LEARNING WITH A DIFFERENCE, INC.
DBA WESTMARK SCHOOL
(A CALIFORNIA NON-PROFIT CORPORATION)

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
NOTES TO THE FINANCIAL STATEMENTS	6 - 19

KELLOGG & ANDELSON
ACCOUNTANCY CORPORATION

To the Board of Trustees of
Learning With A Difference, Inc.
dba Westmark School
Encino, California

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of Learning With A Difference, Inc. dba Westmark School (a California non-profit corporation, the Organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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 Organization'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 financial statements.

21700 Oxnard Street, Suite 800, Woodland Hills, California 91367 P 818.971.5100 F 818.971.5155 WWW.K-A.COM
16880 Via Del Campo Court, Suite 100, San Diego, California 92127 P 858.487.4580 F 858.487.8033 WWW.K-A.COM

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Learning With A Difference, Inc. dba Westmark School as of June 30, 2013 and 2012, 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.

Kellogg + Andelson

Woodland Hills, California
January 10, 2014

LEARNING WITH A DIFFERENCE, INC.
DBA WESTMARK SCHOOL
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

		2013		2012
ASSETS:				
Cash and cash equivalents	$	3,645,000	$	2,810,000
Accounts receivable, net of allowance for doubtful accounts of $8,000 and $30,000, respectively		78,000		140,000
Pledges receivable, net		177,000		493,000
Other receivables		9,000		12,000
Prepaid expenses and other assets		145,000		161,000
Property and equipment, net		11,456,000		12,024,000
Intangible assets, net		313,000		333,000
TOTAL ASSETS	$	15,823,000	$	15,973,000
LIABILITIES:				
Accounts payable	$	195,000	$	149,000
Accrued expenses		245,000		176,000
Unearned revenue		1,849,000		2,043,000
Term loan		-		325,000
Bonds payable		6,410,000		6,570,000
TOTAL LIABILITIES		8,699,000		9,263,000
COMMITMENTS AND CONTINGENCIES		-		-
NET ASSETS:				
Unrestricted		5,512,000		5,595,000
Temporarily restricted		1,494,000		997,000
Permanently restricted		118,000		118,000
TOTAL NET ASSETS		7,124,000		6,710,000
TOTAL LIABILITIES AND NET ASSETS	$	15,823,000	$	15,973,000

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

LEARNING WITH A DIFFERENCE, INC.
DBA WESTMARK SCHOOL
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUE AND SUPPORT:		
Tuition, academic year	$ 7,479,000	$ 6,877,000
Scholarships awarded	(606,000)	(415,000)
Tuition, academic year, net	6,873,000	6,462,000
Tuition, summer enrichment program	697,000	795,000
Transportation income	86,000	84,000
Contributions	335,000	284,000
Fundraising	85,000	110,000
Investment income	1,000	2,000
Other Income	124,000	149,000
Total unrestricted revenue and support	8,201,000	7,886,000
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfaction of program restrictions	863,000	844,000
Total net assets released from restrictions	863,000	844,000
Total unrestricted revenue, support, and net assets released from restrictions	9,064,000	8,730,000
EXPENSES:		
Program:		
Salaries	3,961,000	3,613,000
Employee benefits	872,000	807,000
Academic programs	724,000	416,000
Summer enrichment program	512,000	482,000
Transportation	56,000	51,000
Educational administrative	388,000	364,000
Interest	58,000	64,000
Depreciation and amortization	477,000	515,000
Total program expenses	7,048,000	6,312,000
Development:		
Salaries	221,000	241,000
Employee benefits	38,000	33,000
Development administrative	52,000	39,000
Total development expenses	311,000	313,000
Management and administrative:		
Salaries	792,000	793,000
Employee benefits	269,000	289,000
Marketing	60,000	38,000
General and administrative	316,000	435,000
Plant	167,000	204,000
Interest	59,000	56,000
Depreciation and amortization	125,000	63,000
Total management and administrative expenses	1,788,000	1,878,000
Total expenses	9,147,000	8,503,000
(Decrease) increase in unrestricted net assets	(83,000)	227,000
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions, net	1,415,000	703,000
Write-off of uncollectible pledges receivable	(55,000)	-
Net assets released from restrictions	(863,000)	(844,000)
Increase (decrease) in temporarily restricted net assets	497,000	(141,000)
NET CHANGE IN NET ASSETS	414,000	86,000
NET ASSETS, beginning of year	6,710,000	6,624,000
NET ASSETS, end of year	$ 7,124,000	$ 6,710,000

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

LEARNING WITH A DIFFERENCE, INC.

