MONARCH SCHOOL PROJECT
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

MONARCH SCHOOL PROJECT

CONSIDINE & CONSIDINE
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Monarch School Project

We have audited the accompanying consolidated financial statements of Monarch School Project, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Monarch School Project, as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Considine & Considine

CONSIDINE & CONSIDINE
An Accountancy Corporation

August 1, 2017

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,228,775	$ 3,763,590
Restricted Cash (Note 3)	306,547	1,457,004
Certificates of Deposit	3,350,000	-
Accounts Receivable	500	14,725
Pledges Receivable (Note 4)	144,137	104,200
Prepaid Expenses and Other Current Assets	61,979	64,256
Accrued Interest Receivable - NMTC (Note 6)	89,434	89,434
Accrued Interest Receivable	10,150	-
	5,191,522	5,493,209
PROPERTY AND EQUIPMENT (NOTE 4)	21,031,990	20,240,954
OTHER ASSETS		
Restricted Cash (Note 3)	115,131	294,415
Pledges Receivable - Long-Term (Note 4)	87,340	58,980
New Market Tax Credit Financing (Note 6)	11,630,375	11,630,375
Beneficial Interests in Foundations (Note 7)	176,741	159,204
	12,009,587	12,142,974
TOTAL ASSETS	38,233,099	37,877,137
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	173,079	123,076
Accrued Interest Payable - NMTC (Note 6)	91,851	116,458
	264,930	239,534
LONG-TERM LIABILITIES		
New Market Tax Credit Financing (Note 6)	15,190,000	15,190,000
Lease Deposit	7,531	7,531
TOTAL LIABILITIES	15,462,461	15,437,065
NET ASSETS (NOTE 10)		
Unrestricted	21,671,432	20,359,797
Unrestricted - Board Designated	868,289	632,339
Temporarily Restricted	230,917	1,447,936
	22,770,638	22,440,072
TOTAL LIABILITIES AND NET ASSETS	$ 38,233,099	$ 37,877,137

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions and Fundraising	$ 1,680,969	$ 1,563,302
Rental Income	805,786	774,438
Special Events	454,527	373,543
Interest Income - New Market Tax Credit Financing (Note 6)	358,718	359,700
In-Kind Donations (Note 10)	176,080	187,813
Unrealized Gain/(Loss) on Investments in Foundations	18,792	(3,330)
Investment Income	18,161	7,956
Other Income	131	4
	3,513,164	3,263,426
ASSETS RELEASED FROM RESTRICTION	2,021,257	503,570
EXPENSES		
Program	3,419,185	2,949,056
General and Administrative	181,233	228,495
Fundraising	386,418	279,392
	3,986,836	3,456,943
INCREASE IN UNRESTRICTED NET ASSETS	1,547,585	310,053
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	804,238	1,429,837
Assets Released from Restriction	(2,021,257)	(295,069)
(DECREASE)/INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(1,217,019)	1,134,768
CHANGE IN NET ASSETS	330,566	1,444,821
NET ASSETS - BEGINNING OF THE YEAR	22,440,072	20,995,251
NET ASSETS - END OF THE YEAR	$ 22,770,638	$ 22,440,072

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program	General and Administrative	Fundraising	Total
EXPENSES				
Career - Scholarships	$ 61,695	$ -	$ -	$ 61,695
Depreciation	478,824	7,458	4,268	490,550
Dues and Subscriptions	-	1,483	2,625	4,108
Facility Maintenance	248,142	3,864	2,211	254,217
Food	60,792	-	-	60,792
Health Care	57,817	-	-	57,817
Holiday Gifts	3,100	-	-	3,100
Instructional Supplies	82,460	-	-	82,460
Insurance	77,188	3,499	688	81,375
Interest Expense - NMTC	456,076	7,102	4,065	467,243
Meals and Entertainment	-	-	1,775	1,775
Office and Administrative	55,733	10,761	496	66,990
Outside Services	114,870	110	63	115,043
Payroll Costs	1,513,578	70,358	307,261	1,891,197
Printing, Copying and Postage	-	5,925	8,877	14,802
Professional Fees	44,536	66,901	7,102	118,539
Special Events	-	-	39,303	39,303
Student Activities	29,275	-	-	29,275
Student Assistance	123,820	-	-	123,820
Training and Recognition	11,279	3,772	2,190	17,241
Travel	-	-	5,494	5,494
TOTAL EXPENSES	$ 3,419,185	$ 181,233	$ 386,418	$ 3,986,836

