

THE PRENTICE SCHOOL
Financial Statements
June 30, 2021 and 2020
With Independent Auditor's Report

The Prentice School
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June 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Prentice School

We have audited the accompanying financial statements of The Prentice School (the "School"), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

WithumSmith+Brown, PC

December 2, 2021

The Prentice School
Statements of Financial Position
June 30, 2021 and 2020

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>2021</u>	<u>2020</u>
Assets				
Cash and cash equivalents	\$ 2,156,788	\$ 77,340	\$ 2,234,128	\$ 1,312,956
Accounts receivable (net of allowance for doubtful accounts of \$15,000 and \$25,000, respectively)	122,172	-	122,172	160,387
Prepaid expenses and other assets	61,185	-	61,185	62,011
Investments	1,689,665	-	1,689,665	1,450,566
Property, furniture and equipment, net	<u>4,661,057</u>	<u>-</u>	<u>4,661,057</u>	<u>4,681,428</u>
Total assets	<u>\$ 8,690,867</u>	<u>\$ 77,340</u>	<u>\$ 8,768,207</u>	<u>\$ 7,667,348</u>
Liabilities and Net Assets				
Current liabilities				
Accounts payable	\$ 35,919	\$ -	\$ 35,919	\$ 25,196
Accrued liabilities	241,628	-	241,628	237,005
Deferred revenue	899,693	-	899,693	910,886
Current portion of long-term debt	<u>1,707</u>	<u>-</u>	<u>1,707</u>	<u>10,240</u>
Total current liabilities	1,178,947	-	1,178,947	1,183,327
Long-term liabilities				
Long-term debt, net of current portion	<u>-</u>	<u>-</u>	<u>-</u>	<u>853</u>
Total liabilities	<u>1,178,947</u>	<u>-</u>	<u>1,178,947</u>	<u>1,184,180</u>
Net assets				
Without donor restrictions				
Net investment in property and equipment	4,661,057	-	4,661,057	4,681,428
Board designated	77,725	-	77,725	-
Undesignated	2,773,138	-	2,773,138	1,801,740
With donor restrictions	<u>-</u>	<u>77,340</u>	<u>77,340</u>	<u>-</u>
Total net assets	<u>7,511,920</u>	<u>77,340</u>	<u>7,589,260</u>	<u>6,483,168</u>
Total liabilities and net assets	<u>\$ 8,690,867</u>	<u>\$ 77,340</u>	<u>\$ 8,768,207</u>	<u>\$ 7,667,348</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, 2021 and 2020

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>2021</u>	<u>2020</u>
Revenues and support				
Tuition and fees, net	\$ 3,583,844	\$ -	\$ 3,583,844	\$ 3,405,476
Grants and contributions	509,575	77,340	586,915	516,472
Auxiliary activities	184,816	-	184,816	179,096
Special events (net of direct expenses of \$81,088 and \$98,466, respectively)	247,793	-	247,793	176,128
Realized and unrealized gains and (losses)	250,335	-	250,335	(3,979)
Other income	250	-	250	1,151
Total revenues and support without donor restrictions	<u>4,776,613</u>	<u>77,340</u>	<u>4,853,953</u>	<u>4,274,344</u>
Expenses				
Program services				
Instruction	<u>3,109,858</u>	<u>-</u>	<u>3,109,858</u>	<u>3,125,376</u>
Supporting services				
General and administrative	527,871	-	527,871	526,295
Development	<u>110,132</u>	<u>-</u>	<u>110,132</u>	<u>128,048</u>
Total supporting services	<u>638,003</u>	<u>-</u>	<u>638,003</u>	<u>654,343</u>
Total expenses	<u>3,747,861</u>	<u>-</u>	<u>3,747,861</u>	<u>3,779,719</u>
Changes in net assets	1,028,752	77,340	1,106,092	494,625
Net assets				
Beginning of year	<u>6,483,168</u>	<u>-</u>	<u>6,483,168</u>	<u>5,988,543</u>
End of year	<u>\$ 7,511,920</u>	<u>\$ 77,340</u>	<u>\$ 7,589,260</u>	<u>\$ 6,483,168</u>

