MONARCH SCHOOL PROJECT
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

MONARCH SCHOOL PROJECT

CONSIDINE & CONSIDINE
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Monarch School Project

Opinion

We have audited the accompanying consolidated financial statements of Monarch School Project, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, 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.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Monarch School Project and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Monarch School Project's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Monarch School Project's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Monarch School Project's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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CONSIDINE & CONSIDINE
An accountancy corporation

January 24, 2024

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,812,667	$ 10,260,444
Investments (note 5)	3,980,977	-
Prepaid expenses and other current assets	120,928	107,384
Accounts receivable	15,776	65,633
Pledges receivable	81,500	-
TOTAL CURRENT ASSETS	9,011,848	10,433,461
PROPERTY AND EQUIPMENT (NOTE 3)	18,947,865	19,326,214
OTHER ASSETS		
Beneficial interests in foundations (note 4)	250,730	235,503
Operating lease right-of-use asset (note 12)	344,230	-
TOTAL OTHER ASSETS	594,960	235,503
TOTAL ASSETS	28,554,673	29,995,178
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	591,648	780,017
Operating lease liability (note 12)	132,231	-
TOTAL CURRENT LIABILITIES	723,879	780,017
LONG-TERM LIABILITIES		
Operating lease liability - long-term (note 12)	202,377	-
TOTAL LIABILITIES	926,256	780,017
NET ASSETS (NOTE 7)		
Without donor restrictions	25,968,747	27,756,943
With donor restrictions	1,659,670	1,458,218
TOTAL NET ASSETS	27,628,417	29,215,161
TOTAL LIABILITIES AND NET ASSETS	$ 28,554,673	$ 29,995,178

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
SUPPORT AND REVENUE			
Contributions and fundraising	$ 2,350,076	$ 2,464,902	$ 4,814,978
Special events	659,957	207,510	867,467
Program service grant	185,713	-	185,713
Rental income (note 12)	775,656	-	775,656
Sublease income (note 12)	21,795	-	21,795
In-kind donations (note 8)	118,817	-	118,817
Investment income	205,154	-	205,154
TOTAL SUPPORT AND REVENUE	4,317,168	2,672,412	6,989,580
NET ASSETS RELEASED FROM RESTRICTION	2,470,960	(2,470,960)	-
EXPENSES			
Program	7,196,153	-	7,196,153
General and administrative	877,204	-	877,204
Fundraising	960,329	-	960,329
TOTAL EXPENSES	9,033,686	-	9,033,686
CHANGE IN NET ASSETS BEFORE OTHER INCOME/(LOSS)	(2,245,558)	201,452	(2,044,106)
OTHER INCOME			
Employee retention credit (note 11)	441,072	-	441,072
Other income	15,518	-	15,518
Gain on disposal of fixed assets	772	-	772
TOTAL OTHER INCOME	457,362	-	457,362
CHANGE IN NET ASSETS	(1,788,196)	201,452	(1,586,744)
NET ASSETS, BEGINNING OF YEAR	27,756,943	1,458,218	29,215,161
NET ASSETS, END OF YEAR	$ 25,968,747	$ 1,659,670	$ 27,628,417

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
SUPPORT AND REVENUE			
Contributions and fundraising	$ 2,460,989	$ 2,525,494	$ 4,986,483
Special events	756,754	157,163	913,917
Program service grant	168,099	-	168,099
Rental income	840,294	-	840,294
In-kind donations (note 8)	121,898	-	121,898
Investment income	30,461	-	30,461
TOTAL SUPPORT AND REVENUE	4,378,495	2,682,657	7,061,152
NET ASSETS RELEASED FROM RESTRICTION	1,772,507	(1,772,507)	-
EXPENSES			
Program	4,997,937	-	4,997,937
General and administrative	617,610	-	617,610
Fundraising	635,998	-	635,998
TOTAL EXPENSES	6,251,545	-	6,251,545
CHANGE IN NET ASSETS BEFORE OTHER INCOME/(LOSS)	(100,543)	910,150	809,607
OTHER INCOME/(LOSS)			
PPP loan forgiveness (note 10)	441,795	-	441,795
Employee retention credit (note 11)	418,525	-	418,525
Other loss	(8,287)	-	(8,287)
Loss on disposal of fixed assets	(609)	-	(609)
TOTAL OTHER INCOME/(LOSS)	851,424	-	851,424
CHANGE IN NET ASSETS	750,881	910,150	1,661,031
NET ASSETS, BEGINNING OF YEAR	27,006,062	548,068	27,554,130
NET ASSETS, END OF YEAR	$ 27,756,943	$ 1,458,218	$ 29,215,161