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program	General and Administrative	Fundraising	Total
EXPENSES				
Career - Scholarships	$ 34,260	$ -	$ -	$ 34,260
Depreciation	453,908	10,553	4,549	469,010
Dues and Subscriptions	-	1,347	1,787	3,134
Facility Maintenance	228,557	5,314	2,291	236,162
Food	49,986	-	-	49,986
Health Care	64,509	-	-	64,509
Holiday Gifts	7,500	-	-	7,500
Instructional Supplies	70,330	-	-	70,330
Insurance	86,204	5,081	864	92,149
Interest Expense	2,708	63	27	2,798
Interest Expense - NMTC	453,309	10,539	4,543	468,391
Meals and Entertainment	-	-	1,907	1,907
Office and Administrative	47,062	9,212	463	56,737
Outside Services	108,068	180	2,631	110,879
Payroll Costs	1,203,100	95,998	210,538	1,509,636
Printing, Copying and Postage	-	6,321	11,280	17,601
Professional Fees	17,280	81,780	7,113	106,173
Special Events	-	-	28,206	28,206
Student Activities	25,717	-	-	25,717
Student Assistance	96,558	-	-	96,558
Training and Recognition	-	2,107	3,135	5,242
Travel	-	-	58	58
TOTAL EXPENSES	$ 2,949,056	$ 228,495	$ 279,392	$ 3,456,943

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	$ 330,566	$ 1,444,821
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	490,550	469,010
Unrealized (Gain)/Loss from Beneficial Interests in Foundations	(18,792)	3,330
Change in Operating Assets and Liabilities:		
Pledges Receivable	(68,297)	811,428
Prepaid Expenses and Other Current Assets	2,277	(3,222)
Property Tax Refund Receivable	-	195,332
Accounts Receivable	14,225	(14,725)
Accrued Interest Receivable	(10,150)	-
Accounts Payable and Accrued Expenses	50,003	(65,173)
Accrued Interest Payable	(24,607)	(1,321)
	435,209	1,394,659
NET CASH PROVIDED BY OPERATING ACTIVITIES	765,775	2,839,480
CASH USED BY INVESTING ACTIVITIES		
Net Change in Restricted Cash	1,329,741	(1,036,411)
Purchase of Certificate of Deposits	(3,350,000)	-
Distributions from Investments in Foundations	1,255	1,283
Purchase of Property and Equipment	(11,460)	(37,426)
Purchase of Building and Building Improvements	(1,270,126)	(37,759)
	(3,300,590)	(1,110,313)
CASH FLOWS USED BY FINANCING ACTIVITIES		
Principal Payments on Note Payable	-	(402,427)
NET (DECREASE)/INCREASE IN CASH	(2,534,815)	1,326,740
CASH, BEGINNING OF YEAR	3,763,590	2,436,850
CASH, END OF YEAR	$ 1,228,775	$ 3,763,590
SUPPLEMENTAL DISCLOSURES		
Interest Paid	$ 490,550	$ 469,010
Taxes Paid	$ -	$ -

NOTE 1 THE ORGANIZATION

Monarch School Project (the "Organization") is a nonprofit corporation established for the purpose of providing community support for the Monarch School. The Organization partners with the San Diego County Office of Education and supplements its programs in order to enhance the education of homeless and at-risk students.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying consolidated financial statements are prepared using the accrual method in conformity with generally accepted accounting principles.