DBA WESTMARK SCHOOL

(A CALIFORNIA NON-PROFIT CORPORATION)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	$ 414,000	$ 86,000
Adjustments to reconcile net change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	602,000	578,000
Amortization of letter of credit fees	98,000	100,000
Contributions restricted for capital purposes	(1,071,040)	(266,000)
Write-off of uncollectible pledges receivable	55,000	-
Changes in assets and liabilities:		
Decrease in accounts receivable, net	62,000	49,000
Decrease in pledges receivable, net	261,000	336,000
Decrease in other receivables	3,000	8,000
Decrease (increase) in prepaid expenses and other assets	16,000	(55,000)
Increase (decrease) in accounts payable	46,000	(20,000)
Increase in accrued expenses	69,000	15,000
(Decrease) increase in unearned revenue	(194,000)	288,000
Total adjustments	(53,040)	1,033,000
Net cash and cash equivalents provided by operating activities	360,960	1,119,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(76,000)	(1,722,000)
Proceeds from disposition of property and equipment	61,000	-
Net cash and cash equivalents (used in) investing activities	(15,000)	(1,722,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal (payments on) proceeds from term loan	(325,000)	325,000
Principal (payments on) bonds payable	(160,000)	(150,000)
Bond and loan issuance costs	-	(22,000)
Letter of credit fees	(97,000)	(98,000)
Contributions restricted for capital purposes	1,071,040	266,000
Net cash and cash equivalents provided by financing activities	489,040	321,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	835,000	(282,000)
CASH AND CASH EQUIVALENTS, beginning of year	2,810,000	3,092,000
CASH AND CASH EQUIVALENTS, end of year	$ 3,645,000	$ 2,810,000

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the years for:		
Interest	$ 117,000	$ 120,000

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Learning With A Difference, Inc. dba Westmark School (the Organization) is a non-profit corporation located in Encino, California, which operates a school for children with learning disabilities. The Organization's basic educational program includes a lower, middle, and upper school. In addition, optional tutorial programs and summer programs are available to the students.

Basis of Presentation

The financial statements of the Organization have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

In accordance with GAAP, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. Unrestricted net assets represent the funds that are fully available, at the discretion of management and the Board of Trustees, for the Organization to utilize in its program or supporting activities.

- Temporarily restricted net assets are comprised of contributions that have been restricted by the donors for specific purposes or time periods. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets.

- Permanently restricted net assets consist of contributions that have been restricted by the donors to be maintained in perpetuity. The related income is temporarily restricted either for specific purpose (donor-imposed) or time period.

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Receivable

Accounts receivable are reported net of allowance for doubtful accounts. Accounts for which no payment has been received for 90 consecutive days are considered delinquent, and customary collection efforts are initiated. Accounts for which no payments have been received for 12 months are written off. Collections on accounts previously written off are included in income as received.

Pledges Receivable

In accordance with GAAP, unconditional promises to give (pledges) that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected over periods in excess of one year are discounted to net present value using risk-free interest rates applicable to the years in which the pledges are received. Discount on unconditional pledges is amortized from the date the pledge was initially recognized to the date the contribution is received. Discount amortization is recognized as donation revenue.

The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Prepaid Expenses and Unearned Revenue

Income and expenses related to summer activities that are received or incurred before the end of each fiscal year are deferred to the year in which the activities occur. Deposits and prepayments are also deferred to the year to which such amounts are applicable.

Property and Equipment

Property and equipment is stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Improvements and betterments are capitalized, while repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is calculated based on the straight-line method over the estimated useful lives of the assets as follows:

	Life in years
Buildings and building improvements	5 - 40
Machinery and equipment	5
Furniture and equipment	3 - 5
Computer equipment and software	3 - 5

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Intangible Assets

Intangible assets consist of goodwill, bond and loan issuance costs, and website development costs. Goodwill is capitalized at cost at the date of acquisition. Goodwill is not amortized but tested at least annually for impairment. There was no goodwill impairment for the years ended June 30, 2013 and 2012.

Bond and loan issuance costs incurred in connection with issuance of debt securities are recorded as an asset and amortized over the life of the debt in accordance with GAAP. The bond and loan issuance costs are amortized on a straight-line basis as the results are not materially different from the effective interest method.

In accordance with GAAP, external direct costs of materials and services consumed in developing or obtaining internal use software, including website development, and the payroll and payroll related costs for employees who are associated with and who devote time to the internal-use computer software, are capitalized. Capitalized costs are amortized over approximately three years on a straight-line basis.

Impairment of Long-Lived Assets

In accordance with GAAP, the Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such review indicates an asset may not be recoverable, an impairment loss is recognized for the excess of the carrying amount over the fair value of an asset to be held and used or over the fair value less cost to sell an asset to be disposed. During the years ended June 30, 2013 and 2012, there were no events or changes in circumstances indicating that the carrying amount of any long-lived assets may not be recoverable.

Tuition Revenue

The Organization records tuition revenue in the academic term within the fiscal year in which the program is predominately conducted.

Public Contributions

Contributions are recognized as support revenue when they are received or unconditionally pledged.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Public Contributions – Continued

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 and changes in net assets as net assets released from restrictions.

