MONARCH SCHOOL PROJECT
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 and 2017, 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 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 audit. We conducted our audit 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 consolidated 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, 2018 and 2017, 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

October 8, 2018

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,074,099	$ 1,228,775
Restricted cash (note 3)	477,414	306,547
Certificates of deposit	4,350,000	3,350,000
Accounts receivable	3,594	500
Pledges receivable (note 4)	96,206	144,137
Prepaid expenses and other current assets	66,040	61,979
Accrued interest receivable – NMTC (note 6)	89,434	89,434
Accrued interest receivable	14,628	10,150
TOTAL CURRENT ASSETS	6,171,415	5,191,522
PROPERTY AND EQUIPMENT (NOTE 5)	20,703,614	21,031,990
OTHER ASSETS		
Restricted cash (note 3)	406,268	115,131
Pledges receivable – long-term (note 4)	-	87,340
New markets tax credit financing (note 6)	11,630,375	11,630,375
Beneficial interests in foundations (note 7)	187,271	176,741
TOTAL OTHER ASSETS	12,223,914	12,009,587
TOTAL ASSETS	39,098,943	38,233,099
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	182,377	173,079
Accrued interest payable – NMTC (note 6)	116,458	91,851
TOTAL CURRENT LIABILITIES	298,835	264,930
LONG-TERM LIABILITIES		
New markets tax credit financing (note 6)	15,190,000	15,190,000
Lease deposit	7,531	7,531
TOTAL LONG-TERM LIABILITIES	15,197,531	15,197,531
TOTAL LIABILITIES	15,496,366	15,462,461
NET ASSETS		
Unrestricted	20,149,981	21,671,432
Unrestricted – board designated	2,675,535	868,289
Temporarily restricted	777,061	230,917
TOTAL NET ASSETS	23,602,577	22,770,638
TOTAL LIABILITIES AND NET ASSETS	$ 39,098,943	$ 38,233,099

MONARCH SCHOOL PROJECT

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2018

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
SUPPORT AND REVENUE			
Contributions and fundraising	$ 1,466,611	$ 1,357,505	$ 2,824,116
Rental income	856,513	-	856,513
Special events	799,635	-	799,635
Interest income – NMTC (note 6)	358,718	-	358,718
In-kind donations (note 10)	205,073	-	205,073
Investment income	50,724	-	50,724
Unrealized gain on investments in foundations	10,529	-	10,529
TOTAL SUPPORT AND REVENUE	3,747,803	1,357,505	5,105,308
ASSETS RELEASED FROM RESTRICTION	811,361	(811,361)	-
EXPENSES			
Program	3,715,803	-	3,715,803
General and administrative	145,988	-	145,988
Fundraising	411,578	-	411,578
TOTAL EXPENSES	4,273,369	-	4,273,369
CHANGE IN NET ASSETS	285,795	546,144	831,939
NET ASSETS, BEGINNING OF YEAR	22,539,721	230,917	22,770,638
NET ASSETS, END OF YEAR	$ 22,825,516	$ 777,061	$ 23,602,577

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
SUPPORT AND REVENUE			
Contributions and fundraising	$ 1,680,969	$ 804,238	$ 2,485,207
Rental income	805,786	-	805,786
Special events	454,527	-	454,527
Interest income – NMTC (note 6)	358,718	-	358,718
In-kind donations (note 10)	176,080	-	176,080
Unrealized gain on investments in foundations	18,792	-	18,792
Investment income	18,161	-	18,161
Other income	131	-	131
TOTAL SUPPORT AND REVENUE	3,513,164	804,238	4,317,402
ASSETS RELEASED FROM RESTRICTION	2,021,257	(2,021,257)	-
EXPENSES			
Program	3,419,185	-	3,419,185
General and administrative	181,233	-	181,233
Fundraising	386,418	-	386,418
TOTAL EXPENSES	3,986,836	-	3,986,836
CHANGE IN NET ASSETS	1,547,585	(1,217,019)	330,566
NET ASSETS, BEGINNING OF YEAR	20,992,136	1,447,936	22,440,072
NET ASSETS, END OF YEAR	$ 22,539,721	$ 230,917	$ 22,770,638