Basis of Consolidation - In 2011, the Organization formed Monarch School 1625, LLC, a single-member LLC, to build a new campus for the school. The consolidated financial statements include the accounts of the Organization and Monarch School 1625, LLC, a wholly-owned subsidiary. All significant interorganization balances and transactions have been eliminated.

Estimates - The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Basis of Presentation - The Organization reports information regarding its financial position and activities within three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Donor-Imposed Restrictions - All contributions are considered to be unrestricted unless specifically restricted by the donor. Amounts received designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted, increasing those net asset classes. If a restriction is fulfilled in the same period in which the contribution is received, the support is reported as temporarily restricted and then released from restriction in the same period.

Cash and Cash Equivalents - The Organization considers financial instruments with a fixed maturity date of less than three months from the statement of financial position date to be cash equivalents.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Organization maintained its cash accounts at four commercial banks as of June 30, 2017 and 2016. The Organization restricts investments of cash to financial institutions of high credit standing. Cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA) up to $250,000 per financial institution at June 30, 2017 and 2016. At June 30, 2017 and 2016, the Organization had balances in its banks of approximately $1,075,855 and $4,998,000, respectively, that were in excess of the insured limits.

Restricted Cash - Restricted cash consists of funds received with a donor-imposed restriction that limits their use to long-term purposes. The Organization also has the New Market Tax Credits (NMTC) financing funds, which are held under fund control by the bank and are restricted for use towards interest payments (See Note 3).

Certificates of Deposit – Certificates of deposit are investments that are not subject to FASB 820, Fair Value Measurement and have been recorded at cost. These investments have an original maturity date that exceeds three months and, therefore, have not been included as cash.

Promises to Give - Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts are computed using risk-free interest rates applicable to the years in which the promises are received. It is the Organization’s policy to charge off uncollectible pledges receivable when management determines the receivable will not be collected.

Beneficial Interests in Foundations - Beneficial interests in foundations are valued at their fair values on the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Property and Equipment - Property and equipment are recorded at cost. Depreciation is computed using the straight-line method of depreciation over the assets' estimated useful lives of three to thirty-nine years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. It is the Organization's policy to capitalize all property and equipment costs in excess of $1,000. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is recognized in the current period financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Real Estate - The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amounts of an asset to the future net undiscounted cash flows expected to be generated by the asset. If the asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value of such property. There were no impairment losses recognized for the years ended June 30, 2017 and 2016.

Revenue Recognition - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

In-Kind Donations - The Organization recognizes the value of donated gifts and services by recording the donations at their fair value. All donated services recognized created a non-financial asset or required specialized skills that would have been purchased if they were not donated (See Note 10).

Contributed Property and Equipment - Property and equipment that have been contributed are recorded at fair value at the date of the donation. If donors stipulate purpose of an asset's use, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. In the absence of a readily determinable fair value, management may use estimates to determine the fair value of contributed property.

Fair Value Measurement - The Organization follows accounting standards consistent with the FASB codification which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements for all financial assets and liabilities.

Income Taxes - As a nonprofit organization, the Organization has obtained exempt status. Under Internal Revenue Section 501(c)(3) and Section 23701(d) of the California Franchise Tax Code, Monarch School Project is not subject to income taxes for operations related to its exempt purpose.

As of June 30, 2017 and 2016, the Organization believes it does not have any taxable unrelated business income, and accordingly, has not accrued interest or penalties related to uncertain tax positions. The Organization files tax returns in the U.S. Federal jurisdiction and the State of California.

NOTE 3 RESTRICTED CASH

Restricted cash consists of amounts restricted by the Organization's donors and the NMTC funding to be used for the following specified purposes in the following year:

	2017	2016
School Programs and Activities	$ 232,731	$ 231,744
NMTC Interest Reserve*	73,816	98,423
Building - Launch Pointe	-	1,126,837
	$ 306,547	$ 1,457,004

Restricted cash consists of amounts restricted by the Organization's donors and the NMTC funding to be used for the following specified long-term purposes:

	2017	2016
NMTC Interest Reserve*	$ 106,631	$ 205,060
School Programs and Activities	8,500	89,355
	$ 115,131	$ 294,415

*In addition to funds that have been restricted by donors, amounts are held by Opus Bank under fund control and can only be used toward interest costs related to the NMTC financing for the school's campus.

