

BRIDGES ACADEMY
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Bridges Academy
Studio City, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Bridges Academy which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bridges Academy as of June 30, 2022 and 2021, and the changes in 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bridges Academy 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 Bridges Academy's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 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 Bridges Academy'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 Bridges Academy'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.



CliftonLarsonAllen LLP

Pasadena, California
February 9, 2023

BRIDGES ACADEMY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Cash and Cash Equivalents	\$ 4,855,960	\$ 3,076,234
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$114,319 for 2022 and \$170,802 for 2021	81,390	251,337
Receivable from Graduate School	11,448	56,943
Prepaid Expenses and Other Assets	224,420	104,682
Notes Receivable	12,425	18,839
Notes Receivable from Trustee	42,237	48,237
Property and Equipment, Net	11,442,250	11,539,593
Total Assets	\$ 16,670,130	\$ 15,095,865
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 117,809	\$ 56,152
Accrued Salaries and Expenses	403,524	395,274
Accrued Interest Expense	-	184,592
Deferred Revenue	4,181,890	3,448,971
Debt, Net of Debt Issuance Costs	11,023,610	10,567,624
Total Liabilities	15,726,833	14,652,613
NET ASSETS (DEFICIT)		
Without Donor Restrictions		
Undesignated Deficit	(304,775)	(883,065)
Investment in Property and Equipment	418,640	1,121,672
Total Net Assets Without Donor Restrictions	113,865	238,607
With Donor Restrictions	829,432	204,645
Total Net Assets	943,297	443,252
Total Liabilities and Net Assets	\$ 16,670,130	\$ 15,095,865

See accompanying Notes to Consolidated Financial Statements.

BRIDGES ACADEMY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Tuition and Fees, Net of Financial Aid of \$1,080,189	\$ 8,159,797	\$ -	\$ 8,159,797
Contributions	448,594	893,134	1,341,728
Auxiliary Income	101,750	-	101,750
Rental and Other Income	122,927	-	122,927
Graduate School Income	48,433	-	48,433
Fundraising Activities, Net	44,507	-	44,507
Gain from Debt Extinguishment	418,706	-	418,706
Investment Income	1,752	-	1,752
Net Assets Released from Restrictions	268,347	(268,347)	-
Total Support and Revenue	<u>9,614,813</u>	<u>624,787</u>	<u>10,239,600</u>
EXPENSES			
Program	7,959,743	-	7,959,743
Management and General	1,226,674	-	1,226,674
Fundraising	319,641	-	319,641
Total Expenses	<u>9,506,058</u>	<u>-</u>	<u>9,506,058</u>
LOSSES			
Loss on Disposal of Property and Equipment	<u>233,497</u>	<u>-</u>	<u>233,497</u>
(DECREASE) INCREASE IN NET ASSETS	(124,742)	624,787	500,045
Net Assets - Beginning of Year	<u>238,607</u>	<u>204,645</u>	<u>443,252</u>
NET ASSETS - END OF YEAR	<u>\$ 113,865</u>	<u>\$ 829,432</u>	<u>\$ 943,297</u>

See accompanying Notes to Consolidated Financial Statements.

BRIDGES ACADEMY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Tuition and Fees, Net of Financial Aid of \$874,647	\$ 7,731,289	\$ -	\$ 7,731,289
Contributions	389,124	203,739	592,863
Auxiliary Income	102,300	-	102,300
Rental and Other Income	84,204	-	84,204
Graduate School Income	48,682	-	48,682
Fundraising Activities, Net	4,004	-	4,004
Gain on Forgiveness of Debt	1,308,700	-	1,308,700
Net Assets Released from Restrictions	16,594	(16,594)	-
Total Support and Revenue	9,684,897	187,145	9,872,042
EXPENSES			
Program	7,312,520	-	7,312,520
Management and General	1,200,005	-	1,200,005
Fundraising	302,098	-	302,098
Total Expenses	8,814,623	-	8,814,623
INCREASE IN NET ASSETS	870,274	187,145	1,057,419
Net Deficit - Beginning of Year	(631,667)	17,500	(614,167)
NET ASSETS - END OF YEAR	\$ 238,607	\$ 204,645	\$ 443,252

See accompanying Notes to Consolidated Financial Statements.