In-Kind Contributions

In accordance with GAAP, in-kind services are recognized if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. In addition, the Organization receives significant amount of donated services from unpaid volunteers that are essential to the completion of the Organization's purposes. However, these services have not been recorded in the financial statements since they do not meet the accounting criteria necessary for recognition.

Functional Expenses

The costs of providing program services and supporting activities have been reported on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

Income Taxes

The Organization is exempt from federal and state income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and the corresponding provisions of the California Revenue and Taxation Code.

While the Organization is a tax exempt organization under Section 501(c)(3) of the IRC, income determined to be unrelated business income (UBI) would be taxable. The Organization evaluates uncertain tax positions through its review of the sources of income to identify UBI and certain other matters, including those which may affect its tax exempt status. The effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2013 and 2012, the Organization had no uncertain tax positions requiring accrual.

The Organization files federal and California exempt organization returns. Management believes the Organization is no longer subject to income tax examinations by taxing authorities for the years before 2009 for federal and 2008 for state tax filings.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include those related to the Organization's allocation of certain expenses by function, allowance for doubtful accounts, allowance and discount for pledges receivable, estimates of useful lives of property and equipment, fair value of financial instruments, determination of lease terms, and accounting for impairment losses and litigation. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Organization places its cash and cash equivalents with high credit quality banking financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) up to $250,000 and $500,000, respectively. At times, such balances may be in excess of the FDIC and SIPC limits. In addition, funds in noninterest-bearing transaction accounts were fully insured by the FDIC through December 31, 2012. Concentration with respect to accounts receivable is limited due to the large number of customers comprising the customer base.

Fair Values of Financial Instruments

For certain of the Organization's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other assets and liabilities, the carrying amounts approximate fair value because of the relatively short period of time between the origination of these instruments and their expected realization or payment. Pledges receivable have been discounted using applicable risk-free interest rates to approximate fair value. For long-term debt, the carrying value approximates fair value as the interest rate on the underlying instruments fluctuates with market rates.

Recently Adopted Accounting Guidance

In the normal course of business, the Organization evaluates all new accounting pronouncements to determine the potential impact they may have on its financial statements. Based upon this review, the Organization does not expect any of the recently issued accounting pronouncements, which have not already been adopted by the Organization, to have a material impact on its financial statements.

LEARNING WITH A DIFFERENCE, INC.
DBA WESTMARK SCHOOL
(A CALIFORNIA NON-PROFIT CORPORATION)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Subsequent Events

In accordance with GAAP, events occurring between June 30, 2013 and January 10, 2014, the date these financial statements were available to be issued, were evaluated, and no material subsequent events that required recognition in these financial statements were noted.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. Such reclassifications have no effect on changes in net assets as previously reported.

NOTE 2 - ENDOWMENT

The Organization's only endowment fund, Jerry Mann Excellence in Teaching Award Endowment, was established for the purpose of giving annual cash award to teachers and is invested in accordance with donor requirements. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

The Organization follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*, which provides guidance on the net asset classification and reporting of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The UPMIFA was signed into law in California (CPMIFA) on September 30, 2008.

The Board of Trustees has interpreted the CPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

NOTE 2 - ENDOWMENT – CONTINUED

Interpretation of Relevant Law - Continued

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the CPMIFA. In accordance with the CPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund,
- The purposes of the Organization and the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Organization, and
- The investment policies of the Organization.

Composition and Changes in Endowment Net Assets

Endowment net assets composition by type of fund is as follows as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 118,000	$ 118,000
	$ -	$ -	$ 118,000	$ 118,000

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 118,000	$ 118,000
Investment return:				
Investment income, net	-	-	-	-
Total investment return	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, end of year	$ -	$ -	$ 118,000	$ 118,000

NOTE 2 - ENDOWMENT – CONTINUED

Composition and Changes in Endowment Net Assets - Continued

Endowment net assets composition by type of fund is as follows as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 118,000	$ 118,000
	$ -	$ -	$ 118,000	$ 118,000

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 118,000	$ 118,000
Investment return: Investment income, net	-	-	-	-
Total investment return	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, end of year	$ -	$ -	$ 118,000	$ 118,000

Endowment Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the law requires the Organization to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. As of the years ended June 30, 2013 and 2012, the Organization did not have any deficiencies.

NOTE 2 - ENDOWMENT - CONTINUED

Return Objectives and Risk Parameters

In the absence of donor requirements, the Organization has established overall investment and spending policies for endowment assets that attempt to (a) preserve the real purchasing power of the principal, (b) provide a stable source of perpetual financial support to endowment beneficiaries in accordance with the school's spending policy and, (c) ensure the spending rate plus inflation should normally be below the rate of return generated by the endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity.