NOTE 4 PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2017	2016
Gross Pledges Receivable	$ 251,737	$ 170,000
Less: Allowances for Uncollectible Pledges Receivable	(17,600)	(6,800)
Less: Discount to Net Present Value	(2,660)	(20)
Net Pledges Receivable	$ 231,477	$ 163,180

Amounts due in:	2017	2016
Less than one year	$ 151,737	$ 110,000
One to five years	100,000	60,000
	$ 251,737	$ 170,000

Pledges receivable with due dates extending beyond one year are discounted using Treasury bill rates for similar term investments. The applicable rates at June 30, 2017 and 2016 ranged from 0.14% to 1.45%.

NOTE 5 PROPERTY AND EQUIPMENT

Major categories of property and equipment are summarized as follows:

	Balance at 6/30/2016	Additions	Disposals	Balance at 6/30/2017
Building & Improvements	$ 15,492,089	$ 1,264,714	$ -	$ 16,756,803
Land	5,600,000	-	-	5,600,000
Furniture and Fixtures	570,595	11,460	-	582,055
Vehicles	20,852	-	-	20,852
Computers and Equipment	10,829	-	-	10,829
	$ 21,694,365	$ 1,276,174	$ -	$ 22,970,539
Accumulated Depreciation				(1,943,959)
Construction in Progress				5,409
				$ 21,031,990

NOTE 5 PROPERTY AND EQUIPMENT (Continued)

	Balance at 6/30/2015	Additions	Disposals	Balance at 6/30/2016
Building & Improvements	$ 15,433,415	$ 58,674	$ -	$ 15,492,089
Land	5,600,000	-	-	5,600,000
Furniture and Fixtures	533,169	37,426	-	570,595
Vehicles	20,852	-	-	20,852
Computers and Equipment	87,853	-	(77,024)	10,829
	$ 21,675,289	$ 96,100	$ (77,024)	21,694,365
Accumulated Depreciation				(1,453,411)
				$ 20,240,954

Depreciation expense was $490,550 and $469,010 for the years ended June 30, 2017 and 2016, respectively.

Construction in Progress at June 30, 2017 related to the renovation of the Organization's main lobby. The estimated project cost is approximately $200,000 and is expected to be completed September 2017.

In May 2012, the Organization, upon receiving funds from the Mew Markets Tax Credit Program (see Note 6), entered into an agreement with the Redevelopment Agency of San Diego to obtain the property on Newton Avenue. The Organization is contractually obligated to use the Newton Avenue property for the purpose of continued operation of a school for disadvantaged children and the will default on the agreement if not used for this purpose.

NOTE 6 NEW MARKETS TAX CREDIT FINANCING

In May 2012, the Organization entered into a debt transaction to access additional funds through the New Markets Tax Credit (NMTC) Program. These funds were used towards the construction of the Organization's new campus on Newton Avenue. The NMTC Program permits taxpayers to claim federal tax credits for making Qualified Equity Investments (QEI) in a designated Community Development Entity (CDE). The CDE must use substantially all of the proceeds to make Qualified Low-Income Community Investments (QLICIs). The tax credits are claimed over a seven-year period and equate to 39% of the QLICIs. The Organization has partnered with an investor, Opus Bank, to utilize the NMTC Program.

Opus Bank established a special purpose entity called Monarch School Investment Fund, LLC (MSIF) to raise the capital for the transaction. MSIF was funded with $4,382,625 of equity from Opus Bank, a $3,800,000 loan (Senior Loan A) from the Clearinghouse Community Development Financial Institution (CCDFI), and a $7,830,375 loan from the Organization.