BRIDGES ACADEMY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Program	Management and General	Fundraising	Total
Salaries and Wages	\$ 5,185,704	\$ 665,910	\$ 224,197	\$ 6,075,811
Employee Benefits	596,967	76,658	25,809	699,434
Payroll Taxes	402,660	51,707	17,408	471,775
Interest	255,565	70,617	10,088	336,270
Curriculum	293,185	-	-	293,185
Retirement	214,625	27,561	9,279	251,465
Depreciation and Amortization	136,228	37,642	5,377	179,247
Recruitment	171,648	-	-	171,648
Insurance	114,471	31,630	4,519	150,620
Miscellaneous	114,332	31,592	4,513	150,437
Security	84,110	23,241	3,320	110,671
Building and Grounds	73,502	20,310	2,901	96,713
Utilities	62,996	17,407	2,487	82,890
Telephone	53,347	14,741	2,106	70,194
Professional Services (Seattle)	-	66,242	-	66,242
COVID	44,337	12,251	1,750	58,338
Bank Charges	29,154	8,056	1,151	38,361
Meals and Entertainment	25,186	6,959	994	33,139
Accounting	-	26,860	-	26,860
Office Equipment Lease	18,353	5,071	724	24,148
Marketing	14,945	4,129	590	19,664
Payroll Processing Fees	13,602	3,758	537	17,897
Fire Life Safety	10,968	3,031	433	14,432
Title Expenses	-	9,145	-	9,145
Legal	6,872	1,938	-	8,810
Printing	6,243	1,725	246	8,214
Office Supplies	5,683	1,570	224	7,477
Taxes-Property	5,647	1,560	223	7,430
Professional Development	5,126	1,416	202	6,744
Professional Memberships	5,114	1,413	202	6,729
Postage and Shipping	3,833	1,059	151	5,043
Development	2,209	610	87	2,906
Conferences	1,882	520	74	2,476
Board	1,249	345	49	1,643
Total Expenses by Function	<u>7,959,743</u>	<u>1,226,674</u>	<u>319,641</u>	<u>9,506,058</u>
Fundraising Expenses Netted Against Fundraising Revenue	<u>-</u>	<u>-</u>	<u>56,815</u>	<u>56,815</u>
Total Expenses	<u><u>\$ 7,959,743</u></u>	<u><u>\$ 1,226,674</u></u>	<u><u>\$ 376,456</u></u>	<u><u>\$ 9,562,873</u></u>

See accompanying Notes to Consolidated Financial Statements.

