# THE WINSTON SCHOOL OF SAN DIEGO

## FINANCIAL STATEMENTS AND
## INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2022

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Cambaliza McGee LLP
CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS ADVISORS

# INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Winston School of San Diego
Del Mar, California

## Opinion

We have audited the financial statements of The Winston School of San Diego (the "School"), a non-profit organization, which comprise the statement of financial position as of June 30, 2022, and the related statement of activities, statement of functional expenses and statement of cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Winston School of San Diego as of June 30, 2022, 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.

## Basis of 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 Winston School of San Diego 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 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.

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.

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Auditor's Responsibility

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 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Winston School of San Diego'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 Winston School of San Diego'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.

Cambaliza McGee LLP

Newport Beach, California

June 14, 2023

**THE WINSTON SCHOOL OF SAN DIEGO**
**STATEMENT OF FINANCIAL POSITION**
**JUNE 30, 2022**

## ASSETS

| | |
|---|---|
| CURRENT ASSETS: | |
| Cash and cash equivalents | $ 2,578,649 |
| Accounts receivable, net of allowance for doubtful accounts of $40,000 | 319,545 |
| Inventory | 18,964 |
| Prepaid rent | 142,300 |
| Total current assets | 3,059,458 |
| PROPERTY AND EQUIPMENT: | |
| Leasehold improvements | 503,537 |
| Furniture and fixtures | 251,378 |
| Computers and equipment | 714,072 |
| Total property and equipment | 1,468,987 |
| Less: accumulated depreciation | (1,051,030) |
| Total property and equipment, net | 417,957 |
| NON CURRENT ASSETS: | |
| Deposits | 616 |
| TOTAL ASSETS | $ 3,478,031 |

## LIABILITIES AND NET ASSETS

| | |
|---|---|
| CURRENT LIABILITIES: | |
| Accounts payable | $ 127,931 |
| Accrued payroll and related expenses | 76,860 |
| Prepaid tuition | 77,630 |
| Total current liabilities | 282,421 |
| NET ASSETS: | |
| Without donor restrictions | 3,118,280 |
| With donor restrictions | 77,330 |
| Total net assets | 3,195,610 |
| TOTAL LIABILITIES AND NET ASSETS | $ 3,478,031 |

See accompanying notes to financial statements and independent auditor's report.

# THE WINSTON SCHOOL OF SAN DIEGO
## STATEMENT OF ACTIVITIES
## FOR THE YEAR ENDED JUNE 30, 2022

| | Without Donor Restrictions | With Donor Restrictions | 2022 |
|---|---|---|---|
| OPERATING REVENUE AND SUPPORT: | | | |
| Tuition | $ 2,989,251 | $ - | $ 2,989,251 |
| Contributions | 322,261 | 160,481 | 482,742 |
| Grants | - | 55,613 | 55,613 |
| Other | 44,622 | - | 44,622 |
| Total revenue and support before release of net asset restrictions | 3,356,134 | 216,094 | 3,572,228 |
| Net assets released from restrictions | 224,910 | (224,910) | - |
| TOTAL REVENUE AND SUPPORT | 3,581,044 | (8,816) | 3,572,228 |
| EXPENSES: | | | |
| Program management services | 2,529,206 | - | 2,529,206 |
| General and administrative | 1,317,223 | - | 1,317,223 |
| TOTAL EXPENSES | 3,846,429 | - | 3,846,429 |
| CHANGES IN NET ASSETS | (265,385) | (8,816) | (274,201) |
| NET ASSETS - BEGINNING OF YEAR | 3,383,665 | 86,146 | 3,469,811 |
| NET ASSETS - END OF YEAR | $ 3,118,280 | $ 77,330 | $ 3,195,610 |

See accompanying notes to financial statements and independent auditor's report.

# THE WINSTON SCHOOL OF SAN DIEGO
## STATMENT OF FUNCTIONAL EXPENSES
## FOR THE YEAR ENDED JUNE 30, 2022

| | Program Management Services | Support Services: General and Administrative | Support Services: Fundraising | 2022 Totals |
|---|---|---|---|---|
| Expenses: | | | | |
| Salaries and related costs | $ 1,776,281 | $ 870,605 | $ - | $ 2,646,886 |
| Educational expense | 141,658 | - | - | 141,658 |
| Rental expense and utilities | 246,333 | - | - | 246,333 |
| Repairs and maintenance | 89,963 | - | - | 89,963 |
| Depreciation | 112,607 | - | - | 112,607 |
| Professional fees | 23,052 | 446,618 | - | 469,670 |
| Office expense | 49,345 | - | - | 49,345 |
| Insurance | 47,165 | - | - | 47,165 |
| Bad debt expense | 30,000 | - | - | 30,000 |
| Promotion and advertising | 12,802 | - | - | 12,802 |
| Total expenses | $ 2,529,206 | $ 1,317,223 | $ - | $ 3,846,429 |

See accompanying notes to financial statements and independent auditor's report.

**THE WINSTON SCHOOL OF SAN DIEGO**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2022**

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Changes in net assets | $ (274,201) |
| Adjustments to reconcile changes in net assets provided by operating activities: | |
| Depreciation | 112,607 |
| Bad debt | 30,000 |
| Changes in operating assets and liabilities: | |
| (Increase) decrease in: | |
| Accounts receivable | 70,443 |
| Prepaid rent | 197,245 |
| Increase (decrease) in: | |
| Accounts payable | 97,866 |
| Accrued payroll and related expenses | 22,526 |
| Prepaid tuition | 21,888 |
| Net cash provided by operating activities | 278,374 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchases of property and equipment | (6,826) |
| Net cash used in investing activities | (6,826) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 271,548 |
| CASH AND CASH EQUIVALENTS BEGINNING OF YEAR | 2,307,101 |
| CASH AND CASH EQUIVALENTS END OF YEAR | $ 2,578,649 |

See accompanying notes to financial statements and independent auditor's report.