It was the Organization's intention to purchase CCDFI's interest in Senior Loan A as funds are raised in the Organization's capital campaign, and on May 2, 2012, the Organization purchased a 50% interest in the note for $1,900,000. On July 18, 2012, the Organization purchased an additional 23.7% interest in the note for $900,000. On January 31, 2014, the Organization purchased the remaining interest in the note for $1,000,000. The promissory note states MSIF will make quarterly interest only payments at 7.50% to the holder of the note until the maturity date, May 2019. A final payment of the remaining principal and interest will be due May 2019. The note is secured by the MSIF membership interests in Monarch/NCF Sub-CDE, LLC. The Organization did not have the right to receive any payments, principal or interest, from MSIF until the Organization fully participated in the promissory note, completed on January 31, 2014, at which point the Organization receives 100% of the payments from MSIF. As of June 30, 2017 and 2016, the Organization had an accrued interest receivable amount of $69,641 due from MSIF.

The $7,830,375 loan (Senior Loan B) from the Organization to MSIF requires quarterly interest-only payments at 1.00% until April 2019. In July 2019, MSIF will make a $31,924 principal and interest payment to the Organization. Thereafter, the payments will consist of quarterly installments of $95,256 of principal plus accrued interest at 1.00% until April 2042. A final payment of the remaining principal and interest will be due May 2042. The note is secured by the MSIF membership interests in Monarch/NCF Sub-CDE, LLC. At June 30, 2017 and 2016, the balance of the note was $7,830,375 and accrued interest under the note was $19,793.

This capital raised by MSIF was used to make a $15,500,000 QEI in a CDE called Monarch/NCF Sub-CDE, LLC, a wholly owned subsidiary of MSIF. The CDE then loaned these funds to Monarch School 1625, LLC in the form of three notes.

NOTE 6 NEW MARKETS TAX CREDIT FINANCING (Continued)

The first note payable (QLICI Loan A), has a balance of $3,800,000 as of June 30, 2017 and 2016 and bears interest at 3.033%. The note requires quarterly interest only payments, matures May 7, 2019, and is guaranteed by substantially all of the assets of the Organization. The Organization expects to acquire the QLICI Loan A ($3,800,000) in satisfaction of the MSIF's Senior Loan A ($3,800,000) obligation to the Organization at the end of the NMTC compliance period, and those notes will cancel by operation of law, as the lender and borrower merge at the Organization level. As of June 30, 2017 and 2016, the Organization had an accrued interest payable amount of $22,978 and $29,134, respectively, due to the CDE relating to QLICI Loan A.

The second note payable (QLICI Loan B), has a balance of $7,830,375 as of June 30, 2017 and 2016 and bears interest at 3.033%. The note requires quarterly interest only payments through May 7, 2019, at which time payments increase to fully amortize the note over 23 years. The note matures May 7, 2042 and is guaranteed by substantially all of the assets of the Organization. Similar to QLICI Loan A, the Organization expects to acquire the QLICI Loan B ($7,830,375) in satisfaction of MSIF's Senior Loan B ($7,830,375) obligation to the Organization at the end of the NMTC compliance period, and those notes will also cancel by operation of law, as the lender and borrower merge at the Organization level. As of June 30, 2017 and 2016, the Organization had an accrued interest payable amount of $47,349 and $60,034, respectively, due to the CDE relating to QLICI Loan B.

The third note payable (QLICI Loan C), has a balance of $3,559,625 as of June 30, 2017 and 2016 and bears interest at 3.033%. The note requires quarterly interest only payments through May 7, 2019, at which time payments increase to fully amortize the note over 23 years. The note matures May 7, 2042 and is guaranteed by substantially all of the assets of the Organization. As of June 30, 2017 and 2016, the Organization had an accrued interest payable amount of $21,524 and $27,290, respectively, due to the CDE relating to QLICI Loan C.