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

The Prentice School
Statement of Functional Expenses
Year Ended June 30, 2021

	<u>Program Services</u>	<u>Supporting Services</u>			<u>Total Expenses 2021</u>
	<u>Instruction</u>	<u>General and Administrative</u>	<u>Development</u>	<u>Total</u>	
Salaries	\$ 1,961,213	\$ 271,109	\$ 74,988	\$ 346,097	\$ 2,307,310
Payroll taxes and employee benefits	440,238	60,857	16,833	77,690	517,928
Total salaries and related expenses	<u>2,401,451</u>	<u>331,966</u>	<u>91,821</u>	<u>423,787</u>	<u>2,825,238</u>
Advertising and marketing	-	-	5,485	5,485	5,485
Bad debt	-	36,804	-	36,804	36,804
Bank fees	-	5,093	5,094	10,187	10,187
Board meeting	-	510	-	510	510
Books and curriculum	10,772	-	-	-	10,772
Equipment expenses	4,882	-	-	-	4,882
Events	-	81,088	-	81,088	81,088
Insurance	24,118	3,405	851	4,256	28,374
Miscellaneous	10,669	6,717	-	6,717	17,386
Outside services	132,883	68,744	-	68,744	201,627
Payroll fees	6,381	1,197	399	1,596	7,977
Postage and shipping	-	2,109	527	2,636	2,636
Professional and development fees	81,445	23,416	-	23,416	104,861
Rent	49,282	-	-	-	49,282
Repairs and maintenance	108,773	-	-	-	108,773
Student activities	2,066	-	-	-	2,066
Supplies	16,857	658	658	1,316	18,173
Taxes, licenses and permits	9,967	11,134	-	11,134	21,101
Technology and utilities	120,547	17,305	-	17,305	137,852
Training and development	20,552	248	143	391	20,943
Total other expense before depreciation	<u>599,194</u>	<u>258,428</u>	<u>13,157</u>	<u>271,585</u>	<u>870,779</u>
Depreciation	<u>109,213</u>	<u>18,565</u>	<u>5,154</u>	<u>23,719</u>	<u>132,932</u>
Total expenses	<u>3,109,858</u>	<u>608,959</u>	<u>110,132</u>	<u>719,091</u>	<u>3,828,949</u>
Less: Expenses included within revenues					
Direct cost of donor benefits	<u>-</u>	<u>(81,088)</u>	<u>-</u>	<u>(81,088)</u>	<u>(81,088)</u>
Total expenses included in the expense section of the statement of activities and changes in net assets	<u>\$ 3,109,858</u>	<u>\$ 527,871</u>	<u>\$ 110,132</u>	<u>\$ 638,003</u>	<u>\$ 3,747,861</u>

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

The Prentice School
Statement of Functional Expenses
Year Ended June 30, 2020

	<u>Program Services</u>	<u>Supporting Services</u>			<u>Total Expenses 2020</u>
	<u>Instruction</u>	<u>General and Administrative</u>	<u>Development</u>	<u>Total</u>	
Salaries	\$ 1,967,600	\$ 273,533	\$ 74,055	\$ 347,588	\$ 2,315,188
Payroll taxes and employee benefits	450,302	62,601	16,948	79,549	529,851
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>
Advertising and marketing	-	-	14,996	14,996	14,996
Bad debt	-	34,507	-	34,507	34,507
Bank fees	-	8,676	5,193	13,869	13,869
Board meeting	-	494	-	494	494
Books and curriculum	20,185	-	-	-	20,185
Equipment expenses	25,690	-	-	-	25,690
Events	-	98,466	-	98,466	98,466
Insurance	22,877	3,230	807	4,037	26,914
Outside services	169,845	65,218	184	65,402	235,247
Payroll fees	5,866	1,100	367	1,467	7,333
Postage and shipping	-	2,923	731	3,654	3,654
Professional and development fees	45,753	24,774	144	24,918	70,671
Repairs and maintenance	217,851	-	-	-	217,851
Student activities	28,823	-	-	-	28,823
Supplies	17,390	1,373	-	1,373	18,763
Taxes, licenses and permits	10,151	23,494	-	23,494	33,645
Technology and utilities	26,060	9,749	-	9,749	35,809
Total other expense before depreciation	<u>590,491</u>	<u>274,004</u>	<u>22,422</u>	<u>296,426</u>	<u>886,917</u>
Depreciation	<u>116,983</u>	<u>14,623</u>	<u>14,623</u>	<u>29,246</u>	<u>146,229</u>
Total expenses	<u>3,125,376</u>	<u>624,761</u>	<u>128,048</u>	<u>752,809</u>	<u>3,878,185</u>
Less: Expenses included within revenues					
Direct cost of donor benefits	<u>-</u>	<u>(98,466)</u>	<u>-</u>	<u>(98,466)</u>	<u>(98,466)</u>
Total expenses included in the expense section of the statement of activities and changes in net assets	<u>\$ 3,125,376</u>	<u>\$ 526,295</u>	<u>\$ 128,048</u>	<u>\$ 654,343</u>	<u>\$ 3,779,719</u>