Under this policy, as approved by the Board, the long-term annualized total rate of return objective for the endowment is inflation plus 5%. A minimum rate of return equal to the rate of inflation is required to preserve the real purchasing power of the endowment, and the additional 5% is required to provide for future spending and for fees incurred in administering and investing those funds. Actual returns in any given year may vary from the expected returns.

Although the investment policy recognizes the importance of preserving capital, it also reflects that varying degrees of investment risk are generally rewarded with increased returns that compensate for additional risk. Additionally, risk greater than that of a stable long-term risk securities will be required to preserve the purchasing power of the Fund. It is appropriate to pursue riskier investment strategies if such strategies are in the beneficiaries' best interest. Risk management of the investment program is focused on understanding of the endowment assets' investment and operational risks. The objective is to minimize operational risks and achieve appropriate compensation for the investment risks undertaken.

NOTE 3 - PLEDGES RECEIVABLE

Net pledges receivable amounted to $177,000 and $493,000 as of June 30, 2013 and 2012, respectively. Unamortized discount of $1,000 and $2,000 as of June 30, 2013 and 2012, respectively, was calculated using risk-free interest rate applicable to the years in which the pledges were received. No allowance was recorded as of June 30, 2013 and 2012, as management considered all pledges receivable to be fully collectible. Estimated future annual collections on pledges receivable are as follows:

Less than one year	$ 112,000
One to five years	66,000
	178,000
Less: unamortized discount	(1,000)
	$ 177,000

LEARNING WITH A DIFFERENCE, INC.
DBA WESTMARK SCHOOL
(A CALIFORNIA NON-PROFIT CORPORATION)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	2013	2012
Land	$ 3,095,000	$ 3,095,000
Buildings and building improvements	10,501,000	10,482,000
Machinery and equipment	29,000	29,000
Furniture and equipment	361,000	584,000
Computer equipment and software	929,000	1,216,000
Construction in progress	114,000	167,000
	15,029,000	15,573,000
Less: accumulated depreciation and amortization	(3,573,000)	(3,549,000)
	$ 11,456,000	$ 12,024,000

Depreciation and amortization expense for the years ended June 30, 2013 and 2012 amounted to $582,000 and $562,000, respectively.

NOTE 5 - INTANGIBLE ASSETS

Intangible assets consisted of the following as of June 30:

	2013	2012
Goodwill	$ 78,000	$ 78,000
Loan issuance costs	40,000	40,000
Bond issuance costs (Note 6)	326,000	326,000
Website development cost	56,000	56,000
	500,000	500,000
Less: accumulated amortization	(187,000)	(167,000)
	$ 313,000	$ 333,000

Amortization expense for the years ended June 30, 2013 and 2012 amounted to $20,000 and $16,000, respectively.

NOTE 6 - BONDS PAYABLE

Pursuant to the Board of Trustees' resolution to expand, renovate, and rehabilitate the Organization's facilities and to refinance the prior debt related to the acquisition of the campus (collectively, the Project), on November 1, 2006, The California Infrastructure and Economic Development Bank (the Issuer) issued the Variable Rate Demand Revenue Bonds, Series 2006 (the Bonds) in the aggregate amount of $7,000,000 on behalf of the Organization, pursuant to a loan and trust agreement (the Agreement) between the Issuer, the Organization, and Wells Fargo Bank (the Trustee). The Issuer acted as a flow-through conduit in the transaction and is not contingently liable should the Organization default on its payment of the Bonds. The Bonds mature on November 1, 2036, with interest payable at varying rates determined weekly, not to exceed 12.00%. The weekly variable interest rates in effect on June 30, 2013 and 2012 were 0.06% and 0.19%, respectively. Interest expense on the Bonds amounted to $117,000 and $120,000 for the years ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, principal maturities of the Bonds are as follows:

Year ending June 30,	
2014	$ 170,000
2015	180,000
2016	190,000
2017 and thereafter	5,870,000
	$ 6,410,000

To secure payment of the principal and of interest on the Bonds, the Organization has an irrevocable Letter of Credit issued by First Republic Bank (the Letter of Credit and the Bank, respectively) and an irrevocable Support Letter of Credit issued by The Bank of New York (the Support Letter of Credit and the Support Letter of Credit Bank, respectively). The initial Letter of Credit expired on November 17, 2011 and was automatically renewed until November 17, 2016. The amount of the Letter of Credit on any date is based upon the aggregate principal amount of the outstanding Bonds on or prior to such date and interest on such Bonds for 45 days calculated at a rate of 12.00% per annum, which is the maximum interest rate payable on the Bonds. Under the terms of the related Reimbursement Agreement with the Bank, the Organization is required to repay any amounts drawn on the Letter of Credit immediately. On June 30, 2013 and 2012, the amount of the Letter of Credit was $6,505,000 and $6,667,000, respectively, with no amounts outstanding.