NOTE 6 NEW MARKET TAX CREDIT FINANCING (Continued)

Notes receivable and notes payable related to the NMTC financing reflected on the consolidated statements of financial position as of June 30, 2017 and 2016 are as follows:

	2017	2016
Notes Receivable:		
Senior Loan B	$ 7,830,375	$ 7,830,375
Senior Loan A	3,800,000	3,800,000
	$ 11,630,375	$ 11,630,375
Notes Payable:		
QLICI Loan B	$ 7,830,375	$ 7,830,375
QLICI Loan A	3,800,000	3,800,000
QLICI Loan C	3,559,625	3,559,625
	$ 15,190,000	$ 15,190,000

Interest income and expense related to NMTC financing for the years ended June 30, 2017 and 2016 is as follows:

	2017	2016
Interest Income	$ 358,718	$ 359,700
Interest Expense	$ (467,243)	$ (468,391)

The seven year compliance period for the NMTCs will end May 7, 2019, at which time Opus Bank may exit the transaction through the exercise of a call/put agreement which it has entered into with the Organization. Under the agreement, Opus Bank may “put” its interest in MSIF to the Organization for a purchase price of $1,000. In the event that Opus Bank has not exercised this put option the Organization has 180 days to exercise its call option to purchase Opus Bank’s entire interest in MSIF for a purchase price equal to the appraised value of Opus Bank's interest. To exercise the call option, the Organization must be current on all payments under the three notes payable and must not owe any additional amounts to MSIF or Opus Bank. The Organization will realize its savings from the NMTC transactions through the exercise of this put or call option, at which time it will control MSIF and can effectively forgive the QLICI Loan C. No amounts have been recorded in the accompanying consolidated financial statements related to these put and call options.

NOTE 6 NEW MARKET TAX CREDIT FINANCING (Continued)

As part of its agreement with Opus Bank, the Organization has guaranteed Opus Bank's expected 8.74% return on investment in the event of certain defaults by the Organization. This return includes both interest income earned by Opus under the QLICI Loans and its return in the form of $6,045,000 of NMTCs. The Organization's guarantee would become effective in the event that the Organization ceases to be a Qualified Active Low-Income Community Business as defined by IRC 45D, the failure of the CDE to maintain substantially all of the QEI because of a foreclosure or otherwise, the failure of any portion of the QLICI Loans to constitute a QLICI due directly or indirectly due to the Organization's violation of the CDE loan documents, any violations of the abuse provisions of Section 1.45D-1(g)(1) of the Treasury Regulations, or in the event of default under the QLICI Loans. The Organization believes that the likelihood of these events occurring is very remote, and accordingly, no liability has been recorded in the accompanying consolidated financial statements for this guarantee.

NOTE 7 BENEFICIAL INTERESTS IN FOUNDATIONS

In 2004, the Organization invested $75,000 with the San Diego Foundation Endowment Fund. The investment was made after a donor requested their $50,000 donation be invested in an endowment fund. An additional $5,000 donor contribution was made in February 2005, and two donations totaling $950 were made in March 2009. The investment will be held in perpetuity with the San Diego Foundation and all distributions from the investment may be used at the discretion of the Monarch School Project.

In 2012, the Organization invested $25,000 in an endowment fund with the Jewish Community Foundation of San Diego. The investment will be held in perpetuity with the Jewish Community Foundation of San Diego and all distributions from the investment may be used at the discretion of the Monarch School Project.

NOTE 8 FAIR VALUE MEASUREMENT

The Organization follows the methods of fair value measurement to value its financial assets. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels has been established, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Financial assets and liabilities carried at fair value at June 30, 2017 and 2016 are classified in the following schedule in one of three categories described above.

The table below presents the balances of assets measured at fair value as of June 30, 2017 on a recurring basis:

Assets	Level 1	Level 2	Level 3	Total
Beneficial Interest in San Diego Foundation Endowment Fund	$ -	$ -	$ 151,492	$ 151,492
Beneficial Interest in Jewish Community Foundation of San Diego Endowment Fund	-	-	25,249	25,249
	$ -	$ -	$ 176,741	$ 176,741

NOTE 8 FAIR VALUE MEASUREMENT (Continued)

The table below presents the balances of assets measured at fair value as of June 30, 2016 on a recurring basis:

Assets	Level 1	Level 2	Level 3	Total
Beneficial Interest in San Diego Foundation Endowment Fund	$ -	$ -	$ 135,351	$ 135,351
Beneficial Interest in Jewish Community Foundation of San Diego Endowment Fund	-	-	23,853	23,853
	$ -	$ -	$ 159,204	$ 159,204

The investments in the San Diego Foundation Endowment Fund and Jewish Community Foundation of San Diego Endowment Fund are measured using values provided by the Foundations and are classified as Level 3. The values are based on the fair market value of the underlying cash and securities.