BRIDGES ACADEMY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021

	Program	Management and General	Fundraising	Total
Salaries and Wages	\$ 4,856,107	\$ 623,584	\$ 209,948	\$ 5,689,639
Employee Benefits	556,897	71,512	24,077	652,486
Payroll Taxes	387,583	49,770	16,757	454,110
Interest	341,588	94,386	13,484	449,458
Retirement	211,956	27,218	9,164	248,338
Curriculum	219,010	-	-	219,010
Depreciation	138,588	38,294	5,471	182,353
Miscellaneous	110,854	29,906	4,272	145,032
Insurance	104,474	28,868	4,124	137,466
Security	85,882	23,731	3,390	113,003
Building and Grounds	69,238	19,131	2,733	91,102
Utilities	50,833	14,046	2,007	66,886
Telephone	50,703	14,010	2,001	66,714
Bank Charges	-	52,759	-	52,759
Professional Services (Seattle)	-	46,650	-	46,650
COVID	33,454	9,244	1,321	44,019
Accounting	-	25,350	-	25,350
Office Equipment Lease	18,564	5,129	733	24,426
Payroll Processing Fees	12,828	1,647	555	15,030
Fire Life Safety	9,888	2,732	390	13,010
Professional Memberships	9,540	2,636	377	12,553
Recruitment	11,732	-	-	11,732
Marketing	-	10,339	-	10,339
Professional Development	7,000	1,934	276	9,210
Meals and Entertainment	6,097	1,685	241	8,023
Taxes-Property	5,812	1,606	229	7,647
Office Supplies	4,157	1,149	164	5,470
Postage and Shipping	3,758	1,038	148	4,944
Printing	3,037	839	120	3,996
Board	1,485	410	59	1,954
Conferences	1,455	402	57	1,914
Total Expenses by Function	<u>7,312,520</u>	<u>1,200,005</u>	<u>302,098</u>	<u>8,814,623</u>
Fundraising Expenses Netted Against Fundraising Revenue	<u>-</u>	<u>-</u>	<u>11,323</u>	<u>11,323</u>
Total Expenses	<u>\$ 7,312,520</u>	<u>\$ 1,200,005</u>	<u>\$ 313,421</u>	<u>\$ 8,825,946</u>

See accompanying Notes to Consolidated Financial Statements.

BRIDGES ACADEMY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 500,045	\$ 1,057,419
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	179,247	182,353
Loss on Disposal of Property and Equipment	233,497	-
Gain from Debt Extinguishment	(418,706)	-
Payroll Protection Program Loan Forgiveness	-	(1,308,700)
Change in Asset and Liability Accounts:		
Accounts Receivable	169,947	67,871
Receivable from Graduate School	45,495	(31,699)
Prepaid Expenses and Other Assets	(119,738)	43,170
Notes Receivable	6,414	15,270
Notes Receivable from Trustee	6,000	9,000
Accounts Payable	61,657	(10,314)
Accrued Salaries and Expenses	8,250	32,615
Accrued Interest Expense	(184,592)	(2,682)
Deferred Revenue	732,919	129,717
Total Adjustments	720,390	(873,399)
Net Cash Provided by Operating Activities	1,220,435	184,020
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(307,802)	(199,673)
Net Cash Used in Investing Activities	(307,802)	(199,673)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Note Payable	11,000,000	-
Principal Payments on Note Payable	(9,991,305)	(251,394)
Payments of Debt Issuance Costs	(141,602)	-
Net Cash Provided (Used) by Financing Activities	867,093	(251,394)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,779,726	(267,047)
Cash and Cash Equivalents - Beginning of Year	3,076,234	3,343,281
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,855,960	\$ 3,076,234
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest for the Year	\$ 484,778	\$ 453,336

See accompanying Notes to Consolidated Financial Statements.

BRIDGES ACADEMY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 ORGANIZATION

The consolidated financial statements consist of the accounts of Bridges Academy and Subsidiary (collectively, the School). Bridges Academy Seattle, LLC is Bridges Academy's wholly owned subsidiary. The LLC was formed during April 2021 under laws of the state of Delaware for the purpose of acquiring, operating and transferring properties on behalf of the School.

Bridges Academy is a college preparatory school for grades 5-12, with an enrollment of approximately 190 students, with two campuses located in Studio City, California, and Seattle, Washington. The School empowers its students to thrive academically and socially through small classes and differentiated instruction, creating an environment in which gifts are recognized and developed and learning differences and disabilities are accepted. Many students come to Bridges defined by their challenges, but graduate defined by their strengths and talents.

The School is dedicated to understanding and educating gifted and highly gifted students with learning differences (twice-exceptional or 2e students) and to fostering a successful academic and social experience for students and the broader community through the work of two divisions: Bridges Academy and The Center for Twice-Exceptional Research and Professional Development (The 2e Center).