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	PROGRAM	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL
EXPENSES				
Payroll costs	$ 1,508,019	$ 52,674	$ 313,552	$ 1,874,245
Depreciation	500,981	7,801	4,465	513,247
Interest expense – NMTC	455,926	7,100	4,065	467,091
Facility maintenance	287,144	4,470	2,560	294,174
Professional fees	181,301	45,863	7,217	234,381
Student assistance	155,485	-	-	155,485
Outside services	126,279	583	16,960	143,822
Instructional supplies	100,975	-	-	100,975
Office and administrative	72,177	16,474	633	89,284
Insurance	80,092	1,248	714	82,054
Nutrition	77,168	-	-	77,168
Health care	68,168	-	-	68,168
Scholarships	54,479	-	-	54,479
Special events	-	-	43,489	43,489
Professional development	21,060	2,591	3,622	27,273
Student activities	26,549	-	-	26,549
Printing, copying and postage	-	5,538	10,682	16,220
Dues and subscriptions	-	1,646	1,054	2,700
Meals and entertainment	-	-	2,565	2,565
TOTAL EXPENSES	$ 3,715,803	$ 145,988	$ 411,578	$ 4,273,369

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

	PROGRAM	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL
EXPENSES				
Payroll costs	$ 1,513,578	$ 70,358	$ 307,261	$ 1,891,197
Depreciation	478,824	7,458	4,268	490,550
Interest expense – NMTC	456,076	7,102	4,065	467,243
Facility maintenance	248,142	3,864	2,211	254,217
Student assistance	126,920	-	-	126,920
Professional fees	44,536	66,901	7,102	118,539
Outside services	114,870	110	63	115,043
Instructional supplies	82,460	-	-	82,460
Insurance	77,188	3,499	688	81,375
Office and administrative	55,733	10,761	496	66,990
Scholarships	61,695	-	-	61,695
Nutrition	60,792	-	-	60,792
Health care	57,817	-	-	57,817
Special events	-	-	39,303	39,303
Student activities	29,275	-	-	29,275
Professional Development	11,279	3,772	2,190	17,241
Printing, copying and postage	-	5,925	8,877	14,802
Dues and subscriptions	-	1,483	2,625	4,108
Meals and entertainment	-	-	7,269	7,269
TOTAL EXPENSES	$ 3,419,185	$ 181,233	$ 386,418	$ 3,986,836

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$ 831,939	$ 330,566
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES:		
Depreciation expense	513,247	490,550
Unrealized gain from beneficial interests in foundations	(10,529)	(18,792)
Change in operating assets and liabilities:		
Pledges receivable	135,271	(68,297)
Prepaid expenses and other current assets	(4,061)	2,277
Accounts receivable	(3,094)	14,225
Accrued interest receivable	(4,478)	(10,150)
Accounts payable and accrued expenses	9,298	50,003
Accrued interest payable	24,607	(24,607)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,492,200	765,775
CASH FLOWS PROVIDED/(USED) BY INVESTING ACTIVITIES		
Net change in restricted cash	(462,004)	1,329,741
Purchase of certificate of deposits, net of maturities	(1,000,000)	(3,350,000)
Distributions from investments in foundations	-	1,255
Purchase of property and equipment	(64,155)	(11,460)
Purchase of building and building improvements	(120,717)	(1,270,126)
NET CASH USED BY INVESTING ACTIVITIES	(1,646,876)	(3,300,590)
NET DECREASE IN CASH	(154,676)	(2,534,815)
CASH, BEGINNING OF YEAR	1,228,775	3,763,590
CASH, END OF YEAR	$ 1,074,099	$ 1,228,775
Supplemental disclosures		
Interest paid	$ 442,484	$ 490,550
Interest received	$ 358,718	$ 358,718
Taxes paid	$ -	$ -

NOTE 1 THE ORGANIZATION

Monarch School Project (the Organization) is a nonprofit corporation established for the purpose of supporting student learning at Monarch School. The Organization partners with the San Diego County Office of Education and provides programs in order to enhance the education of students experiencing homelessness.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting – The accompanying consolidated financial statements are prepared using the accrual method in conformity with US generally accepted accounting principles (GAAP).

