

HAPPY VALLEY FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2024

**FARBER HASS HURLEY LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**HAPPY VALLEY FOUNDATION
FINANCIAL STATEMENTS
JUNE 30, 2024**

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FARBER HASS HURLEY LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Trustees of
Happy Valley Foundation
Ojai, California

We have reviewed the accompanying financial statements of Happy Valley Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Happy Valley Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Farber Hass Hurley LLP

Chatsworth, California
December 4, 2024

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HAPPY VALLEY FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024

ASSETS

Cash and cash equivalents	\$ 8,258,668
Investments	7,778,944
Employee retention tax credit receivable	505,201
Prepaid expenses	<u>151,280</u>

Total Current Assets	16,694,093
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Property and equipment, net	11,158,736
Permanent collection	<u>301,094</u>

TOTAL ASSETS	<u><u>\$ 28,153,923</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 97,904
Accrued payroll	65,789
Deferred revenue	<u>2,094,314</u>

Total Current Liabilities	2,258,007
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Total Liabilities	<u>2,258,007</u>
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NET ASSETS

Without donor restrictions	25,326,638
With donor restrictions	<u>569,278</u>
Total Net Assets	<u><u>25,895,916</u></u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 28,153,923</u></u>
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The accompanying notes are an integral part of these financial statements.

**HAPPY VALLEY FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2024**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Tuition and fees, net of credits and refunds	\$ 5,707,718	\$ -	\$ 5,707,718
Less financial aid	(391,949)	-	(391,949)
Sales of artwork and gift shop	66,958	-	66,958
Contributions	150,916	10,000	160,916
In-kind contribution	30,000	-	30,000
Royalty income	169,746	-	169,746
Investment and interest income	334,856	420	335,276
Appreciation of investments, net	244,200	2,596	246,796
Rental income	371,488	-	371,488
Other income	96,229	-	96,229
Special event revenue, net of expenses of \$21,956	(3,733)	-	(3,733)
	<hr/>	<hr/>	<hr/>
Total revenues and other income	6,776,429	13,016	6,789,445
	<hr/>	<hr/>	<hr/>
Net assets released from restriction	2,460	(2,460)	-
	<hr/>	<hr/>	<hr/>
	\$ 6,778,889	\$ 10,556	\$ 6,789,445
	<hr/>	<hr/>	<hr/>
EXPENSES			
Program services	\$ 4,363,303	\$ -	\$ 4,363,303
General and administrative	1,932,917	-	1,932,917
Fundraising	234,187	-	234,187
	<hr/>	<hr/>	<hr/>
Total expenses	6,530,407	-	6,530,407
	<hr/>	<hr/>	<hr/>
Change in net assets	248,482	10,556	259,038
Net assets, beginning of year	25,078,156	558,722	25,636,878
	<hr/>	<hr/>	<hr/>
Net assets, end of year	\$ 25,326,638	\$ 569,278	\$ 25,895,916
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

HAPPY VALLEY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2024

	Program Services				Supporting Services			Total Expenses
	School	Foundation	Center	Total	Management and General	Fund Raising	Total	
Salaries, payroll taxes, and benefits	\$ 2,370,654	\$ 1,602	\$ 45,728	\$ 2,417,984	\$ 1,065,578	\$ 168,721	\$ 1,234,299	\$ 3,652,283
Advertising and marketing	68,138	-	-	68,138	35,190	-	35,190	103,328
Cost of sales, artwork	-	-	34,999	34,999	-	-	-	34,999
Depreciation and amortization	293,329	93,688	530	387,547	221,260	20,876	242,136	629,683
Events	-	7,060	-	7,060	-	-	-	7,060
Food services	247,481	-	-	247,481	-	-	-	247,481
Insurance	365,663	75,741	8,929	450,333	241,269	26,024	267,293	717,626
Interest and bank charges	-	-	-	-	22,945	-	22,945	22,945
Office expenses	32,877	-	-	32,877	51,683	5,051	56,734	89,611
Other expenses	-	-	13,194	13,194	17,342	376	17,718	30,912
Professional services	43,582	-	4,550	48,132	97,096	-	97,096	145,228
Supplies	97,426	-	875	98,301	-	-	-	98,301
Real estate taxes	-	4,018	-	4,018	4,018	-	4,018	8,036
Repairs and maintenance	76,261	-	-	76,261	85,739	-	85,739	162,000
Student services	224,206	-	-	224,206	-	-	-	224,206
Technology	21,103	-	3,079	24,182	12,227	1,502	13,729	37,911
Transportation	56,370	-	-	56,370	-	-	-	56,370
Utilities	163,512	3,951	4,757	172,220	78,570	11,637	90,207	262,427
Total Expenses	\$4,060,602	\$ 186,060	\$ 116,641	\$4,363,303	\$1,932,917	\$ 234,187	\$ 2,167,104	\$6,530,407