NOTE 6 - BONDS PAYABLE - CONTINUED

The Organization is required to pay an annual fee of 1.40% on the Letter of Credit. The annual fee increased to 1.50% on November 9, 2011. The fee is paid in advance and amortized monthly. At June 30, 2013 and 2012, the amount of unamortized Letter of Credit fee was $33,000, and is included in prepaid expenses and other assets in the accompanying statements of financial position. Amortized fee amounted to $98,000 and $100,000 for the years ended June 30, 2013 and 2012, respectively, and is included in interest expense in the accompanying financial statements.

The initial Support Letter of Credit was set to expire on November 13, 2012. On November 9, 2011, the Organization obtained a new irrevocable Support Letter of Credit from U.S. Bank National Association (the new Support Letter of Credit and the new Support Letter of Credit Bank, respectively), which originally expired on November 8, 2012. Upon a written request, the Organization may request annual extensions through November 17, 2016. In October 2013, the expiration date of the new Support Letter of Credit was extended to November 8, 2014.

The Organization is required to comply with certain financial covenants under the terms of the Reimbursement Agreement. As of June 30, 2013 and 2012, the Organization was in compliance with these covenants.

As of June 30, 2013 and 2012, bond issuance costs of approximately $326,000 were incurred in issuing the bonds, including escrow and underwriter fees, management, legal and other professional fees, support letter of credit fees, and other related costs. These costs are capitalized in accordance with GAAP and are included in intangible assets in the accompanying statements of financial position (Note 5). These costs are being amortized over the term of the bonds. Amortization expense for each of the years ended June 30, 2013 and 2012 amounted $11,000, and is included in depreciation and amortization expense in the accompanying financial statements.

NOTE 7 - LINE OF CREDIT

On September 4, 2012, the Organization entered into a line of credit agreement with a financial institution, which allows for maximum borrowings of $500,000. The line of credit bears interest at prime rate. The line of credit is secured by all deposit accounts, intangibles, equipment and other tangible properties, and requires the Organization to comply with certain financial covenants. As of June 30, 2013, there were no amounts outstanding under this line of credit. On November 19, 2013, the line of credit was renewed with a due date of December 4, 2014.

NOTE 8 - TERM LOAN

On July 21, 2011, the Organization entered into a term loan agreement (Term Loan Agreement) with a financial institution, which allowed for maximum borrowings of $750,000. The Term Loan Agreement bore interest at prime rate plus 0.25% (3.50% as of June 30, 2012), and had an outstanding balance of $325,000 as of June 30, 2012. As of June 30, 2013, this term loan has been fully paid off.

The Term Loan Agreement was secured by all deposit accounts, accounts receivable, intangibles, equipment, investments, and other tangible properties and required the Organization to comply with certain financial covenants. As of June 30, 2012, the Organization was in compliance with these covenants.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted assets consisted of the following as of June 30:

	2013	2012
Assets restricted for financial aid	$ 277,000	$ 368,000
Assets restricted for music/arts	-	8,000
Assets restricted for art grant	1,000	1,000
Assets restricted for arts/new curriculum/athletics	-	5,000
Assets restricted for capital campaign I	174,000	593,000
Assets restricted for other program-related purposes	1,000	1,000
Assets restricted for Lund - staff development	7,000	21,000
Assets restricted for Lund – scholarship for faculty	25,000	-
Assets restricted for Lund – summer faculty fellowship	9,000	-
Assets restricted for capital campaign II	1,000,000	-
Total temporarily restricted assets	$ 1,494,000	$ 997,000

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted assets consisted of the following as of June 30:

	2013	2012
Jerry Mann Excellence in Teaching Award Endowment (income is temporarily restricted for annual cash award; any undistributed income is added back to the endowment as principal)	$ 118,000	$ 118,000
Total permanently restricted assets	$ 118,000	$ 118,000

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Organization leases office equipment and software under non-cancelable operating leases expiring through March 2017 and requiring minimum monthly rental payments of $3,000.

Minimum future annual lease commitments are as follows:

Year Ending June 30,	Amount
2014	$ 33,000
2015	33,000
2016	33,000
2017	23,000
	$ 122,000

Lease expense amounted to $36,000 and $28,000 for the years ended June 30, 2013 and 2012, respectively.

NOTE 12 - RETIREMENT PLAN

The Organization established The Westmark School 403(b) Plan (the Plan) to provide eligible employees with retirement security. The Plan was established in accordance with Section 403(b) of the IRC and allows participant and employer contributions. Participants may make a salary reduction election equal to 50% of their compensation per payroll period. A participant's salary reduction contributions during any calendar year may not exceed the maximum allowed by the IRC.

The Organization makes a matching contribution equal to 100% of the participant's contribution up to a maximum of 4% of the participant's eligible compensation. For the years ended June 30, 2013 and 2012, the Board approved an additional discretionary contribution of 2% of each participant's compensation. Total contributions for the years ended June 30, 2013 and 2012, amounted to $149,000 and $143,000, respectively.