## NOTE A – ORGANIZATION

Business Activity

The Winston School of San Diego (the "School") is a non-profit Organization founded in 1988 which operates a School for children with learning differences.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncement

In February 2016, the FASB issued Accounting Standard Update ("ASU") 2016-02, Leases (Topic 842). The amendments in this ASU revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use ("ROU") asset for all leases. The amendments in this ASU are effective for the annual reporting period ending June 30, 2023 for the School, with early adoption permitted, and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Management has not yet determined what the effects of adopting this ASU will be on its financial statements.

Basis of Presentation

The financial statements of the School have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants ("AICPA") "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). ASC 958-205 was effective on January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, the net assets of the School and changes therein are classified as follows:

- 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. The School's board may designate assets without restrictions for specific operational purposes from time to time.

- 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.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

Contributions
Unconditional contributions are recognized when pledged and 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. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

Measure of Operations
The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to School's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

Functional Expenses
Functional expenses are those expenses incurred by the School in the accomplishment of its stated mission. The cost of providing the various program activities of the School have been summarized on a functional basis in the statement of activities and statement of functional expenses. These statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Personnel expenses are allocated on the basis of time and effort.

Property and Equipment
Property and equipment are stated at cost or donated fair market value at the date of the donation. Depreciation is computed using the straight-line method over the estimated useful lives (3 to 10 years) of the assets. Maintenance, repairs, and minor renewals are charged to operations as incurred. Upon sale or disposition of properties, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings. The School capitalizes fixed assets over $5,000.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

Estimates
The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents
For purposes of the statement of activities, the School considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Income Taxes
The School is a Not-for-Profit Organization exempt from income taxes under section 501(c)(3) of the Internal Revenue Code.

As of June 30, 2022 the School had no uncertain tax positions that require either recognition or disclosure in the financial statements. Additionally, the School had no interest and penalties related to income taxes.

The School files its income tax returns in the United States Federal and State Jurisdictions. The School is no longer subject to United States federal and state and local tax examinations by tax authorities for years before 2018.

Allowance for Doubtful Accounts
An allowance for doubtful accounts has established and includes a determination of accounts receivable for which collection is doubtful.

Inventory
Inventory consists of computers held for student use and is stated at the lower of cost or net realizable value.

Fair Value Measurements
The School defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The School applies fair value measurements to assets and liabilities that are required to be recorded at fair value under GAAP.

Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs and are categorized in a fair value hierarchy based on the transparency of inputs. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

Fair Value Measurements (Continued)

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

## NOTE C – PREPAID TUITION

Prepaid tuition is tuition for summer school and the 2022 - 2023 school year which may be fully or partially refundable.

## NOTE D – SCHOOL SITE

The School has an agreement with The City of Del Mar to be able to remain at its current location for at least 55 years. The Winston School contributed approximately $3,000,000 towards the purchase of the property by The City of Del Mar from The Del Mar Union School District.

In exchange for the contribution of the $3,000,000, the School was credited prepaid rent on the 55-year lease. The prepaid rent of $142,300 on the statement of financial position as of June 30, 2022, is projected to cover rent for approximately nine months subsequent to June 30, 2022. Rent expense totaled $197,245 for the year ended June 30, 2022. Annual rent of $197,245 is stipulated in the agreement, therefore rent expense for the years ended June 30, 2023, 2024, 2025, 2026 and 2027 totals $197,245 per year. The remaining commitment of the lease totals $7,100,820.

## NOTE E – NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets were available for the following as of June 30, 2021.

| | |
|---|---|
| Scholarships | $ 77,330 |

## NOTE F – CONCENTRATION OF CREDIT RISK

Cash and cash equivalents of $2,578,649, include bank deposits of $2,523,349 and a San Diego Foundation account of $55,300. The amount of cash and cash equivalents insured by the Federal Deposit Insurance Corporation ("FDIC") is $250,000. As of June 30, 2022, the School had $2,263,886 of cash in excess of the FDIC Insurance Limit.

## NOTE G – EMPLOYEE BENEFITS PLAN

The plan is a 401(k)-profit sharing plan effective March 1, 2002, covering all eligible employees of the School. Eligibility for participation is one year of service and eighteen years of age. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The School matches up to 5% of each participants' annual compensation. School contributions may be made without regard to current or accumulated profits. Elective deferral contributions are 100% vested. Participants vest in employer contributions over a period of five years. Total employer contributions for the year ended June 30, 2022 was $86,479.

## NOTE H – LITIGATION

In the normal course of operations, the School is occasionally named as a defendant in various lawsuits. It is the opinion of management and of legal counsel that the outcome of any pending lawsuits will not materially affect the operations of the financial position of the School.

## NOTE I – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects School's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

| | |
|---|---|
| Cash | $ 2,578,649 |
| Accounts receivable | 319,545 |
| Prepaid rent | 142,300 |
| Financial assets at year-end | 3,040,494 |
| Less: those unavailable for general expenditures due within one year, due to: | |
| Donor-restricted to scholarship | (77,330) |
| Financing assets available to meet cash needs for general expenditures within one year | $ 2,963,164 |

As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the School invests cash in excess of daily requirements in short-term investments.

## NOTE J – SUBSEQUENT EVENTS

Subsequent events were evaluated through June 14, 2023 which is the date the financial statements were available to be issued.