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

The Prentice School
Statements of Cash flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating activities		
Changes in net assets	\$ 1,106,092	\$ 494,625
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	132,932	146,229
(Recovery of) provision for bad debts	(10,000)	15,000
Realized and unrealized (gains) and losses	(250,335)	3,977
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable, net	48,215	(69,568)
Prepaid expenses and other assets	826	27,737
Increase (decrease) in		
Accounts payable	10,723	(6,952)
Accrued liabilities	4,623	21,057
Deferred revenue	(11,193)	356,250
Net cash and cash equivalents provided by operating activities	<u>1,031,883</u>	<u>988,355</u>
Investing activities		
Proceeds from sale of investments	576,391	250,882
Purchases of investments	(565,155)	(245,601)
Purchases of property and equipment	(112,561)	(65,562)
Net cash and cash equivalents (used in) provided by investing activities	<u>(101,325)</u>	<u>(60,281)</u>
Financing activities		
Repayments on long-term debt	(9,386)	(10,241)
Net cash and cash equivalents (used in) financing activities	<u>(9,386)</u>	<u>(10,241)</u>
Net change in cash and cash equivalents	921,172	917,833
Cash and cash equivalents		
Beginning of year	<u>1,312,956</u>	<u>395,123</u>
End of year	<u>\$ 2,234,128</u>	<u>\$ 1,312,956</u>

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

The Prentice School

Notes to Financial Statements

June 30, 2021 and 2020

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.

Despite the challenges faced due to the unprecedented mandates relating to the novel coronavirus pandemic, during the years ended June 30, 2021 and 2020, 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 Paycheck Protection Program loan and full 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 its programs, 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 ("U.S. 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, 2021, there were \$77,340 of net assets with donor restrictions. As of June 30, 2020, there were no net assets with donor restrictions.

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.

The Prentice School
Notes to Financial Statements
June 30, 2021 and 2020

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. For the years ended June 30, 2021 and 2020, those amounts which meet the criteria for recognition in the financial statements are included in contribution income.

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 ("U.S. GAAP"). An allowance for doubtful accounts is estimated and recorded based on management's judgment and past experience. The allowance as of June 30, 2021 and 2020, is \$15,000 and \$25,000, respectively.

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 - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds and Exchange-Traded Funds - Valued at the net asset value of shares held at year end. The value of the 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 Prentice School
Notes to Financial Statements
June 30, 2021 and 2020

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.

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, 2021 and 2020.

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 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 or the applicable expenses are incurred.

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

	<u>2021</u>	<u>2020</u>
Tuition	\$ 899,693	\$ 575,186
Paycheck Protection Program	-	335,700
	<u>\$ 899,693</u>	<u>\$ 910,886</u>

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Revenue Recognition and Recently Adopted Accounting Policies

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers* (“ASC 606”) which outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance, and ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services, by allocating transaction price to identified performance obligations, and recognizing the revenue as performance obligations are satisfied. The School adopted ASC 606 as of July 1, 2020 using the full retrospective transition method. The guidance did not have significant impact on the School’s financial statements.

Revenue is recognized when control of promised goods or services is transferred to customers, in an amount that reflects the consideration the School expects to be entitled to in exchange for those goods or services.

