

THE PRENTICE SCHOOL
Financial Statements
June 30, 2023 and 2022
With Independent Auditor's Report

The Prentice School
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June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Prentice School:

Opinion

We have audited the financial statements of The Prentice School (the "School"), which comprise the statements of financial position as of June 30, 2023 and 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the School's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in the report dated December 2, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Withum Smith & Brown, PC

December 14, 2023

The Prentice School
Statements of Financial Position
June 30, 2023 and 2022

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>2023</u>	<u>2022</u>
Assets				
Cash and cash equivalents	\$ 3,099,772	\$ 169,601	\$ 3,269,373	\$ 2,679,005
Accounts receivable (net of allowance for doubtful accounts of \$15,000 and \$15,000, respectively)	104,408	-	104,408	87,404
Employee retention credit receivable	1,116,925	-	1,116,925	-
Prepaid expenses and other assets	44,921	-	44,921	56,647
Investments	1,900,717	-	1,900,717	1,884,916
Property, furniture and equipment, net	<u>5,023,704</u>	<u>-</u>	<u>5,023,704</u>	<u>4,899,202</u>
Total assets	<u>\$ 11,290,447</u>	<u>\$ 169,601</u>	<u>\$ 11,460,048</u>	<u>\$ 9,607,174</u>
Liabilities and Net Assets				
Current liabilities				
Accounts payable	\$ 29,866	\$ -	\$ 29,866	\$ 21,272
Accrued liabilities	367,052	-	367,052	362,204
Deferred revenue	<u>892,431</u>	<u>-</u>	<u>892,431</u>	<u>824,381</u>
Total liabilities	<u>1,289,349</u>	<u>-</u>	<u>1,289,349</u>	<u>1,207,857</u>
Net assets				
Without donor restrictions				
Net investment in property and equipment	5,023,704	-	5,023,704	4,899,202
Board designated	548,209	-	548,209	251,140
Undesignated	4,429,185	-	4,429,185	3,070,698
With donor restrictions	<u>-</u>	<u>169,601</u>	<u>169,601</u>	<u>178,277</u>
Total net assets	<u>10,001,098</u>	<u>169,601</u>	<u>10,170,699</u>	<u>8,399,317</u>
Total liabilities and net assets	<u>\$ 11,290,447</u>	<u>\$ 169,601</u>	<u>\$ 11,460,048</u>	<u>\$ 9,607,174</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, 2023 and 2022

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>2023</u>	<u>2022</u>
Revenues and support				
Tuition and fees, net	\$ 4,306,171	\$ -	\$ 4,306,171	\$ 4,213,197
Grants and contributions	314,150	169,601	483,751	513,124
Auxiliary activities	257,654	-	257,654	198,144
Special events (net of direct expenses of \$183,333 and \$163,548 respectively)	222,098	-	222,098	326,498
Realized and unrealized gains and (losses)	43,098	-	43,098	(200,083)
Interest income	59,367	-	59,367	30,822
Other income	3,099	-	3,099	570
Net assets released from restrictions	<u>178,277</u>	<u>(178,277)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>5,383,914</u>	<u>(8,676)</u>	<u>5,375,238</u>	<u>5,082,272</u>
Expenses				
Program services				
Instruction	<u>3,937,771</u>	<u>-</u>	<u>3,937,771</u>	<u>3,507,993</u>
Supporting services				
General and administrative	676,696	-	676,696	652,022
Development	<u>106,314</u>	<u>-</u>	<u>106,314</u>	<u>112,200</u>
Total supporting services	<u>783,010</u>	<u>-</u>	<u>783,010</u>	<u>764,222</u>
Total expenses	<u>4,720,781</u>	<u>-</u>	<u>4,720,781</u>	<u>4,272,215</u>
Other income				
Employee retention credit income	<u>1,116,925</u>	<u>-</u>	<u>1,116,925</u>	<u>-</u>
Total other income	<u>1,116,925</u>	<u>-</u>	<u>1,116,925</u>	<u>-</u>
Changes in net assets	1,780,058	(8,676)	1,771,382	810,057
Net assets				
Beginning of year	<u>8,221,040</u>	<u>178,277</u>	<u>8,399,317</u>	<u>7,589,260</u>
End of year	<u>\$ 10,001,098</u>	<u>\$ 169,601</u>	<u>\$ 10,170,699</u>	<u>\$ 8,399,317</u>