NOTE 13 - LITIGATION

The Organization may, from time-to-time, be involved in litigation and regulatory investigations that arise in the normal course of doing business. After consultation with legal counsel and based on current facts and circumstances, management believes that resolution of such matters, if any, is not expected to have a material adverse effect on the financial position of the Organization.

LEARNING WITH A DIFFERENCE, INC.
DBA WESTMARK SCHOOL
(A NON-PROFIT CORPORATION)

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
NOTES TO FINANCIAL STATEMENTS	5 - 20

To the Board of Trustees of
Learning With A Difference, Inc.
dba Westmark School
Encino, California

Independent Auditors' Report

We have audited the accompanying statements of financial position of Learning With A Difference, Inc. dba Westmark School (a California non-profit corporation, the Organization) as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets and cash flows for the years then ended. The financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on the 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Learning with a Difference, Inc. dba Westmark School as of June 30, 2012 and 2011, the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Kellogg + Andelson

November 13, 2012

21700 OXNARD STREET, SUITE 900
WOODLAND HILLS, CALIFORNIA 91367

PHONE (818) 971-5100 FAX (818) 971-5155 WWW.K-A.COM

LEARNING WITH A DIFFERENCE, INC.
DBA WESTMARK SCHOOL
(A NON-PROFIT CORPORATION)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS:		
Cash and cash equivalents	$ 2,810,000	$ 3,092,000
Accounts receivable, net of allowance for doubtful accounts of $30,000 and $32,000, respectively	140,000	189,000
Pledges receivable, net	493,000	829,000
Other receivables	12,000	20,000
Prepaid expenses and other assets	161,000	108,000
Property and equipment, net	12,024,000	10,886,000
Intangible assets, net	333,000	305,000
TOTAL ASSETS	$ 15,973,000	$ 15,429,000
LIABILITIES:		
Accounts payable	$ 149,000	$ 169,000
Accrued expenses	176,000	161,000
Unearned revenue	2,043,000	1,755,000
Term loan	325,000	-
Bonds payable	6,570,000	6,720,000
TOTAL LIABILITIES	9,263,000	8,805,000
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS:		
Unrestricted	6,188,000	5,368,000
Temporarily restricted	404,000	1,138,000
Permanently restricted	118,000	118,000
TOTAL NET ASSETS	6,710,000	6,624,000
TOTAL LIABILITIES AND NET ASSETS	$ 15,973,000	$ 15,429,000

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

LEARNING WITH A DIFFERENCE, INC.
DBA WESTMARK SCHOOL
(A NON-PROFIT CORPORATION)
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUE AND SUPPORT:		
Tuition, academic year	$ 6,877,000	$ 5,915,000
Scholarships awarded	(415,000)	(365,000)
Tuition, academic year, net	6,462,000	5,550,000
Tuition, summer enrichment program	795,000	738,000
Transportation income	84,000	71,000
Contributions	284,000	347,000
Fundraising	110,000	182,000
Investment income	2,000	3,000
Other Income	149,000	117,000
Total unrestricted revenue and support	7,886,000	7,008,000
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfaction of program restrictions	1,437,000	1,224,000
Total net assets released from restrictions	1,437,000	1,224,000
Total unrestricted revenue, support, and net assets released from restrictions	9,323,000	8,232,000
EXPENSES:		
Program:		
Salaries	3,613,000	3,003,000
Employee benefits	778,000	656,000
Academic programs	416,000	378,000
Summer enrichment program	482,000	455,000
Transportation	51,000	49,000
Educational administrative	378,000	439,000
Interest	64,000	60,000
Depreciation and amortization	515,000	388,000
Total program expenses	6,297,000	5,428,000
Development:		
Salaries	241,000	202,000
Employee benefits	33,000	34,000
Development administrative	39,000	60,000
Total development expenses	313,000	296,000
Management and administrative:		
Salaries	793,000	696,000
Employee benefits	289,000	219,000
Marketing	52,000	45,000
General and administrative	435,000	397,000
Plant	205,000	191,000
Interest	56,000	60,000
Depreciation and amortization	63,000	63,000
Total management and administrative expenses	1,893,000	1,671,000
Total expenses	8,503,000	7,395,000
Increase in unrestricted net assets	820,000	837,000
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	703,000	2,210,000
Net assets released from restrictions	(1,437,000)	(1,224,000)
(Decrease) increase in temporarily restricted net assets	(734,000)	986,000
NET CHANGE IN NET ASSETS	86,000	1,823,000
NET ASSETS, beginning of year	6,624,000	4,801,000
NET ASSETS, end of year	$ 6,710,000	$ 6,624,000

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

LEARNING WITH A DIFFERENCE, INC.