Tuition and Fees

Tuition and fees income is derived from day school services provided. Tuition revenue is recognized in the school year that scholastic services are provided. Gross tuition and fees reflects the School’s normal tuition rates for all students. Dependents of the School’s employees pay reduced tuition rates. The dependent tuition discount, the sibling discount and scholarships awarded to students are netted against gross tuition and fees. Tuition revenue is billed prior to the beginning of the academic year and is recognized ratably over the academic term to which it relates based on time elapsed. Financial and other discounts provided to students reduces the amount of revenue recognized.

Scholarships given on the basis of financial need as well as dependent tuition reductions are 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, 2021 and 2020, respectively. For the years ended June 30, 2021 and 2020, scholarships have been netted as a component of tuition and fee revenue totaling \$402,750 and \$310,269, respectively.

Auxiliary Activities

The School has various auxiliary activities that operate on campus, including occupational and speech therapy, and tutoring services. The revenue from such activities is recognized at a point in time when the service is provided.

Special Events

Special events consist of fundraising activities for the benefit of the School and its students. Revenues from special events are recorded at a point in time at the occurrence of the event.

Contributions and Grants

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 Prentice School

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Grant awards that are contributions – Grant awards that qualify as contributions are recorded as invoiced to the funding sources. Revenue is recognized in the accounting period when the related allowable expenses are incurred.

New Accounting Pronouncements Note Yet Adopted

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
- 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.

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 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 2015. 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, 2021 and 2019 was \$51,517 and \$42,646, respectively and is included in accrued liabilities in the statements of financial position.

The Prentice School

Notes to Financial Statements

June 30, 2021 and 2020

Advertising Expense

Advertising and marketing costs are charged to operations when incurred. For the years ended June 30, 2021 and 2020, advertising and marketing costs totaled \$5,485 and \$14,996, respectively.

Fair Value Measurements and Recently Adopted Accounting Principle

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.

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.

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-13, Fair Value Measurement (Topic 820) *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). ASU 2018-13 eliminates and modifies certain existing reporting requirements related to fair value measurements. The School adopted ASU 2018-13 in the year ended June 30, 2021, and the adoption did not have a material impact on the School's financial statements.

Risk of Uncertainties

Management is currently evaluating the impact of the COVID-19 pandemic on the industry and has concluded that while it is reasonably possible that the virus could have a negative effect on the Organization's financial position, results of its operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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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	Time and effort
Payroll taxes and employee benefits	Time and effort
Payroll fees	Time and effort
Depreciation	Square footage
Insurance	Square footage
Technology and utilities	Square footage

For certain expenses reported on the accompanying statement of functional expenses including advertising and marketing, bad debt, board meeting, books and curriculum, equipment expenses, events, miscellaneous, outside services, professional and development fees, rent, repairs and maintenance, student activities, supplies, and training and development, the cost directly attributable to program or supporting services has been allocated as such.

Reclassification

Certain accounts in the June 30, 2020 presentation of the financial statements have been reclassified to conform with the current year presentation.

Subsequent Events

The School evaluated subsequent events through December 2, 2021, the date these financial statements were issued. 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>2021</u>	<u>2020</u>
Financial assets		
Cash and cash equivalents	\$ 2,234,128	\$ 1,312,956
Accounts receivable, net	122,172	160,387
Investments	<u>1,689,665</u>	<u>1,450,566</u>
Total financial assets	4,045,965	2,923,909
Less: Financial assets not available for general expenditures		
within one year due to donor imposed restrictions	<u>(77,340)</u>	<u>-</u>
Financial assets available to meet general expenditures		
over the next twelve months	<u>\$ 3,968,625</u>	<u>\$ 2,923,909</u>

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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.

3. INVESTMENTS

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

	Assets at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Investments				
Exchange traded funds	\$ 836,604	\$ -	\$ -	\$ 836,604
Mutual funds	797,022	-	-	797,022
Private equity investment (a)	-	-	56,039	56,039
	<u>\$ 1,633,626</u>	<u>\$ -</u>	<u>\$ 56,039</u>	<u>\$ 1,689,665</u>

	Assets at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Investments				
Exchange traded funds	\$ 632,913	\$ -	\$ -	\$ 632,913
Mutual funds	761,614	-	-	761,614
Private equity investment (a)	-	-	56,039	56,039
	<u>\$ 1,394,527</u>	<u>\$ -</u>	<u>\$ 56,039</u>	<u>\$ 1,450,566</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. During the years ended June 30, 2021 and 2020, there were no transfers out of, or purchases of Level 3 assets.