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

**The Prentice School
Statement of Functional Expenses
Year Ended June 30, 2023**

	Program Services	Supporting Services			Total Expenses 2023
	Instruction	General and Administrative	Development	Total	
Salaries	\$ 2,482,209	\$ 343,377	\$ 84,389	\$ 427,766	\$ 2,909,975
Payroll taxes and employee benefits	554,721	76,738	18,859	95,597	650,318
Total salaries and related expenses	<u>3,036,930</u>	<u>420,115</u>	<u>103,248</u>	<u>523,363</u>	<u>3,560,293</u>
Advertising and marketing	17,440	-	-	-	\$ 17,440
Bad debt	-	6,762	-	6,762	6,762
Bank fees	-	267	-	267	267
Board meeting	-	49	-	49	49
Books and curriculum	14,140	-	-	-	14,140
Equipment expenses	7,463	-	-	-	7,463
Events	1,765	-	181,568	181,568	183,333
Insurance	32,511	4,265	1,048	5,313	37,824
Miscellaneous	5,271	5,272	-	5,272	10,543
Outside services	52,662	166,764	-	166,764	219,426
Payroll fees	8,398	1,162	286	1,448	9,846
Postage and shipping	-	433	1,732	2,165	2,165
Professional and development fees	178,718	24,511	-	24,511	203,229
Lease	46,442	-	-	-	46,442
Repairs and maintenance	99,199	-	-	-	99,199
Student activities	43,238	-	-	-	43,238
Supplies	26,573	-	-	-	26,573
Taxes, licenses and permits	-	14,083	-	14,083	14,083
Technology and utilities	132,052	33,013	-	33,013	165,065
Training and development	57,228	-	-	-	57,228
Total other expense before depreciation	<u>723,100</u>	<u>256,581</u>	<u>184,634</u>	<u>441,215</u>	<u>1,164,315</u>
Depreciation	<u>179,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179,506</u>
Total expenses	3,939,536	676,696	287,882	964,578	4,904,114
Less: Expenses included within revenues					
Direct cost of donor benefits	<u>(1,765)</u>	<u>-</u>	<u>(181,568)</u>	<u>(181,568)</u>	<u>(183,333)</u>
Total expenses included in the expense section of the statement of activities and changes in net assets	<u>\$ 3,937,771</u>	<u>\$ 676,696</u>	<u>\$ 106,314</u>	<u>\$ 783,010</u>	<u>\$ 4,720,781</u>

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

The Prentice School
Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services	Supporting Services			Total Expenses 2022
	Instruction	General and Administrative	Development	Total	
Salaries	\$ 2,265,181	\$ 313,128	\$ 86,610	\$ 399,738	\$ 2,664,919
Payroll taxes and employee benefits	497,992	68,840	19,041	87,881	585,873
Total salaries and related expenses	<u>2,763,173</u>	<u>381,968</u>	<u>105,651</u>	<u>487,619</u>	<u>3,250,792</u>
Advertising and marketing	10,746	-	-	-	10,746
Bad debt	-	12,513	-	12,513	12,513
Bank fees	-	4,371	4,371	8,742	8,742
Board meeting	-	345	-	345	345
Books and curriculum	17,824	-	-	-	17,824
Equipment expenses	6,450	-	-	-	6,450
Events	8,158	-	155,390	155,390	163,548
Insurance	30,720	4,247	1,175	5,422	36,142
Miscellaneous	8,830	8,830	-	8,830	17,660
Outside services	64,244	165,201	-	165,201	229,445
Payroll fees	5,289	992	331	1,323	6,612
Postage and shipping	-	2,690	672	3,362	3,362
Professional and development fees	83,106	22,403	-	22,403	105,509
Lease	45,108	-	-	-	45,108
Repairs and maintenance	101,860	-	-	-	101,860
Student activities	21,055	-	-	-	21,055
Supplies	18,206	-	-	-	18,206
Taxes, licenses and permits	-	13,208	-	13,208	13,208
Technology and utilities	141,014	35,254	-	35,254	176,268
Training and development	30,495	-	-	-	30,495
Total other expense before depreciation	<u>593,105</u>	<u>270,054</u>	<u>161,939</u>	<u>431,993</u>	<u>1,025,098</u>
Depreciation	<u>159,873</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,873</u>
Total expenses	<u>3,516,151</u>	<u>652,022</u>	<u>267,590</u>	<u>919,612</u>	<u>4,435,763</u>
Less: Expenses included within revenues					
Direct cost of donor benefits	<u>(8,158)</u>	<u>-</u>	<u>(155,390)</u>	<u>(155,390)</u>	<u>(163,548)</u>
Total expenses included in the expense section of the statement of activities and changes in net assets	<u>\$ 3,507,993</u>	<u>\$ 652,022</u>	<u>\$ 112,200</u>	<u>\$ 764,222</u>	<u>\$ 4,272,215</u>