DBA WESTMARK SCHOOL

(A NON-PROFIT CORPORATION)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	$ 86,000	$ 1,823,000
Adjustments to reconcile net change in net assets to cash and cash equivalents provided by operating activities:		
Depreciation and amortization	578,000	451,000
Amortization of leter of credit fees	100,000	103,000
Contributions restricted for capital purposes	(266,000)	(2,012,000)
Changes in assets and liabilities:		
Decrease in accounts receivable, net	49,000	162,000
Decrease (increase) in pledges receivable, net	336,000	(676,000)
Decrease in other receivables	8,000	-
(Increase) decrease in prepaid expenses and other assets	(55,000)	42,000
(Decrease) increase in accounts payable	(20,000)	68,000
Increase in accrued expenses	15,000	52,000
Increase in unearned revenue	288,000	404,000
Total adjustments	1,033,000	(1,406,000)
Net cash and cash equivalents provided by operating activities	1,119,000	417,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,722,000)	(1,061,000)
Net cash and cash equivalents (used in) investing activities	(1,722,000)	(1,061,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from term loan	325,000	-
Principal payments on bonds payable	(150,000)	(145,000)
Bond and loan issuance costs	(22,000)	-
Letter of credit fees	(98,000)	(104,000)
Contributions restricted for capital purposes	266,000	2,012,000
Net cash and cash equivalents provided by financing activities	321,000	1,763,000
NET CHANGE IN NET CASH AND CASH EQUIVALENTS	(282,000)	1,119,000
CASH AND CASH EQUIVALENTS, beginning	3,092,000	1,973,000
CASH AND CASH EQUIVALENTS, ending	$ 2,810,000	$ 3,092,000

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	2012	2011
Cash paid during the years for:		
Interest	$ 120,000	$ 120,000

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Learning With A Difference, Inc. dba Westmark School (the Organization) is a non-profit corporation located in Encino, California, which operates a school for children with learning disabilities. The Organization's basic educational program includes a lower, middle, and upper school. In addition, optional tutorial programs and summer programs are available to the students.

Basis of Presentation

The financial statements of the Organization have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

In accordance with GAAP, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. Unrestricted net assets represent the funds that are fully available, at the discretion of management and the Board of Trustees, for the Organization to utilize in its program or supporting activities.

- Temporarily restricted net assets are comprised of contributions that have been restricted by the donors for specific purposes or time periods. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets.

- Permanently restricted net assets consist of contributions that have been restricted by the donors to be maintained in perpetuity. The related income is temporarily restricted either for specific purpose (donor-imposed) or time period.

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three month or less to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Receivable

Accounts receivable are reported net of allowance for doubtful accounts. Accounts for which no payment has been received for 90 consecutive days are considered delinquent, and customary collection efforts are initiated. Accounts for which no payments have been received for 12 months are written off. Collections on accounts previously written off are included in income as received.

Pledges Receivable

In accordance with GAAP, unconditional promises to give (pledges) that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected over periods in excess of one year are discounted to net present value using risk-free interest rates applicable to the years in which the pledges are received. Discount on unconditional pledges is amortized from the date the pledge was initially recognized to the date the contribution is received. Discount amortization is recognized as donation revenue.

The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Prepaid Expenses and Unearned Revenue

Income and expenses related to summer activities that are received or incurred before the end of each fiscal year are deferred to the year in which the activities occur. Deposits and prepayments are also deferred to the year to which such amounts are applicable.

Property and Equipment

Property and equipment is stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Improvements and betterments are capitalized while repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is calculated based on the straight-line method over the remaining useful lives of the assets as follows:

	Life in years
Buildings and building improvements	5 - 40
Machinery and equipment	5
Furniture and equipment	3 - 5
Computer equipment and software	3 - 5

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Intangible Assets

Intangible assets consist of goodwill, bond and loan issuance costs, and website development costs. Goodwill is capitalized at cost at the date of acquisition. Goodwill is not amortized but tested at least annually for impairment. There was no goodwill impairment for the years ended June 30, 2012 and June 30, 2011.

Bond and loan issuance costs incurred in connection with issuance of debt securities are recorded as an asset and amortized over the life of the debt in accordance with GAAP. The bond and loan issuance costs are amortized on a straight-line basis as the results are not materially different from the effective interest method.

In accordance with GAAP, external direct costs of materials and services consumed in the developing or obtaining internal use software, including website development, and the payroll and payroll related costs for employees who are associated with and who devote time to the internal-use computer software, are capitalized. Capitalized costs are amortized over approximately three years on a straight-line basis.

Impairment of Long-Lived Assets

In accordance with GAAP, the Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such review indicates an asset may not be recoverable, an impairment loss is recognized for the excess of the carrying amount over the fair value of an asset to be held and used or over the fair value less cost to sell an asset to be disposed. During the years ended June 30, 2012 and 2011, there were no events or changes in circumstances indicating that the carrying amount of the long-lived assets may not be recoverable.