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

	PROGRAM	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL
EXPENSES				
Payroll costs	$ 4,586,509	$ 570,115	$ 770,149	$ 5,926,773
Depreciation	609,120	11,563	4,313	624,996
Professional fees	309,790	169,281	88,006	567,077
Facility maintenance	541,473	5,626	2,098	549,197
Instructional supplies	191,254	-	-	191,254
Student assistance	187,847	-	-	187,847
Office and administrative	103,345	51,873	6,680	161,898
Special events	100,406	-	55,051	155,457
Outside services	120,555	153	5,086	125,794
Nutrition	120,819	-	-	120,819
Scholarships	95,156	-	-	95,156
Student activities	92,080	-	-	92,080
Professional development	59,988	11,756	8,888	80,632
Insurance	77,351	1,469	548	79,368
Printing, copying and postage	460	38,606	16,221	55,287
Dues and subscriptions	-	16,762	3,289	20,051
TOTAL EXPENSES	$ 7,196,153	$ 877,204	$ 960,329	$ 9,033,686

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CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2022

	PROGRAM	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL
EXPENSES				
Payroll costs	$ 2,883,733	$ 438,685	$ 402,474	$ 3,724,892
Depreciation	547,069	10,385	3,873	561,327
Professional fees	472,343	116,676	58,056	647,075
Facility maintenance	298,598	2,513	937	302,048
Instructional supplies	114,201	-	-	114,201
Student assistance	159,890	-	-	159,890
Office and administrative	63,928	16,426	3,659	84,013
Special events	20,671	-	110,646	131,317
Outside services	68,533	171	9,788	78,492
Nutrition	104,475	-	-	104,475
Scholarships	48,843	-	-	48,843
Student activities	40,177	-	-	40,177
Professional development	41,872	5,709	5,131	52,712
Insurance	115,414	2,191	817	118,422
Printing, copying and postage	-	18,410	36,915	55,325
Dues and subscriptions	-	6,444	3,702	10,146
Healthcare	18,190	-	-	18,190
TOTAL EXPENSES	$ 4,997,937	$ 617,610	$ 635,998	$ 6,251,545

MONARCH SCHOOL PROJECT
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES		
Change in net assets	$ (1,586,744)	$ 1,661,031
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS		
TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES:		
Depreciation expense	624,996	561,327
PPP loan forgiveness	-	(441,795)
Loss on disposal of fixed assets	(772)	609
Unrealized gain/loss from beneficial interests in foundations	(16,586)	11,943
Unrealized gain/loss from marketable securities	102,106	-
Change in operating assets and liabilities:		
Pledges receivable	(81,500)	-
Prepaid expenses and other current assets	(13,544)	46,148
Accounts receivable	49,857	(62,597)
Accrued interest receivable	-	5,657
Operating lease right-of-use asset	(9,622)	-
Accounts payable and accrued expenses	(188,369)	346,526
Deferred revenue - special events	-	(35,000)
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	(1,120,178)	2,093,849
CASH FLOWS PROVIDED/(USED) BY INVESTING ACTIVITIES		
Redemption of certificates of deposits	-	1,000,000
Purchase of marketable securities	(10,583,184)	-
Proceeds from sale of marketable securities	6,500,101	-
Distributions from investments in foundations	1,359	1,354
Purchase of property and equipment	(145,875)	(98,923)
Purchase of building improvements	(100,000)	(432,024)
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	(4,327,599)	470,407
NET INCREASE/(DECREASE) IN CASH	(5,447,777)	2,564,256
CASH, BEGINNING OF YEAR	10,260,444	7,696,188
CASH, END OF YEAR	$ 4,812,667	$ 10,260,444
Supplemental disclosures		
Interest paid	$ -	$ -
Taxes paid	$ -	$ -