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

The Prentice School
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating activities		
Changes in net assets	\$ 1,771,382	\$ 810,057
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	179,506	159,873
Realized and unrealized (gains) and losses	(28,063)	254,244
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable, net	(17,004)	34,768
Employee retention credit receivable	(1,116,925)	-
Prepaid expenses and other assets	11,726	4,538
Increase (decrease) in		
Accounts payable	8,594	(14,648)
Accrued liabilities	4,848	120,576
Deferred revenue	68,050	(75,313)
Net cash and cash equivalents provided by operating activities	<u>882,114</u>	<u>1,294,095</u>
Investing activities		
Proceeds from sale of investments	1,688,313	1,238,313
Purchases of investments	(1,676,051)	(1,687,807)
Purchases of property and equipment	<u>(304,008)</u>	<u>(398,017)</u>
Net cash and cash equivalents used in investing activities	<u>(291,746)</u>	<u>(847,511)</u>
Financing activities		
Repayments on long-term debt	<u>-</u>	<u>(1,707)</u>
Net cash and cash equivalents used in financing activities	<u>-</u>	<u>(1,707)</u>
Net change in cash and cash equivalents	590,368	444,877
Cash and cash equivalents		
Beginning of year	<u>2,679,005</u>	<u>2,234,128</u>
End of year	<u>\$ 3,269,373</u>	<u>\$ 2,679,005</u>

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

The Prentice School

Notes to Financial Statements

June 30, 2023 and 2022

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. 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. The School's support consists of tuition and contributions from donors primarily located in Southern California.

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, 2023 and 2022, there were \$169,601 and \$178,277, respectively, of 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.

Comparative Data

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements as of and for the year ended June 30 of the prior year from which the summarized information was derived.

The Prentice School
Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 and 2022, those amounts which meet the criteria for recognition in the financial statements are included in contribution income.

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, 2023 and 2022 is \$15,000.

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 following is a description of the valuation methodologies used for assets measured at fair value:

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.

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.

The Prentice School
Notes to Financial Statements
June 30, 2023 and 2022

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 Assets

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, 2023 and 2022.

Deferred Revenue

Deferred revenue results from the School recognizing registration and tuition revenue in the period in which the related educational instruction is performed. Accordingly, registration and tuition fees received for the next school term are deferred until the instruction commences or the applicable expenses are incurred. As of June 30, 2023 and 2022, deferred revenues were \$892,431 and \$824,381, respectively. As of July 1, 2021, deferred revenues was \$899,693.

Revenue Recognition

The Financial Accounting Standards Board ("FASB") issued guidance that created Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), in the Accounting Standards Codification ("ASC"). ASC 606 established a core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. In doing so, companies need to use more judgment and make more estimates than under prior guidance. Judgments include identifying performance obligations in the contract, estimating the amount of consideration to include in the transaction price, and allocating the transaction price to each performance obligation. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in Topic 606.

The Prentice School
Notes to Financial Statements
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In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under its agreements, the School performs the following steps: (i) identify contracts with customers; (ii) identify performance obligations; (iii) determine the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the School satisfies each performance obligation. As of July 1, 2021, accounts receivables was \$122,172.

The following summarizes the School's performance obligations:

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, 2023 and 2022, respectively. For the years ended June 30, 2023 and 2022, scholarships have been netted as a component of tuition and fee revenue totaling \$476,176 and \$466,243, 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.

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.

The Prentice School
Notes to Financial Statements
June 30, 2023 and 2022

Contributed Nonfinancial Assets

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

Donated materials and other nonfinancial contributions are reflected in the accompanying financial statements at their estimated market values at date of receipt. Contributed services are recognized if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have donated significant amounts of their time and services in the School’s fundraising campaigns and other activities. Only those amounts that meet the criteria above are recorded in the accompanying financial statements.

The School received donations of various noncash assets, such as materials that were used for operating activities. Contributed materials in the amounts of \$41,194 and \$2,405 are recorded as income and expense in the statements of activities and changes in net assets for the years ended June 30, 2023 and 2022, respectively.

Leases

The School categorizes leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that allow us to substantially utilize or pay for the entire asset over its estimated life. All other leases are categorized as operating leases. The School had no finance leases during 2023 and 2022.

Certain lease contracts include obligations to pay for other services, such as operations, property taxes, and maintenance. For leases of property, the School accounts for these other services as a component of the lease.

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

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

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

Lease expense for the years ended June 30, 2023 and 2022 were \$46,442 and \$45,108, respectively.

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Recent Accounting Pronouncement - Adopted

In February 2016, the FASB issued an ASU amending the accounting for leases. The School adopted the new standard effective July 1, 2022, using the modified retrospective approach. Comparative prior periods were not adjusted upon adoption, as the School utilized the practical expedient available under the guidance. Further, the School elected to implement the package of practical expedients, whereby the School did not (i) reassess existing contracts for embedded leases, (ii) reassess existing lease agreements for finance or operating classification, or (iii) reassess existing lease agreements in consideration of initial direct costs. The implementation of this standard did not have a material impact to statements of activities or cash flows.