The Center for Twice-Exceptional Research and Professional Development educates and supports educators and the broader community in the identification, understanding, and education of twice-exceptional students. By seeking out and developing best practices through research, curriculum development, outreach, and teacher training, the 2e Center allows development and sharing of knowledge to benefit this underserved population.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statement Presentation

The consolidated financial statements of the School have been prepared on the accrual basis of accounting to conform to generally accepted accounting principles in the United States of America as applicable to nonprofit educational institutions. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

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

Net Assets without Donor Restrictions – Net assets not subject to donor-imposed stipulations; donor-restricted contributions whose restrictions are met in the same reporting period; and net assets designated by the Board of Trustees or management for specific purposes.

BRIDGES ACADEMY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated Financial Statement Presentation (Continued)

Net Assets with Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the School and/or by the expiration of stipulated time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity, which are maintained by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on related investments for general or specific purposes.

Principles of Consolidation

The consolidated financial statements include the accounts of Bridges Academy and Bridges Academy Seattle, LLC because Bridges Academy has both control and an economic interest in the LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the School.

Cash and Cash Equivalents

Cash and cash equivalents include cash and money market accounts whose use is not limited.

Revenue and Expense Recognition

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Donor-restricted contributions whose restrictions are met in the same year the gift is made are reported as contributions without donor restrictions. Expirations of donor-imposed restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restrictions.

Tuition and Fees

Tuition and fee revenue is recognized ratably in the fiscal year as students receive educational services over the academic term. Financial aid awarded to students reduce the amount of revenue recognized. Refunds issued reduce the amount of revenue recognized. The School serves approximately 190 students who reside in the state of California. Student tuition and fees received in advance of services to be rendered are recorded as deferred tuition and fees.

The School also provides auxiliary services, such as summer school and online courses. Revenue from these services is recognized ratably in the fiscal year in which the goods and services are provided.

BRIDGES ACADEMY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts and Notes Receivable

Accounts and notes receivable are reported net of any anticipated losses due to uncollectible accounts. Uncollectible accounts are reported as additions to the allowance for bad debts based upon historical experience and an analysis of the aging of outstanding balances. Once a student is no longer enrolled and has failed to make the required payments, the account is placed on nonaccrual status, and uncollectible amounts are written off against the allowance. An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. From time to time, the School negotiates promissory notes for past due accounts. Allowances for impaired notes receivable are generally determined based on collateral values or the present value of estimated cash flows. For notes receivable, the allowance for doubtful accounts is based on management's evaluation of the collectability of the individual notes.

Property and Equipment

Property and equipment are stated at cost, if purchased, or, if donated, at their fair market value at the date of donation. Items with a cost of \$500 or greater are capitalized. Depreciation is computed on the straight-line method over the following useful lives:

Buildings and Improvements	30 Years
Computers	5 Years
Furniture and Equipment	3 to 7 Years

Contract Liabilities

Enrollment agreements are uniform and stipulate that on June 30 students receive no refunds or deductions for the upcoming academic year and are required to pay the full annual tuition, which begins in August, regardless of whether a student withdraws or is dismissed. Therefore, on June 30, 2022 and 2021, the School's right to consideration is unconditional.

Tuition and fees, net of financial aid, for contracts executed on or before June 30, 2022 for the 2022-2023 academic term are \$6,963,829 in aggregate. Of this amount, \$4,182,002 was collected prior to June 30, 2022, and recorded as deferred revenue. The remaining \$2,781,827 represents accounts receivable and deferred revenue (contract liability) at June 30, 2022, which have been netted and not presented in the consolidated statement of financial position.

Tuition and fees, net of financial aid, for contracts executed on or before June 30, 2021 for the 2021-2022 academic term were \$6,200,442 in aggregate. Of this amount, \$3,448,971 was collected prior to June 30, 2021 and recorded as deferred revenue. The remaining \$2,751,471 represents accounts receivable and deferred revenue (contract liability) at June 30, 2021, which have been netted and not presented in the consolidated statement of financial position.

