161,176	-	161,176
International	79,310	79,299	-	79,299
Multisector	179,845	179,319	-	179,319
Mutual funds - equities				
Large cap blend	113,179	249,570	-	249,570
Foreign large cap value	68,263	82,387	-	82,387
Large cap value	56,706	85,932	-	85,932
Small cap blend	48,302	79,185	-	79,185
Real estate	22,392	41,133	-	41,133
Private equity investment (a)	56,039	-	56,039	56,039
	<u>\$ 1,201,869</u>	<u>\$ 1,403,785</u>	<u>\$ 56,039</u>	<u>\$ 1,459,824</u>

**(a) Level 3 investment** – The School received a donation for 56,039 shares of a privately held limited liability company during the year ended June 30, 2018. During the year ended June 30, 2018, the limited liability company raised cash through a round of equity financing at a share price of \$1 per share. Because the shares are not actively traded on the open market, the School has valued the donated shares at \$1. There were no unrealized gains or losses during the year ended June 30, 2020.

Investment returns included in the statements of activities and changes in net assets are realized and unrealized gains totaling \$56,315 and \$52,423 for the years ended June 30, 2020 and 2019, respectively.

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**4. PROPERTY, FURNITURE AND EQUIPMENT**

Property, furniture and equipment are recorded at cost and consist of the following at June 30, 2020:

	<u>2020</u>	<u>2019</u>
Land	\$ 2,806,810	\$ 2,806,810
Buildings	2,616,276	2,616,276
Furniture and fixtures	209,428	170,007
Computers	349,554	342,468
Office equipment	125,964	125,964
Textbooks	129,825	129,825
Building improvements	<u>1,183,259</u>	<u>1,164,204</u>
Total property, furniture and equipment	7,421,116	7,355,554
Less: Accumulated depreciation	<u>(2,739,688)</u>	<u>(2,593,459)</u>
Net property, furniture and equipment	<u>\$ 4,681,428</u>	<u>\$ 4,762,095</u>

Total depreciation expense for the years ended June 30, 2020 and 2019 was \$146,229 and \$125,885, respectively.

**5. LONG-TERM DEBT**

Long-term debt at June 30, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Unsecured loan payable to lender through Energy Efficiency Program, payable in monthly installments of \$853 with no interest, payable in full in August 2021.	<u>11,093</u>	<u>21,334</u>
	11,093	21,334
Less: Current portion	<u>(10,240)</u>	<u>(10,240)</u>
	<u>\$ 853</u>	<u>\$ 11,094</u>

The aggregate maturities of the long-term debt as of June 30, 2020 are as follows:

2021	\$ 10,240
2022	<u>853</u>
	<u>\$ 11,093</u>

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**6. ACCRUED LIABILITIES**

Accrued liabilities at June 30, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Payroll and taxes	\$ 91,649	\$ 79,481
Pension contribution	100,368	99,834
Vacation	42,646	11,199
Other	<u>2,342</u>	<u>25,434</u>
	<u>\$ 237,005</u>	<u>\$ 215,948</u>

**7. LEASE COMMITMENTS**

The School leases various office equipment under operating lease agreements. The leases expire through April 2023 and provide for monthly rental payments ranging from \$45 through \$615.

The expected future minimum lease payments over the term of the aforementioned leases as of June 30 are as follows:

2021	\$ 42,970
2022	35,018
2023	<u>9,156</u>
	<u>\$ 87,144</u>

**8. RELATED PARTY TRANSACTIONS**

Various board members make contributions to the School through donations, fundraising events and volunteer time. For the years ended June 30, 2020 and 2019, cash donations from board members totaled \$182,976 and \$189,035, respectively.

**9. RETIREMENT PLAN**

The School maintains a 401(k) plan covering substantially all regular employees and excludes highly compensated employees. Under the plan, the School makes a discretionary contribution to eligible employees up to 6% of the employees' total compensation earned for the fiscal year. These contributions are subject to a four-year forfeiture schedule if any employee terminates service prior to becoming fully vested. The School accrued a net pension contribution to the 401(k) plan for the years ended June 30, 2020 and 2019 totaling \$92,088 and \$90,655, respectively.

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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The School also maintains a 403(b) plan covering highly compensated employees. Under the Plan, the School makes a discretionary contribution to eligible employees up to 6% of the employees' total compensation earned for the fiscal year. These contributions are subject to a four-year forfeiture schedule if any employee terminates service prior to becoming fully vested. The School accrued a net pension contribution to the 403(b) plan for the years ended June 30, 2020 and 2019 totaling \$8,280 and \$9,179, respectively.