The accompanying notes are an integral part of these financial statements.

**HAPPY VALLEY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2024**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets:	\$ 259,038
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	629,683
Royalty portfolio fair market value adjustment	80,000
Net appreciation of value on investments	(326,796)
In-kind contribution to permanent collection	(30,000)
Changes in assets and liabilities:	
Receivables	1,214
Employee retention tax credit receivable	549,792
Prepaid expenses	(10,690)
Accounts payable and accrued expenses	(44,900)
Accrued payroll	20,048
Deferred revenue	(533,474)
Net cash provided by operating activities	593,915

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of property and equipment	(54,817)
Purchases of securities	(7,157,760)
Proceeds from sale of securities	4,619,524
Net cash used in investing activities	(2,593,053)
Net decrease in cash and cash equivalents	(1,999,138)
Cash and cash equivalents, beginning of year	10,257,806
Cash and cash equivalents, end of year	\$ 8,258,668

Supplemental Information

Cash paid for interest	\$ -
Cash paid for taxes	\$ -

The accompanying notes are an integral part of these financial statements.

HAPPY VALLEY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1. ORGANIZATION

Nature of Activities

The Happy Valley Foundation (the “Foundation”), a not-for-profit corporation, provides educational and cultural services in the Ojai, California area. The Foundation is governed by a Board of Trustees.

Since 1946, the Foundation has operated a private, independent school (the “School”) for domestic and international students from 9th to 12th grade located on the Foundation’s property. Originally named “Happy Valley School” (effective July 1, 2007, the name was changed to “Besant Hill School of Happy Valley”), the School represents the most significant activity of the Foundation. Since its inception, the School has been a nonsectarian educational community that provides an atmosphere where students may discover both their intellectual and creative potentials. A unique college preparatory secondary school, the School builds its program around small classes and mentor teacher/student relationships.

In 1999, the Foundation was bequeathed unrestricted assets from artist Beatrice Wood. The Beatrice Wood Studio, Museum and Art Library (the “Beatrice Wood Center for the Arts” or the “Center”) is located on the Foundation’s property. Certain items of Ms. Wood’s artwork, as well as items on consignment from other artists, are available for sale.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Foundation include the accounts of three segments: Foundation, School, and Center. All material inter-entity accounts and transactions have been eliminated. The financial statements of the Foundation have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The net assets, revenues, and gains and losses of the Foundation are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation 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 Foundation. The Foundation's board may designate assets without donor 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 Foundation or by the passage of time. Other donor restrictions, such as endowments, are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Generally, the donors of these assets permit the Foundation to use the returns on the related investments over time for general or specific purposes. 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 without donor restrictions and reported in the statement of activities as net assets released from restrictions. When donor restrictions on contributions are satisfied in the same period as the receipt of the contribution, the contribution revenue is recorded in net assets without donor restrictions.

HAPPY VALLEY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

The Foundation recognizes revenues upon applying the five-step model: (a) identification of the contract(s) with a customer; (b) identification of the performance obligations in the contract; (c) determination of the transaction price; (d) allocation of the transaction price to performance obligations in the contract; and (e) recognition of revenues when, or as, the contractual obligations are satisfied.