BRIDGES ACADEMY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract Liabilities (Continued)

Tuition and fees, net of financial aid, for contracts executed on or before June 30, 2020 for the 2020-2021 academic term were \$6,989,513 in aggregate. Of this amount, \$3,319,254 was collected prior to June 30, 2020 and recorded as deferred revenue. The remaining \$3,670,259 represents accounts receivable and deferred revenue (contract liability) at June 30, 2020, which have been netted and not presented in the consolidated statement of financial position.

The balance of deferred revenue at June 30, 2022, will be recognized as revenue over the academic term as services are rendered. The School applies the practical expedient in paragraph 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Contributions and Promises to Give

The School recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Unconditional promises to give are recorded as receivables and revenues. For financial reporting purposes, the School distinguishes between contributions with or without donor restrictions. Contributions on which donors have imposed restrictions which limit the use of the donated assets are reported as restricted. When such donor-imposed restrictions are met in subsequent reporting periods, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions. Contributed assets, which are subject to perpetual donor restrictions and from which only the current income may be used, are classified as net assets with donor restrictions. Contributed assets for which donors have not stipulated restrictions are reported as net assets without donor restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give, that is those with a measurable performance or other barrier and a right of return are not included as support until the conditions are substantially met.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

BRIDGES ACADEMY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expense Allocation Methodology

The cost allocation methods used to allocate the School's expenses to the appropriate functional classification as program services, management and general, and fundraising are properly supported by the School's books and records. The cost allocation methods used are rational, systematic, and consistently applied using factors such as direct expenses, estimates of time, and estimates of square footage.

Credit Concentration

Financial instruments that potentially subject the School to concentration of credit risk are cash and equivalents and receivables. The School maintains its cash in bank deposit and money market accounts with recognized financial institutions which, at times, may exceed insured limits provided by the Federal Deposit Insurance Corporation. The School has not experienced any losses in such accounts. The School believes it is not exposed to any significant credit risk on its cash and cash equivalent accounts. Concentration of credit risk for student receivables is limited due to the contractual arrangement requirement that tuition be paid in advance or in installment plans. The School continually monitors its receivables and establishes valuation reserves as considered appropriate.

For the year ended June 30, 2022, four donors accounted for approximately 68% of contribution revenue.

Income Taxes

The School has received favorable determination letters indicating it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California franchise taxes under Section 23701 of the California Revenue Taxation Code.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes all of the positions taken by the School are more likely than not to be sustained upon examination.

Risks and Uncertainties

The World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic, which continues subsequent to year-end. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the School, COVID-19 may impact various parts of its 2022 operations and financial results including but not limited to loss of enrollment, auxiliary and fundraising revenues, additional bad debts, and costs for increased use of technology. Management believes the School is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

BRIDGES ACADEMY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, the School has evaluated events through February 9, 2023, the date the consolidated financial statements were available to be issued.

New Accounting Pronouncements Effective in Future Accounting Periods

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This update increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2022. Management will be evaluating the effects of this new standard.

NOTE 3 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the consolidated statements of financial position date, comprise the following:

	2022	2021
Cash and Cash Equivalents	\$ 4,855,960	\$ 3,076,234
Accounts Receivable	81,390	251,337
Notes Receivable	12,425	16,200
Less: Net Assets with Donor Restrictions	(829,432)	(204,645)
Total	<u>\$ 4,120,343</u>	<u>\$ 3,139,126</u>

The School regularly monitors cash and liquidity to meet its operating needs. The School operates a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2022 and 2021 are as follows:

	2022	2021
Land	\$ 8,047,743	\$ 8,047,743
Buildings and Improvements	4,180,463	4,557,097
Computers	217,167	206,290
Furniture and Equipment	253,330	212,843
Construction in Process	262,281	-
Subtotal	<u>12,960,984</u>	<u>13,023,973</u>
Accumulated Depreciation	<u>(1,518,734)</u>	<u>(1,484,380)</u>
Total	<u>\$ 11,442,250</u>	<u>\$ 11,539,593</u>

BRIDGES ACADEMY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 5 DEBT

In February 2011, relating to the purchase of land and buildings, the School entered into a loan agreement with the seller evidenced by a promissory note totaling \$14,650,000. The loan, including principal and imputed interest, was payable in installments as defined in the agreement with a balloon payment of \$9,825,000 due on or before February 18, 2019. The loan is secured by a deed of trust, which includes all assets.