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 GAAP 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.

The Organization maintained its cash accounts at four commercial banks as of June 30, 2018 and 2017. 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, 2018 and 2017. At June 30, 2018 and 2017, the Organization had balances in its banks of approximately $1,002,000 and $1,076,000, 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 Markets Tax Credits (NMTC) financing funds, which are controlled 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 Financial Accounting Standards Board (FASB) 820, Fair Value Measurement and have been recorded at cost. These investments have an original maturity date that exceeds three months and have therefore 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 Treasury bill 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 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.

Impairment of long-lived assets – 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, 2018 and 2017.

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 – Donated gifts and services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. The Organization recognizes the value of donated gifts and services by recording the donations at their fair value (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 the 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, the Organization is not subject to income taxes for operations related to its exempt purpose.

As of June 30, 2018 and 2017, 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.

Recent Accounting Pronouncement - In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that are useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

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:

	2018	2017
School programs and activities	$ 370,793	$ 232,731
NMTC interest reserve*	106,621	73,816
Total short-term restricted cash	$ 477,414	$ 306,547

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:

	2018	2017
School programs and activities	$ 406,268	$ 8,500
NMTC interest reserve*	-	106,631
Total long-term restricted cash	$ 406,268	$ 115,131

*In addition to funds that have been restricted by donors, amounts are held and controlled by Opus Bank 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:

	2018	2017
Gross pledges receivable	$ 101,306	$ 251,737
Less: Allowances for uncollectible pledges receivable	(5,100)	(17,600)
Less: Discount to net present value	-	(2,660)
Net pledges receivable	$ 96,206	$ 231,477

Amounts due in:	2018	2017
Less than one year	$ 101,306	$ 151,737
One to five years	-	100,000
Total amounts due	$ 101,306	$ 251,737

Pledges receivable with due dates extending beyond one year are discounted using Treasury bill rates for similar term investments as of the date the pledge was received.

NOTE 5 PROPERTY AND EQUIPMENT

Major categories of property and equipment are summarized as follows:

	Balance at 6/30/2017	Additions	Disposals	Balance at 6/30/2018
Building and improvements	$ 16,756,803	$ 126,126	$ -	$ 16,882,929
Land	5,600,000	-	-	5,600,000
Furniture and fixtures	582,055	56,906	-	638,961
Vehicles	20,852	-	-	20,852
Computers and equipment	10,829	7,249	-	18,078
	$ 22,970,539	$ 190,281	$ -	$ 23,160,820
Accumulated depreciation				(2,457,206)
				$ 20,703,614

	Balance at 6/30/2016	Additions	Disposals	Balance at 6/30/2017
Building and 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

Depreciation expense was $513,247 and $490,550 for the years ended June 30, 2018 and 2017, respectively.

The renovation of the Organization’s main lobby and parent room was completed in December 2017 for a total cost of $181,233.

In May 2012, the Organization, upon receiving funds from the New 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 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 Program. These funds were used towards the construction of the Organization's Nat and Flora Bosa 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, 2018 and 2017, 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, 2018 and 2017, 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.

The first note payable (QLICI Loan A) has a balance of $3,800,000 as of June 30, 2018 and 2017 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, 2018 and 2017, the Organization had an accrued interest payable amount of $29,134 and $22,978, 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, 2018 and 2017 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, 2018 and 2017, the Organization had an accrued interest payable amount of $60,034 and $47,349, 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, 2018 and 2017 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, 2018 and 2017, the Organization had an accrued interest payable amount of $27,290 and $21,524, respectively, due to the CDE relating to QLICI Loan C.