Tuition and fees revenue is recognized in the period in which the related educational instruction is performed net of any applicable credits and financial aid. The School's payment terms generally require payments in advance of the academic term depending on the particular payment plan. Receipts collected prior to June 30 which relate to the subsequent educational year are deferred. As of July 1, 2023, the beginning balance of the School's deferred revenue was \$2,627,788. Substantially all of the deferred revenue balance at the beginning of the year was recognized into revenue during the year.

Revenue from art sales to customers is recognized upon shipment or transfer of goods. Rental income is recognized on a straight-line basis over the non-cancellable term of the related lease which includes the effects of minimum rent increases. Other revenues are recognized when the services are rendered. Payments received in advance applicable to subsequent years are deferred.

Contributions and Grants

Unconditional contributions are recognized at a point in time, when pledged and recorded as net assets without or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met. Contributions of cash and other assets are reported as donor restricted support, if they are received with donor stipulations that limit the use of the donated assets.

In-Kind Contributions

From time to time, the Foundation receives in-kind contributions such as professional services, goods, and long-lived assets. Contributions of goods, and long-lived assets are recognized as revenue at a point of time at the estimated fair value, which considers the highest and best use, on the date of contribution or when ownership of the asset is transferred to the Foundation. During the year ending June 30, 2024, the Foundation received donated art pieces with an estimated total value of \$30,000 that was added to the permanent collection.

The contribution of services is recognized at a point in time if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Revenues and expenses related to contributed professional services are recognized in equal amounts at the fair market value, as estimated by management. During the year ending June 30, 2024, no donated services, meeting the criteria discussed above, were received by the Foundation.

Special Events

During the course of the year, the Foundation conducts special events, the direct costs incurred that provide a benefit to the contributors are deducted from the gross revenues raised at such events.

HAPPY VALLEY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The Foundation considers all cash on hand and short-term highly liquid investments that are readily convertible into cash with purchased maturities of three months or less to be cash equivalents.

Investments

Investments are reflected at fair value, with changes in unrealized gains and losses resulting from changes in fair value included in the Statement of Activities with realized gains and losses. Investment income consists of interest and dividend income. Revenue from royalties is recognized when received.

Accounts Receivable

Accounts receivable consist of receivables from students for tuition, student accounts, other receivables. The Foundation maintains an allowance for credit losses that is estimated and recorded utilizing relevant information about past events, including historical experience, current conditions and a reasonable and supportable forecast that affects the collectability of the related financial asset. As of June 30, 2024, management believes that all receivables are collectable after year end. The Foundation writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. The total amount of write-offs was immaterial to the financial statements as a whole for the year ending June 30, 2024.

Inventory

Inventory consists primarily of ceramics and lithographs held for sale that were bequeathed to the Foundation by Beatrice Wood. These items are carried at values established at the time of donation, reduced to their net realizable value by an estimate allowance for slow-moving and damaged items. Inventory is valued at approximately \$28,000 with a full reserve against the value for slow moving inventory.

Permanent Collection

The Foundation was the recipient of various works of art, manuscripts, archival materials, and art books from the Estate of Beatrice Wood. The Foundation also holds a contributed prized piano. This collection was valued at fair value at the date of contribution. Although there are no legal restrictions related to this collection, it is the Foundation's intent to hold these items for public exhibition, education, and research in furtherance of public service rather than financial gain. The Foundation has determined that it should capitalize its artwork and musical equipment if the piece has cultural, historic or artistic value and they have the ability and intention to maintain the artwork and musical equipment. Proceeds from the sale of the Foundation's collection are used for the acquisition of works of art and direct care of the existing collection.

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

HAPPY VALLEY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost or the estimated donated value when received. Property and equipment are capitalized if the individual cost exceeds \$500 and has a useful life of over a year. Normal repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years.