Effective April 2017, the School entered into a new agreement with the existing lender to restructure the terms of the existing note. The restructured note matures on February 18, 2046 and has a stated interest rate of 3.75%, with a variable stream of payments which include principal and interest that began on February 1, 2019. Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 470-60 establishes the accounting model applicable to the School's debt restructuring. The modifications have resulted in an effective interest rate of 4.3% to be applied to the carrying amount of the debt prospectively.

Pacific Premier Bank Loan

During August 2021, the School entered into a refinanced loan agreement with a new lender for \$11,000,000 at an interest rate of 3.875%. Terms of the loan requires 36 monthly consecutive interest only payments of \$36,705 beginning November 2021, 83 monthly consecutive principal and interest payments of \$57,645 beginning November 2024, and one final principal and interest payment of \$8,971,407 during October 2031. This loan agreement is subject to various financial and nonfinancial covenants, is secured by the School's real property, and is subject to various prepayment penalties.

The following table summarizes the scheduled principal amounts due annually:

<u>Year Ended June 30</u>	<u>Amount</u>
2023	\$ -
2024	-
2025	175,426
2026	271,286
2027	282,138
Thereafter	<u>10,271,150</u>
Total	11,000,000
Less: Debt Issuance Cost	<u>(129,802)</u>
Net Amount	<u><u>\$ 10,870,198</u></u>

BRIDGES ACADEMY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 5 DEBT (CONTINUED)

During September 2021, the School refinanced its loan with Osaka Sangyo University L.A., Inc. for \$11,000,000. The School received a discount from Osaka Sangyo of \$447,553 for the loan repayment, bringing the final repayment amount due to \$10,102,105. The School received net proceeds of \$753,953. Summarized as follows:

Sources	\$ 11,000,000
Uses:	
Loan Payoff	\$ 10,102,105
Cash Received	753,953
Loan Information Fees	131,602
Title, Taxes and Recording Fees	9,145
Escrow Fees	3,195
Total Uses	\$ 11,000,000

PPP Loan

On April 21, 2020, the School received a loan from Bank of America in the amount of \$1,308,700 to fund payroll, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the PPP Loan). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over 24 months deferred for six months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the organization fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. On December 9, 2020, the School was granted forgiveness, and legal release, of the PPP Loan in its entirety.

The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the School's consolidated financial position.

BRIDGES ACADEMY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 5 DEBT (CONTINUED)

Economic Injury Disaster Loan

On June 10, 2020, the School received a loan from the U.S. Small Business Administration in the amount of \$150,000 to alleviate economic injury disaster occurring in the month of January 31, 2020 and thereafter. The loan bears interest at a fixed rate of 2.75% per annum, with the first twelve months of interest deferred, has a term of thirty years, and is secured and guaranteed by the U.S. Small Business Administration. Interest and principal payment of \$641 will commence on June 2021. The following table summarizes the scheduled payments due annually:

<u>Year Ended June 30</u>	<u>Amount</u>
2023	\$ 3,363
2024	3,457
2025	3,553
2026	3,652
2027	3,753
Thereafter	128,304
Total	<u>\$ 146,082</u>

At June 30, 2022 and 2021, the School held the following promissory note with a faculty member. The following promissory note is unsecured.