See note 12 for noncash transactions related to operating leases

NOTE 1 THE ORGANIZATION

Monarch School Project (the Organization), a nonprofit corporation, supports a K-12 school developed specifically to educate students impacted by housing insecurity in San Diego County. Monarch School breaks down the barriers homeless youth face in accessing education and provides them with a safe, stable learning environment where they can heal and develop the necessary skills and experiences for personal success. The Organization was formed in San Diego, California in 1987.

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.

Financial statement presentation – The Organization follows the Financial Accounting Standards Board's (FASB) Financial Statements of Not-for-Profit Organizations for presentation of its financial statements which require that net assets, support, revenue and gains, expenses and losses be classified as with donor restrictions and without donor restrictions.

Net assets without donor restrictions – Consists of assets which are fully available, at the discretion of management and the Board of Directors, for the Organization to utilize in any of its programs or supporting services. Net assets without donor restrictions also include amounts designated for certain purposes by the Board of Directors.

Net assets with donor restrictions – Consists of contributed funds subject to donor imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds. Net assets with donor restrictions include amounts that neither expire by the passage of time nor can be fulfilled or removed by actions of the Organization.

Donor-imposed restrictions – All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received designated for future periods or restricted by the donor for specific purposes are reported as with donor restrictions, increasing that net asset class. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. If a restriction is fulfilled in the same period in which the contribution is received, the support is reported as with donor restrictions 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 a large national bank as of June 30, 2023 and 2022. The Organization restricts investments of cash to financial institutions of high credit standing. Cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per financial institution at June 30, 2023 and 2022. At June 30, 2023 and 2022, the Organization had balances in its banks of approximately $4,366,000 and $9,718,000 respectively that were in excess of the insured limits.

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.

Investments - The Organization reports its investments in accordance with generally accepted accounting principles for not-for-profit organizations, which establish accounting standards for investments in certain equity and for all debt securities. The guidance prescribes that covered investments be reported in the statement of financial position at fair value with any realized or unrealized gains or losses reported in the statement of activities. Investment income is recognized as revenue in the period it is earned and gains and losses are recognized as changes in net assets in the accounting period in which they occur.

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, 2023 and 2022.

Revenue recognition – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been met. Rental income is recognized as revenue in the period earned.

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.

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 8).

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 with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as without donor restrictions. In the absence of a readily determinable fair value, management may use estimates to determine the fair value of contributed property.

Functional allocation of expenses – The Organization allocates its expenses on a functional basis among its various programs and support services. Expenditures which can be identified with a specific program or support service are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by the Organization's management.

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, 2023 and 2022, 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.

<u>Recent accounting pronouncements</u>

In February 2016, FASB issued ASU 2016-02 Leases (Topic 842). In July 2018, FASB issued two updates to ASU 2016-02, ASU 2018-10, Codification Improvements to Topic 842 Leases, and ASU 2018-11, Leases (Topic 842): Targeted Improvements. The new standard is effective for fiscal years beginning after December 15, 2021. The Organization adopted Topic 842 as of July 1, 2022 by recognizing and measuring leases at the adoption date with cumulative effect of initially applying the guidance recognized at the date of the initial application and as a result did not restate the prior periods presented in the financial statements. The Organization elected certain practical expedients permitted under the transitional guidance, including retaining historical lease classification, evaluating whether any expired contracts are or contain leases, and not applying hindsight in determining the lease term. Lastly, the Organization elected the short-term lease exception for all classes of assets, and therefore does not apply the recognition requirements for leases of 12 months or less. Options to renew a lease are only included in the lease term to the extent those options are reasonable certain to be exercised. The accounting model for lessors did not significantly change as a result of ASU 2016-02.