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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:

	<u>2021</u>	<u>2020</u>
Land	\$ 2,806,810	\$ 2,806,810
Buildings	2,616,276	2,616,276
Furniture and fixtures	225,840	209,428
Computers	353,772	349,554
Office equipment	129,626	125,964
Textbooks	129,825	129,825
Building improvements	<u>1,271,528</u>	<u>1,183,259</u>
Total property, furniture and equipment	7,533,677	7,421,116
Less: Accumulated depreciation	<u>(2,872,620)</u>	<u>(2,739,688)</u>
Net property, furniture and equipment	<u>\$ 4,661,057</u>	<u>\$ 4,681,428</u>

Total depreciation expense for the years ended June 30, 2021 and 2020 was \$132,932 and \$146,229, respectively.

5. BOARD DESIGNATED FUNDS

The board of directors adopted a resolution to establish a reserve fund for future facilities maintenance and repairs. As this reserve was established pursuant to board of director-imposed restrictions, the assets designated to this reserve are included in the School's net assets without donor restriction. The amount designated to the reserve was \$77,125 as of June 30, 2021. No amounts were designated to the reserve as of June 30, 2020.

6. LONG-TERM DEBT

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

	<u>2021</u>	<u>2020</u>
Unsecured loan payable to lender through Energy Efficiency Program, payable in monthly installments of \$853 with no interest, repaid in full in August 2021.	\$ <u>1,707</u>	\$ <u>11,093</u>
	1,707	11,093
Less: Current portion	<u>(1,707)</u>	<u>(10,240)</u>
	<u>\$ -</u>	<u>\$ 853</u>

The aggregate maturities of the long-term debt as of June 30:

2022	<u>\$ 1,707</u>
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7. ACCRUED LIABILITIES

Accrued liabilities at June 30, 2021 and 2020 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Payroll and taxes	\$ 84,487	\$ 91,649
Pension contribution	103,786	100,368
Vacation	51,517	42,646
Other	<u>1,838</u>	<u>2,342</u>
	<u>\$ 241,628</u>	<u>\$ 237,005</u>

8. 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:

2022	\$ 35,018
2023	<u>9,156</u>
	<u>\$ 44,174</u>

9. RELATED PARTY TRANSACTIONS

Various board members make contributions to the School through donations, fundraising events and volunteer time. For the years ended June 30, 2021 and 2020, cash donations from board members totaled \$102,699 and \$182,976, respectively.

10. 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, 2021 and 2020 totaling \$93,856 and \$92,088, respectively.

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, 2021 and 2020 totaling \$9,930 and \$8,280, respectively.

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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%

11. NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2021, the School held net assets with donor restrictions in the amounts of \$27,850 and \$49,490 which were restricted for the teach fund and scholarship fund, respectively. As of June 30, 2020, the School did not hold any net assets with donor restrictions. During the years ended June 30, 2021 and 2020, there were no net assets with donor restriction that were released from restriction.

12. PAYCHECK PROTECTION PROGRAM

On April 2020, the School issued an unsecured promissory note (the "PPP Loan") for \$585,700 through the PPP established under the CARES Act and administered by the U.S. Small Business Administration ("SBA"). The PPP Loan was 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 PPP Loan was made through Community Reinvestment Fund, USA, had a two-year term, bore interest at 1.00% per annum, and had an original maturity date of April 2022.

The School concluded that the PPP Loan should be accounted for as a government grant. 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 met or explicitly waived; or over a period of time as it incurs qualifying PPP expenses. As discussed above, the School met the terms of forgiveness prior to June 30, 2021 and was granted full forgiveness by the SBA. Accordingly, the School recognized PPP grant income on June 30, 2021 and 2020 for \$250,000 and \$335,700 of the PPP Loan in the accompanying statement of activities, respectively.

13. 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.