Income Tax Status

The Foundation is a not-for-profit organization exempt from U.S. federal and state income tax under Internal Revenue Code Section 501(c)(3) and applicable state statutes. Effective July 11, 1971, the Foundation received a favorable opinion letter from the Internal Revenue Service (“IRS”) which stated that the Foundation is exempt from income taxes. Accordingly, no provision for income taxes has been recorded.

U.S. GAAP provides 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 that all of the positions taken by the Foundation in its federal and state organization informational returns are more likely than not to be sustained upon examination. The Foundation's federal and state informational returns for June 30, 2020 and June 30, 2019 subsequent remain open to examination by the IRS and Franchise Tax Board, respectively.

Functional Expenses

The costs of providing the Foundation’s various program and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated between the program and supporting services as determined by management. Joint costs are generally allocated based on the percentage of payroll costs attributable to the underlying activity.

Recent Accounting Pronouncements

Credit Losses

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaces the current incurred loss methodology for recognizing credit losses with a current expected credit loss model (“CECL”), which requires the measurement of all expected credit losses for financial assets held at the reporting based on historical experience, current condition, and reasonable and supportable forecasts. ASU 2016-13 also requires enhanced disclosures for better understanding of significant estimates and judgments used in estimating credit losses. ASU 2016-13 is effective for financial statements issued for fiscal years beginning after December 15, 2022. The standard was adopted effective July 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new and enhanced disclosures.

Subsequent Events

The Foundation has evaluated events subsequent to June 30, 2024, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 4, 2024, the date the financial statements were available to be issued.

HAPPY VALLEY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 3. INVESTMENTS

In accordance with FASB Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements and Disclosures*, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a consistent framework which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and based upon the best information in the circumstance and may require significant management judgment.

The methods described below may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. In addition, while the Foundation believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value could result in a different estimate of fair value. Following is a description of the valuation methodologies used for assets measured at fair value:

Common Stock and Exchange Traded Funds: Valued at the closing price or daily net asset value reported in the active market in which the individual security is traded. The securities held by the Foundation are deemed to be actively traded.

U.S. treasury securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Royalty Investment: The Foundation’s royalty portfolio represents rights to certain royalty revenues on theatrical performances of *The Music Man* in future years and is valued at an estimated discounted revenue stream. The royalty investment was received as a contribution in 2008.

HAPPY VALLEY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 3. INVESTMENTS (continued)

The following table summarizes the fair value valuations of the Foundation's investments and other relevant assets as of June 30, 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks	\$ 102,474	\$ -	\$ -	\$ 102,474
Exchange Traded Funds				
Equities	1,450,667	-	-	1,450,667
Fixed Income	509,098	-	-	509,098
Total Exchange Traded Funds	1,959,765	-	-	1,959,765
Royalty Investment	-	-	260,000	260,000
U.S. Treasury Bills and Notes	5,456,705	-	-	5,456,705
Total Investments	<u>\$7,518,944</u>	<u>\$ -</u>	<u>\$ 260,000</u>	<u>\$7,778,944</u>

The following table sets forth a summary of changes in the fair value of the Foundation's level 3 assets for the year ended June 30, 2024:

Balance, beginning of the year	\$ 340,000
Interest, dividends, and royalties	169,746
Distributions	(169,746)
Current year fair market value adjustment	(80,000)
Balance, end of the year	<u>\$ 260,000</u>

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2024:

Land	\$ 108,467
Building	12,963,736
Improvements	4,989,346
Furniture, fixtures, and equipment	2,607,173
Vehicles	484,927
	<u>21,153,649</u>
Less accumulated depreciation	(9,994,913)
Property and equipment, net	<u>\$ 11,158,736</u>

Depreciation expense for the year ending June 30, 2024 was \$629,683.

HAPPY VALLEY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 5. RETIREMENT PLAN

Full-time employees of the School are eligible to participate in a defined-contribution retirement plan administered by the Teachers Insurance and Annuity Association (“TIAA”). Contributions by the School under this retirement plan are applied to individual accounts issued to each participant. The School’s matching contributions to the retirement plan for the year ending June 30, 2024 was approximately \$44,000. Individual contributions may be designated by the participant for investment in plans offered by TIAA.