The Organization categorizes long-term leases as either operating or finance. Finance leases are generally those leases that allow the Organization to substantially utilize or pay for the entire asset of its estimated life. The Organization had no finance leases at June 30, 2023.

Leases with a term greater than one year are recognized on the balance sheet as right-of-use (ROU) assets and short-term and long-term lease liabilities, as applicable. Operating lease liabilities and their corresponding ROU assets are initially recorded based on the present value of lease payments over the term of the lease. The rate implicit in lease contracts is typically not readily determinable and, as a result, the Organization utilizes the treasury yield rate to discount lease payments.

NOTE 3 PROPERTY AND EQUIPMENT

Major categories of property and equipment are summarized as follows:

	Balance at 6/30/2022	Additions	Disposals	Balance at 6/30/2023
Building and improvements	$ 17,373,989	$ 100,000	$ -	$ 17,473,989
Land	5,600,000	-	-	5,600,000
Furniture and fixtures	788,100	90,080	-	878,180
Vehicles	20,852	20,000	-	40,852
Computers and equipment	102,342	36,624	(24,492)	114,474
	$ 23,885,283	$ 246,704	$ (24,492)	$ 24,107,495
Accumulated depreciation				(5,159,630)
				$ 18,947,865

	Balance at 6/30/2021	Additions	Disposals	Balance at 6/30/2022
Building and improvements	$ 16,941,965	$ 432,024	$ -	$ 17,373,989
Land	5,600,000	-	-	5,600,000
Furniture and fixtures	721,453	66,647	-	788,100
Vehicles	20,852	-	-	20,852
Computers and equipment	74,241	32,276	(4,175)	102,342
	$ 23,358,511	$ 530,947	$ (4,175)	$ 23,885,283
Accumulated depreciation				(4,559,069)
				$ 19,326,214

Depreciation expense was $624,996 and $561,327 for the years ended June 30, 2023 and 2022, respectively.

In May 2012, the Organization, upon receiving funds from the New Markets Tax Credit Program, entered into an agreement with the Redevelopment Agency of San Diego to obtain the property on Newton Avenue. Until May 2043, 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. The Organization intends to operate under the terms of the agreement, and as such no liability has been recorded in the financial statements related to this obligation.

NOTE 4 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 5 INVESTMENTS

Fair value of available-for-sale securities are as follows:

	2023	2022
Government securities	$ 3,980,977	$ -

The following schedule summarizes the investment return of the assets held by the Organization for the years ended June 30:

	2023	2022
Net realized and unrealized gain/(loss) on investments	$ 102,106	$ -
Interest and dividend income	113,681	30,461
Less: investment fees	(10,633)	-
	$ 205,154	$ 30,461

NOTE 6 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.

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There were no changes in the methods used to measure fair values at June 30, 2023 and 2022.

The Organization's policy is to recognize transfers of investments into and out of Level 3 as of the date of the event or change in circumstances that caused the transfer. For the year ended June 30, 2023, there were no significant transfers of investments into or out of Level 3.

The investments in government securities are not actively traded and use other observable inputs to determine fair value. These assets are classified as Level 2.

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.

Financial assets and liabilities carried at fair value at June 30, 2023 and 2022 are classified in one of three categories described above. The table below presents the balances of assets measured at fair value on a recurring basis.

Assets	Level 1	Level 2	Level 3	Total
Beneficial interest in San Diego Foundation endowment fund	$ -	$ -	$ 224,425	$ 224,425
Beneficial interest in Jewish Community Foundation of San Diego endowment fund	-	-	26,305	26,305
Investments				
Government Securities	-	3,980,977	-	3,980,977
	$ -	$ 3,980,977	$ 250,730	$ 4,231,707

The table below presents the balances of assets measured at fair value as of June 30, 2022 on a recurring basis:

Assets	Level 1	Level 2	Level 3	Total
Beneficial interest in San Diego Foundation endowment fund	$ -	$ -	$ 209,721	$ 209,721
Beneficial interest in Jewish Community Foundation of San Diego endowment fund	-	-	25,782	25,782
	$ -	$ -	$ 235,503	$ 235,503

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended June 30, 2023:

Balance at July 1, 2022	$ 235,503
Change in value	16,586
Distribution	(1,359)
Balance at June 30, 2023	$ 250,730

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended June 30, 2022:

Balance at July 1, 2021	$ 248,800
Change in value	(11,943)
Distribution	(1,354)
Balance at June 30, 2022	$ 235,503

NOTE 7 NET ASSETS

Net assets consist of the following:

	2023	2022
Without donor restrictions:		
Undesignated	$ 21,653,621	$ 23,230,020
Board-designated:		
Strategic reserve	2,268,203	2,500,000
Maintenance reserve	2,046,923	2,026,923
Total board-designated	4,315,126	4,526,923
Total net assets without donor restrictions	25,968,747	27,756,943
With donor restrictions:		
SDRTFH grant	1,058,460	-
Arts center	402,578	1,275,404
Summer learning program	81,500	-
Academic growth	22,908	155,485
Life skills	12,724	27,329
	1,578,170	1,458,218
Time restricted for future periods:		
Summer learning program - for long-term use	81,500	-
Total net assets with donor restrictions	1,659,670	1,458,218
Total net assets	$ 27,628,417	$ 29,215,161

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restriction specified by donors as follows:

	2023	2022
Arts center	$ 1,099,631	$ 703,527
School programs	1,371,329	1,068,980
	$ 2,470,960	$ 1,772,507

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 without donor restrictions net assets in the accompanying consolidated statements of financial position. For the years ended June 30, 2023 and 2022, the board designated net assets of $120,000 and $240,000, respectively, towards the maintenance reserve fund. $100,000 and $0 were released for the years ended June 30, 2023 and 2022.

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 net assets without donor restrictions in the accompanying consolidated statements of financial position. The board determined the strategic reserve fund should maintain a balance of $2,500,000. During the year ended June 30, 2023, the Organization launched its scale initiative and the board released $231,797 to support the initiative.

NOTE 8 IN-KIND DONATIONS

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

	2023	2022
Services:		
Health services	$ -	$ 18,190
Professional services	-	21,924
Total services	-	40,114
Student Support:		
Food and clothing	117,917	81,784
Gift cards and other support	900	-
Total student support	118,817	81,784
Total in-kind donations	$ 118,817	$ 121,898

NOTE 9 FUNDRAISING EXPENSE

Total fundraising expense for the years ended June 30, 2023 and 2022 was $960,329 and $635,998, respectively. Fundraising expenses related to the annual fundraising activities totaled approximately 20% and 11% of the total annual contribution revenue for the years ended June 30, 2023 and 2022, respectively. The ratio of expenses to amounts raised is computed using actual expenses and related contributions on an accrual basis.

NOTE 10 PPP LOAN PAYABLE

On March 15, 2021, the Organization entered into a second PPP note payable agreement with Union Bank for $441,795. The note matures five years from the disbursement date and bears interest at a rate of 1.000% per annum. No payments are due on this note during the deferral period applicable under the PPP regulations. Principal and interest may be prepaid by the Organization at any time prior to maturity with no prepayment penalties. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of loans granted under the PPP. The note is subject to forgiveness to the extent proceeds are used for payroll costs, including payments required to continue group health care benefits, and certain rent, utility, and mortgage interest expenses (qualifying expenses), pursuant to the terms and limitations of the PPP. The Organization believes that it used all of the proceeds from the note for expenses that would qualify for loan forgiveness. The Organization recorded the loan forgiveness during the year ended June 30, 2022. In August 2022, the Organization requested and received full forgiveness of the second PPP loan.

NOTE 11 EMPLOYEE RETENTION CREDIT

The Organization has filed for the Employee Retention Credit (ERC) with the credits totaling $896,335. Laws and regulations concerning government programs, including the ERC established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Organization's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Organization. As of June 30, 2023, the Organization has received a total refund of $454,000. The remaining amount of $442,335 has been recorded as a receivable on the statement of financial position. Accordingly, the Organization recognizes a valuation allowance in the amount of $442,335 that fully offsets the outstanding ERC receivable. The amount of refunds received has been included as other income on the statement of activities for the year ended in the year received. As of June 30, 2023, the Organization has received the remaining amount of approximately $441,000.