The employee's vested percentage in the aforementioned plans for each year of service is as follows:

<u>Years of Service</u>	<u>Vested Percentage</u>
1-2	30%
2-3	50%
3-4	80%
After 4	100%

**10. PAYROLL PROTECTION PROGRAM**

As a response to the COVID-19 pandemic, Congress authorized the Coronavirus Aid, Relief and Economic Security (CARES) Act, which included forgivable loans through the Paycheck Protection Program (PPP). In April 2020, the School received a PPP loan in the amount of \$585,700. Under the terms of the loan agreement, the loan may be forgiven upon a review by the financial institution of the School's use of the loan proceeds in accordance with the CARES Act. If the financial institution determines that the criteria for forgiveness has not been met, the loan matures 2 years from the date of the loan and interest accrues at 1% per year. The School believes it is probable that the full amount of the loan will be forgiven, and therefore has elected to account for the funds as a government grant in accordance with ASC 958-605. Of the PPP proceeds, \$250,000 of forgivable expense was incurred during the year ended June 30, 2020, and was recognized as grant revenue in the accompanying statement of activities. The remaining \$585,700 of grant funds not utilized in the current year is included within deferred revenue in the accompanying statement of financial position.

In April 2020, the School issued an unsecured promissory note (the "PPP Loan") for \$585,700 through the Paycheck Protection Program ("PPP") established under the 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 School 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 PPP Loan was made through Farmers and Merchants Bank (the "Lender"), has a two-year term, bears interest at 1.00% per annum, and matures in April 2022. If the PPP Loan is not forgiven, monthly principal and interest payments are deferred until ten months after the end of the Covered Period, or May 2021.

When it applied for the loan, the School believed it would qualify to have the loan forgiven under the terms of PPP, and therefore considered the loan to be a conditional government grant. The School has performed initial calculations for PPP loan forgiveness, and expects that the PPP loan will be forgiven in full because 1) the School has, prior to June 30, 2020, utilized the proceeds for payroll and other qualified expenses, 2) the School intends to utilize the remaining proceeds for payroll and other qualified expenses through fiscal year 2021, and 3) the School believes it will continue to comply with other terms and conditions necessary for forgiveness.

**The Prentice School**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

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The School concluded that the PPP loan should be accounted for as a government grant, according to the guidance in ASC 958-605, *Not for Profit Entities - Revenue Recognition*. Under the provisions of ASC 958-605, the PPP loan represents, in substance, a grant that is expected to be forgiven (a conditional contribution). The conditional contribution is recognized as grant income at a point in time once the conditions of release have been substantially met or explicitly waived; or over a period of time as it incurs qualifying PPP expenses. As discussed above, the School believes that it is probable that it will meet the terms of forgiveness, as it began utilizing the PPP proceeds for eligible expenses in the current year, and expects to fully utilize the PPP proceeds in an appropriate fashion next year. Accordingly, the School recognized a proportionate amount of PPP grant income of \$585,700 in the accompanying statement of activities during the year ended June 30, 2020. A deferred liability for the remainder of the PPP Loan is reflected in the accompanying statement of financial position as of June 30, 2020. The School expects that it will fully recognize the deferred liability as grant income in fiscal year 2021.

The School has not submitted its PPP loan forgiveness application. Although the School believes it is probable that the PPP Loan will be forgiven, the School's application must be evaluated by the lender and SBA before forgiveness is formally granted. Therefore, there is no guarantee that any portion of the PPP Loan proceeds will be forgiven; and the School is legally obligated to repay the PPP Loan until such time as legal release is received.

Future maturities of the PPP Loan, assuming it is not forgiven, as of June 30 are as follows:

2021	\$ 92,303
2022	<u>493,397</u>
	<u>\$ 585,700</u>

**11. CONTINGENCIES**

The School is subject to claims and suits arising in the ordinary course of operations. Although the outcome of these claims and suits cannot be determined at present, management estimates that any potential claims against the School not covered by insurance resulting from such litigation will not materially affect the School's financial condition.

**12. POTENTIAL IMPACT OF COVID-19**

The School is currently considering the impact of the COVID-19 virus on its potential for a reduction in tuition fees. While it is reasonably possible that the virus could have a negative effect on the School's financial condition, activities, and cash flows, the specific impact is not readily determinable as of the date of these financial statements.