<u>Description</u>	<u>2022</u>	<u>2021</u>
Promissory note in the original amount of \$200,000, payable in monthly installments of \$3,683, including interest at 4%. Final maturity is August 2022.	<u>\$ 7,330</u>	<u>\$ 52,855</u>
Total of Promissory Notes	<u>\$ 7,330</u>	<u>\$ 52,855</u>

NOTE 6 RETIREMENT PLAN

The School sponsors a 403(b) defined contribution retirement plan available for all employees after one year of service. Upon meeting the eligibility requirements, employees may elect to contribute a percentage of their salary to the maximum permitted by law, while the School contributes an amount equal to 5% of the employees' salary. Employees are fully vested in all plan contributions. Plan contributions by the School for the years ended June 30, 2022 and 2021, were \$251,465 and \$248,338, respectively.

BRIDGES ACADEMY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 7 COMMITMENTS

Employment Contract

The School has an employment agreement with one of its executive employees through June 30, 2023. Under the terms of the agreement, if the employment is terminated by the School without "cause," then the employee is entitled to receive continued compensation, including health benefits, until the later of June 30 or three months following the notice of termination.

Lease Agreement

During December 2021, the School entered into a lease agreement for facilities for the Seattle campus. The lease is set to commence August 2022 and continue for 36 months. \$32,000 in base rent is due monthly, along with additional allowable rent expenses such as taxes, repairs, and insurance premiums. The agreement allows for an option to extend the agreement for 12 additional months for \$34,880 monthly in base rent. The following table summarizes the payments due:

<u>Year Ending June 30,</u>	<u>Amounts</u>
2023	\$ 352,000
2024	384,000
2025	384,000
2026	32,000
Total	<u>\$ 1,152,000</u>

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2022 and 2021, the School had net assets with donor restrictions as follows:

	<u>2022</u>	<u>2021</u>
Purpose Restrictions:		
Seattle Campus	\$ 829,432	\$ 203,739
Music	-	906
Total Net Assets with Donor Restrictions	<u>\$ 829,432</u>	<u>\$ 204,645</u>

During the years ended June 30, 2022 and 2021, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

	<u>2022</u>	<u>2021</u>
Purpose Restrictions Accomplished:		
Seattle Campus	\$ 267,441	\$ 10,000
Music	906	6,594
Net Assets Released from Restrictions	<u>\$ 268,347</u>	<u>\$ 16,594</u>

BRIDGES ACADEMY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 9 RELATED PARTY TRANSACTIONS

Management Services

The School entered into a management services agreement with Bridges Graduate School of Cognitive Diversity in Education (the Graduate School), a related party. The agreement provides the Graduate School with management services, access to various School resources and instructing personnel for a monthly service fee of \$4,000. The agreement will remain in effect indefinitely or until either party decides to terminate.

Rental Income

During the year ended June 30, 2022 and 2021, the School entered into lease agreements with the Graduate School for rent of its facilities for \$1,733 monthly, and \$1,667 monthly, respectively. Total rental income for the years ended June 30, 2022 and 2021 were \$20,800 and \$19,992.

On July 1, 2021, the School renewed the lease agreement with no expiration date. Monthly rent between July 2021 and June 2022 is \$1,773 with increases of 4% every July thereafter.

Note Receivable

During October 2017, the School entered into a note receivable for \$27,000 with the Graduate School. The note carried an effective interest rate of 4% and matures December 2023. During the year ended June 30, 2022 and 2021, the balance on the note receivable was \$9,425 and \$14,959, respectively.

The School has an outstanding note receivable with a trustee. During the year ended June 30, 2022 and 2021, the balance on the note receivable was \$42,237 and \$48,237, respectively.

NOTE 10 SUBSEQUENT EVENTS

Bridges Endowment

In September 2022, the School formed Bridges Academy Endowment LLC, a single member LLC, which was organized to operate an endowment fund. The endowment was established to fund scholarships and other tuition assistance with tuition, fees and expenses for students attending Bridges Academy; wraparound educational supports; faculty positions; infrastructure and/or capital projects; or other Bridges programs.

In October 2022, the School was notified that it was a recipient of a \$1,000,000 contribution intended to create an endowment fund. The contribution gift agreement requires the funds to be used exclusively for supporting disadvantaged students in the Seattle, Washington area.



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