Notes receivable and notes payable related to the NMTC financing reflected on the consolidated statements of financial position as of June 30, 2018 and 2017 are as follows:

	2018	2017
Notes receivable:		
Senior Loan B	$ 7,830,375	$ 7,830,375
Senior Loan A	3,800,000	3,800,000
Total notes receivable	$ 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
Total notes payable	$ 15,190,000	$ 15,190,000

Interest income and expense related to NMTC financing for the years ended June 30, 2018 and 2017 is as follows:

	2018	2017
Interest income	$ 358,718	$ 358,718
Interest expense	$ (467,091)	$ (467,243)

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 that 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.

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 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 Organization.

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 Organization.

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, 2018 and 2017 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, 2018 on a recurring basis:

Assets	Level 1	Level 2	Level 3	Total
Beneficial interest in San Diego Foundation endowment fund	$ -	$ -	$ 161,263	$ 161,263
Beneficial interest in Jewish Community Foundation of San Diego endowment fund	-	-	26,008	26,008
	$ -	$ -	$ 187,271	$ 187,271

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

The investments in the San Diego Foundation Endowment Fund and Jewish Community Foundation of San Diego Endowment Fund are measured using values provided by these foundations. The values are based on the fair market value of the underlying cash, securities and other investments. Although the Organization classifies its investments in each foundation as Level 3, the investments held in each foundation are comprised of Level 1, 2 and 3 investments as reported by each foundation.

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended June 30, 2018:

Balance at July 1, 2017	$ 176,741
Change in value	10,529
Distribution	-
Balance at June 30, 2018	$ 187,271

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 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 2018 and 2017 that were still held in the consolidated statements of financial position 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	2018 Level 1	2018 Level 2	2018 Level 3	2018 Total
Unconditional promises to give	$ -	$ -	$ 96,206	$ 96,206

Assets	2017 Level 1	2017 Level 2	2017 Level 3	2017 Total
Unconditional promises to give	$ -	$ -	$ 231,477	$ 231,477

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, 2018:

Balance at July 1, 2017	$ 231,477
New pledges received	-
Collections	(150,431)
Change in valuation	15,160
Balance at June 30, 2018	$ 96,206

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 9 NET ASSETS

Net assets consist of the following:

	2018	2017
Unrestricted:		
Undesignated	$ 20,149,981	$ 21,671,432
Board-designated:		
Strategic reserve	1,567,246	-
Maintenance reserve	1,108,289	868,289
Total board-designated	2,675,535	868,289
Total unrestricted net assets	22,825,516	22,539,721
Temporarily restricted:		
School programs	777,061	230,917
Total net assets	$ 23,602,577	$ 22,770,638

In August 2013, the Board of Directors of the Organization established a maintenance reserve fund designated for future repairs on the school campus. Such funds are included in unrestricted-board designated net assets in the accompanying consolidated statements of financial position. For the years ended June 30, 2018 and 2017, the board designated net assets of $240,000 and $260,000, respectively, and released $0 and $24,050, respectively.

In May 2018, the Board of Directors of the Organization established a strategic reserve fund designated for one-time, nonrecurring expenses that will build long-term capacity, such as research and development. Such funds are included in unrestricted-board designated net assets in the accompanying consolidated statements of financial position. For the years ended June 30, 2018 and 2017, the board designated net assets of $1,567,246 and $0, respectively. No amounts were released for the years ended June 30, 2018 and 2017.

NOTE 10 IN-KIND DONATIONS

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

	2018	2017
Services:		
Health services	$ 68,168	$ 57,817
Professional services	32,422	30,432
Services for students	8,932	12,188
Total services	109,522	100,437
Student Support:		
Food and clothing	59,887	44,823
Gift cards and other support	35,664	30,820
Total student support	95,551	75,643
Total in-kind donations	$ 205,073	$ 176,080

NOTE 11 FUNDRAISING EXPENSE

Total fundraising expense for the years ended June 30, 2018 and 2017 was $411,578 and $386,418, respectively. Fundraising expenses related to the annual fundraising activities totaled approximately 11% and 13% of the total annual contribution revenue for the years ended June 30, 2018 and 2017, 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 October 8, 2018, the date the consolidated financial statements were ready to be issued. There were no material subsequent events that affected the amounts or disclosures in the financial statements.