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended June 30, 2017:

Balance at July 1, 2016	$ 159,204
Change in Value	18,792
Distribution	(1,255)
Balance at June 30, 2017	$ 176,741

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended June 30, 2016:

Balance at July 1, 2015	$ 163,817
Change in Value	(3,330)
Distribution	(1,283)
Balance at June 30, 2016	$ 159,204

NOTE 8 FAIR VALUE MEASUREMENT (Continued)

The Organization may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. The adjustments to fair value usually result from the receipt of in-kind donations or unconditional promises to give. For assets measured at fair value on a nonrecurring basis in 2017 and 2016 that were still held in the balance sheet at each respective year end, the following table provides the fair value hierarchy and the carrying value of the related individual assets or portfolios at year end.

Assets	2017 Level 1	2017 Level 2	2017 Level 3	2017 Total
Unconditional Promises to Give	$ -	$ -	$ 231,477	$ 231,477

Assets	2016 Level 1	2016 Level 2	2016 Level 3	2016 Total
Unconditional Promises to Give	$ -	$ -	$ 163,180	$ 163,180

The unconditional promises to give are valued using a discounted cash flow model and are classified as Level 3.

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended June 30, 2017:

Balance at July 1, 2016	$ 163,180
New Pledges Received	400,000
Collections	318,263
Change in Valuation	(13,440)
Balance at June 30, 2017	$ 231,477

NOTE 8 FAIR VALUE MEASUREMENT (Continued)

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended June 30, 2016:

Balance at July 1, 2015	$ 974,608
New Pledges Received	100,000
Collections	(1,065,000)
Change in Valuation	153,572
Balance at June 30, 2016	$ 163,180

NOTE 9 NET ASSETS

Net assets consist of the following:

	2017	2016
Unrestricted:		
Undesignated	$ 21,671,432	$ 20,359,797
Board-Designated	868,289	632,339
	22,539,721	20,992,136
Temporarily Restricted:		
School Programs	230,917	321,099
Building - Launch Pointe	-	1,126,837
	230,917	1,447,936
Total Net Assets	$ 22,770,638	$ 22,440,072

Beginning in August 2013, the Board of Directors of the Organization began reserving funds and designating them for future repairs on the school campus. Such funds are reflected as unrestricted-board designated net assets in the accompanying consolidated statements of financial position. For the year ended June 30, 2017 and 2016, the board designated net assets of $260,000 and $163,331, respectively, and released $24,050 and $0, respectively.

NOTE 10 IN-KIND DONATIONS

The Organization received the following donated services and gifts in-kind for the years ended June 30 as follows:

	2017	2016
Services:		
Health Services	$ 57,817	$ 64,509
Professional Services	30,432	55,322
Services for Students	12,188	14,708
	100,437	134,539
Student Support:		
Food and Clothing	44,824	38,175
Gift Cards and Other Support	30,820	15,099
	75,644	53,274
	$ 176,080	$ 187,813

NOTE 11 FUNDRAISING EXPENSE

Total fundraising expense for the years ended June 30, 2017 and 2016 was $386,418 and $279,392, respectively. Fundraising expenses related to the annual fundraising activities totaled approximately 11% and 9% of the total annual contribution revenue for the years ended June 30, 2017 and 2016, respectively. The ratio of expenses to amounts raised is computed using actual expenses and related contributions on an accrual basis.

NOTE 12 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through August 1, 2017, the date the consolidated financial statements were ready to be issued. There were no material subsequent events which affected the amounts or disclosures in the financial statements.