Upon adoption, the School did not recognize a ROU assets related to its leased property and equipment as it did not have a material effect on the financial statements. Corresponding lease liabilities were also not recognized. There was no cumulative effect of applying the new standard and accordingly there was no adjustment to net assets upon adoption.

Recent Accounting Pronouncements - Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*. This update requires immediate recognition of management's estimates of current expected credit losses ("CECL"). Under the prior model, losses were recognized only as they were incurred. The new model is applicable to most financial assets and certain other instruments that are not measured at fair value through net income. Management is currently assessing the impact of this update on the financial statements. The standard is effective for the School's year ending June 30, 2024.

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 2017. 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, 2023 and 2022 was \$35,252 and \$52,295, respectively, and is included in accrued liabilities in the statements of financial position.

Advertising Expense

Advertising and marketing costs are charged to operations when incurred. For the years ended June 30, 2023 and 2022, advertising and marketing costs totaled \$17,440 and \$10,746, respectively.

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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.

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	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

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For certain expenses reported on the accompanying statements 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.

Subsequent Events

The School evaluated subsequent events through December 14, 2023, 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>2023</u>	<u>2022</u>
Financial assets		
Cash and cash equivalents	\$ 3,269,373	\$ 2,679,005
Accounts receivable, net	104,408	87,404
Employee retention credit receivable	1,116,925	-
Investments	<u>1,900,717</u>	<u>1,884,916</u>
Total financial assets	6,391,423	4,651,325
Less: Financial assets not available for general expenditures		
within one year due to donor imposed restrictions	<u>(169,601)</u>	<u>(178,277)</u>
Financial assets available to meet general expenditures		
over the next twelve months	<u>\$ 6,221,822</u>	<u>\$ 4,473,048</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.

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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:

	Assets at Fair Value as of June 30, 2023			
	Level 1	Level 2	Level 3	Total
Investments				
Exchange traded funds	\$ 1,302,517	\$ -	\$ -	\$ 1,302,517
Mutual funds	598,200	-	-	598,200
	<u>\$ 1,900,717</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,900,717</u>

	Assets at Fair Value as of June 30, 2022			
	Level 1	Level 2	Level 3	Total
Investments				
Exchange traded funds	\$ 1,347,425	\$ -	\$ -	\$ 1,347,425
Mutual funds	537,491	-	-	537,491
	<u>\$ 1,884,916</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,884,916</u>

4. PROPERTY, FURNITURE AND EQUIPMENT

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

	2023	2022
Land	\$ 2,806,810	\$ 2,806,810
Buildings	2,616,276	2,616,276
Furniture and fixtures	289,224	277,685
Computers	446,051	446,051
Office equipment	193,394	163,507
Textbooks	158,869	158,869
Building improvements	<u>1,725,079</u>	<u>1,462,497</u>
Total property, furniture and equipment	8,235,703	7,931,695
Less: Accumulated depreciation	<u>(3,211,999)</u>	<u>(3,032,493)</u>
Net property, furniture and equipment	<u>\$ 5,023,704</u>	<u>\$ 4,899,202</u>

Total depreciation expense for the years ended June 30, 2023 and 2022 was \$179,506 and \$159,873, 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 \$548,209 and \$251,140 as of June 30, 2023 and 2022, respectively.

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Notes to Financial Statements
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6. ACCRUED LIABILITIES

Accrued liabilities at June 30, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Payroll and taxes	\$ 244,068	\$ 195,423
Pension contribution	85,840	106,888
Vacation	35,252	52,295
Other	<u>1,892</u>	<u>7,598</u>
	<u>\$ 367,052</u>	<u>\$ 362,204</u>

7. RELATED PARTY TRANSACTIONS

Various board members make contributions to the School through donations, fundraising events and volunteer time. For the years ended June 30, 2023 and 2022, cash donations from board members totaled \$112,594 and \$159,180, respectively.

8. 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, 2023 and 2022 totaling \$79,747 and \$96,213, 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, 2023 and 2022 totaling \$6,093 and \$10,678, 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%

9. NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2023, the School held net assets with donor restrictions in the amounts of \$152,818 and \$16,783 which were restricted for the teacher's fund and scholarship fund, respectively. As of June 30, 2022, the School held net assets with donor restrictions in the amounts of \$170,702 and \$7,575 which were restricted for the scholarship fund and teacher's fund, respectively. During the years ended June 30, 2023 and 2022, net assets with donor restrictions totaling \$178,277 and \$77,340, respectively, were released from restriction.

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10. EMPLOYEE RETENTION CREDIT

The School has applied for the employee retention credit in the amount of \$1,116,925. The credit will be claimed against the School's payroll tax obligations for each calendar quarter based on the qualified wages, subject to certain limitations. For the year ended June 30, 2023, the School recorded revenue total \$1,116,925, which is included in employee retention credit income in the accompanying statements of activities.

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.