NOTE 6. CONCENTRATIONS OF CREDIT RISK

Cash and cash equivalents are maintained at various financial institutions in the United States. The balances are insured by the Federal Deposit Insurance Corporation (“FDIC”), with coverage up to \$250,000 per financial institution. Additionally, the Foundation’s investment accounts are insured by Securities Investor Protection Corporation (“SIPC”), with coverage of \$500,000 per financial institution. During the year ended June 30, 2024, the Foundation had, at times, funds that were uninsured. The uninsured balances of cash and cash equivalents and investments at June 30, 2024 was approximately \$14,600,000. The Foundation has not experienced any losses on the deposits of cash and cash equivalents and investments.

NOTE 7. LINE OF CREDIT

In January 2012, the Foundation obtained a revolving line of credit from a local bank for capital expenditures. The maximum amount is \$500,000 and is secured by the Foundation’s inventory, receivables, fixed assets, and intangibles. The interest rate is calculated based on the Wall Street Journal Prime Rate index plus 1.25% for an effective rate of 9.75% as of June 30, 2024; with a minimum effective rate of 9.75%. As of June 30, 2024, the outstanding balance was \$0. The agreement matured in September 2024. Subsequent to year end, the Foundation renewed the agreement and extended the maturity to September 2025.

NOTE 8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes as of June 30, 2024:

Housing project	\$ 501,620
Well project	25,697
Financial Aid Endowment	33,173
Other	8,788
Total	<u>\$ 569,278</u>

HAPPY VALLEY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9. ENDOWMENT FUNDS AND BOARD DESIGNATED NET ASSETS

The Trustees of the Foundation have established an endowment with expenditures restricted to providing financial aid to the students attending the School (the “Endowment”). The Foundation’s Endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Further, as funds designated by the Board do not have any donor-imposed restrictions, they are included in net assets without donor restrictions.

The Board has interpreted the California-enacted version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gifts to the Endowment as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment to the extent specified by the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund is included in net assets with donor restrictions until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Foundation considers the following factors in making a determination to appropriate or accumulate the endowment funds: the duration and preservation of the fund, the purposes of the organization and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the organization, the investment policies. There shall be no distributions of funds until the value of the account (after approved distributions) does not reduce the balance of the fund below \$10,000,000. The amount available for distribution shall not exceed the amount of income and net unrealized gains and losses during the prior fiscal year. In the event of a depreciation in account value during a fiscal year, any remaining amounts scheduled for distribution shall be suspended until the account again attains the minimum account balance. During the year ended June 30, 2024, the activity in the endowment funds was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$2,219,951	\$ 25,157	\$2,245,108
Investment return:			
Investment and interest income	47,208	583	47,791
Appreciation of investments	209,032	2,596	211,628
Advisor fees	(13,224)	(163)	(13,387)
Total	243,016	3,016	246,032
Contributions	-	5,000	5,000
Additional authorized amounts	28,033	-	28,033
Appropriation for expenditure	-	-	-
Change in endowment net assets	271,049	8,016	279,065
Endowment net asset, end of year	<u>\$2,491,000</u>	<u>\$ 33,173</u>	<u>\$2,524,173</u>

HAPPY VALLEY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9. ENDOWMENT FUNDS AND BOARD DESIGNATED NET ASSETS (continued)

The endowment net asset composition consisted of the following as of June 30, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds and accumulated investment gains	\$2,491,000	\$ -	\$2,491,000
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity	-	30,133	30,133
Accumulated investment gains	-	3,040	3,040
Total Funds	<u>\$2,491,000</u>	<u>\$ 33,173</u>	<u>\$2,524,173</u>

NOTE 10. LIQUIDITY

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation's financial assets available within one year of June 30, 2024 for general expenditure reduced by amounts not available for general use because of donor and board-imposed restrictions (see Note 8 and 9) are as follows:

Cash and cash equivalents	\$ 8,258,668
Investments	<u>7,778,944</u>
Total	16,037,612
Less donor restricted funds	(569,278)
Less board-imposed restricted funds	<u>(2,491,000)</u>
Total financial assets available for general expenditures within one year	<u>\$ 12,977,334</u>

NOTE 11. COMMITMENTS AND CONTINGENCIES

The Foundation, during its normal course of business, may be subject from time to time to disputes and to legal proceedings against it. Both counsel and management do not expect that the ultimate outcome of any current claims will have a material effect on the Foundation's financial statements.

NOTE 12. LEASES

In June 2022, the Foundation entered into a lease agreement with a tenant for a portion of their property which require monthly payments of \$5,000 with annual increases up to 5% based on the Consumer Price Index for the City of Los Angeles for the month of each anniversary.

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NOTE 12. LEASES (continued)

The leasee is also responsible for payment of property taxes. The lease commenced on August 1, 2022 and expires on July 31, 2027, in which the leasee has an option to extend for an additional 5 years. Total related rental income recognized during the year ended June 30, 2024 was \$61,620.

In December 2022, the Foundation entered into a lease agreement with a tenant for use of the School's facilities for a summer camp during the months of June to August. The agreement calls for annual minimum payments of \$279,600 with an annual increase based on the annual Consumer Price Index for the City of Los Angeles. The Foundation may also bill for allowable supplemental charges incurred. The agreement is for a period of 5 years with an option to renew for additional 5 years and may be terminated by either party 6 months prior to occupancy. Total related rental income recognized during the year ended June 30, 2024 was \$309,868.

Future minimum lease payments to be received by the Foundation for the years ending June 30, are as follows:

2025	\$	339,600
2026		339,600
2027		339,600
2028		74,600
Total	\$	<u>1,093,400</u>

NOTE 13. EMPLOYEE RETENTION TAX CREDIT

The U.S. government began to undertake numerous legislative and regulatory initiatives designed to provide relief to businesses during the COVID-19 pandemic including the Employee Retention Tax Credit ("ERTC"). The ERTC allows for a refundable tax credit against certain employment taxes equal to 50% and 70% of the first \$10,000 in qualified wages paid to each employee in calendar years 2020 and 2021, respectively. To be eligible, the Foundation must (a) have had operations fully or partially suspended because of a shut-down order from a governmental authority related to the COVID-19 pandemic, or (b) have had gross receipts decline by more than 20% in a calendar quarter, when compared to the same quarter in 2019. Qualified wages are all wages and healthcare expenses paid to employees during the period in which the credit is being claimed. ERTC claims are subject to examination by the Internal Revenue Service up to 5 years after the date of the filing. As management deemed the Foundation eligible during the periods from July 1, 2020 to September 30, 2021, the Foundation recognized approximately \$1,055,000 of revenue during the year ended June 30, 2023. As of June 30, 2024 approximately \$505,000 was outstanding as a receivable.

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NOTE 14. BUSINESS SEGMENTS

The principal business of the Foundation is education. As discussed in Note 1, the Foundation consists of three reportable segments as shown below:

	Foundation	School	Center	Eliminations	Total
Revenues	\$ 379,053	\$6,193,142	\$ 217,250	\$ -	\$6,789,445
Program services	186,060	4,060,602	116,641	-	4,363,303
General and administrative	284,529	1,588,255	60,133	-	1,932,917
Fundraising	-	233,811	376	-	234,187
Change in net assets	(91,536)	310,474	40,100	-	259,038
Net assets	8,079,824	17,511,757	304,335	-	25,895,916
Total assets	8,082,894	19,765,868	305,161	-	28,153,923
Total liabilities	3,070	2,254,111	826	-	2,258,007
Capital expenditures	-	54,817	-	-	54,817
Depreciation	187,375	441,362	946	-	629,683