NOTE 12 LEASES

Operating Leases (Lessee)

The Organization leases its performing arts facility and parking lot under an operating lease that expires on March 2026 and February 2024, respectively. These leases include renewal options which can extend lease terms between 2 to 5 years. The performing arts facility lease also has an option for subletting a portion of the facility with the lessor's consent. The Organization has exercised this option and has sublet to individuals and other entities on a short-term operating lease. At June 30, 2023, the combined monthly rent expense was approximately $15,000.

The components of total lease cost for the year ended June 30, 2023 consisted of the following:

Operating lease cost	$	200,988
Short term lease cost		-
Variable lease cost		-
Sublease income		(21,795)
Total lease cost	$	179,193

Lease costs are included in facility maintenance costs in the statement of functional expenses at June 30, 2023.

Supplemental cash flow information related to the operating lease for the year ended June 30, 2023 is as follows:

Noncash operating activity:		
Right of use asset acquired under operating lease	$	507,762
Cash paid amounts included in the measurements of lease liabilities:		
Operating cash flows for operating leases	$	173,048

Weighted average lease term and discount rate as of June 30, 2023 were as follows:

Weighted average remaining lease term	2.04 years
Weighted average discount rate	2.88%

Future minimum undiscounted lease payments related to the operating lease liability for the years ended June 30 is as follows:

2024	$	142,291
2025		119,296
2026		91,470
Total undiscounted lease payments		353,057
Less: present value discount		(18,449)
Total operating lease liability	$	334,608

Operating Leases (Lessor)

The Organization leases its building to San Diego County Office of Education under an operating lease that expires on June 2025. The lease includes renewal options which can extend up to 5 years. At June 30, 2023, the monthly rental revenue earned from this lease was approximately $64,638.

The components of operating lease income for the year ended June 30, 2023 consisted of the following:

Fixed lease income	$ 775,656
Variable lease payments	(36,410)
Rental revenue	$ 739,246

Future minimum undiscounted rents related to the operating lease for the years ended June 30 is as follows:

2024	$ 923,400
2025	923,400
Total	$ 1,846,800

NOTE 13 LIQUIDITY, AVAILABILITY, AND RESERVES MANAGEMENT

The Organization maintains and manages adequate operating fund reserves per policies set by its Board of Directors to ensure the stability of the mission, programs, employment, and ongoing operations of the Organization and for the implementation of future strategic plans as adopted by the board.

The Organization strives to maintain liquid financial assets equal to six months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program, and ongoing professional services. Any funds in excess or less than the targeted amount will be transferred to or from the strategic reserve fund (see note 7).

As part of the Organization's liquidity management, it has structured its financial assets to be available as its general expenditures, liabilities and other obligations come due. Contributions and expenses are monitored on a monthly basis by management and on a bi-monthly basis by the Organization's leadership and board. The level of assets are monitored on a monthly basis.

The Organization manages its liquidity following three guiding principles: operating within a prudent range of financial stewardship and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient funds to provide reasonable assurance that long-term obligations will be discharged.

The following reflect the Organization's financial assets as of June 30, 2023 and 2022, reduced by the amounts not available for general use because of donor-imposed restrictions within one year of the balance sheet date:

	2023	2022
Financial assets at year-end:		
Cash and cash equivalents	$ 4,812,667	$ 10,260,444
Accounts receivable	15,776	65,633
Investments	3,980,977	-
Pledge receivable	81,500	-
	8,890,920	10,326,077
Less those unavailable for general expenditures within one year:		
Contractual or donor imposed restrictions:		
Restricted by donor with purpose restrictions	(1,659,670)	(1,458,218)
Board designations:		
Strategic reserve	(2,268,203)	(2,500,000)
Maintenance reserve	(2,046,923)	(2,026,923)
Financial assets available to meet general expenditures within one year	$ 2,916,124	$ 4,340,936

NOTE 14 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 24, 2024, 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.