Tuition Revenue

The Organization records tuition revenue in the academic term within the fiscal year in which the program is predominately conducted.

Public Contributions

Contributions are recognized as support revenue when they are received or unconditionally pledged.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include those related to the Organization's allocation of certain expenses by function, allowance for doubtful accounts, allowance and discount for pledges receivable, estimates of useful lives of property and equipment, fair value of financial instruments, determination of lease terms, and accounting for impairment losses and litigation. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Organization places its cash and cash equivalents with high credit quality banking financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) up to $250,000 and $500,000, respectively. At times, such balances may be in excess of the FDIC and SIPC limits. In addition, funds in noninterest-bearing transaction accounts are fully insured by the FDIC through December 31, 2012. Concentration with respect to accounts receivable is limited due to the large number of customers comprising the customer base.

Fair Values of Financial Instruments

For certain of the Organization's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other liabilities, the carrying amounts approximate fair value because of the relatively short period of time between the origination of these instruments and their expected realization or payment. Pledges receivable have been discounted using applicable risk-free rated to approximate fair value. For long-term debt, the carrying value approximates fair value as the interest rate on the underlying instruments fluctuates with market rates.

Recently Adopted Accounting Guidance

In the normal course of business, the Organization evaluates all new accounting pronouncements to determine the potential impact they may have on its financial statements. Based upon this review, the Organization does not expect any of the recently issued accounting pronouncements, which have not already been adopted by the Organization, to have a material impact on its financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Subsequent Events

In accordance with GAAP, the events occurring between June 30, 2012 and November 13, 2012, the date these financial statements were available to be issued, were evaluated, and no material subsequent event that required recognition in these financial statements were noted.

Reclassifications

Certain reclassifications have been made to the 2011 financials to conform to 2012 presentation.

NOTE 2 - ENDOWMENT

The Organization's only endowment fund, Jerry Mann Excellence in Teaching Award Endowment, was established for the purpose of giving annual cash award to teachers and is invested in accordance with donor requirements. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

The Organization follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*, which provides guidance on the net asset classification and reporting of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The UPMIFA was signed into law in California (CPMIFA) on September 30, 2008.

The Board of Trustees has interpreted the CPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

NOTE 2 - ENDOWMENT – CONTINUED

Interpretation of Relevant Law - Continued

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the CPMIFA. In accordance with the CPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund,
- The purposes of the Organization and the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Organization, and
- The investment policies of the Organization.

Composition and Changes in Endowment Net Assets

Endowment net assets composition by type of fund is as follows at June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 118,000	$ 118,000
	$ -	$ -	$ 118,000	$ 118,000

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 118,000	$ 118,000
Investment return:				
Investment income, net	-	-	-	-
Total investment return	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, end of year	$ -	$ -	$ 118,000	$ 118,000

NOTE 2 - ENDOWMENT – CONTINUED

Composition and Changes in Endowment Net Assets - Continued

Endowment net assets composition by type of fund is as follows at June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 118,000	$ 118,000
	$ -	$ -	$ 118,000	$ 118,000

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 118,000	$ 118,000
Investment return:				
Investment income, net	-	-	-	-
Total investment return	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, end of year	$ -	$ -	$ 118,000	$ 118,000

Endowment Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Law requires the Organization to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. As of the years ended June 30, 2012 and 2011, the Organization did not have any deficiencies.

NOTE 2 - ENDOWMENT - CONTINUED

Return Objectives and Risk Parameters

The Organization has established overall investment and spending policies for endowment assets (the Fund) that attempt to (a) preserve the real purchasing power of the principal, (b) provide a stable source of perpetual financial support to Endowment beneficiaries in accordance with the school's spending policy and, (c) ensure the spending rate plus inflation should normally be below the rate of return generated by the endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity.

Under this policy, as approved by the Board, the long-term annualized total rate of return objective for the endowment is inflation plus 5%.

A minimum rate of return equal to the rate of inflation is required to preserve the real purchasing power of the endowment, and the additional 5% is required to provide for future spending and for fees incurred administering and investing those funds. Actual returns in any given year may vary from the expected returns.

Although the investment policy recognizes the importance of preserving capital, it also reflects that varying degrees of investment risk are generally rewarded with increased returns that compensate for additional risk. Additionally, risk greater than that of a stable long-term risk securities will be required to preserve the purchasing power of the Fund. It is appropriate to pursue riskier investment strategies if such strategies are in the beneficiaries' best interest. Risk management of the investment program is focused on understanding of the Fund's investment and operational risks. The objective is to minimize operational risks and achieve appropriate compensation for the investment risks the Fund undertakes.

Strategies Employed for Achieving Objectives

To satisfy its long-term return objective, the endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and from current yield (interest and dividends). As asset allocation is the major determinant of investment performance, the Fund is allocated across a number of investment classes to provide diversification, achieve the Fund's investment objectives, and to reduce the volatility of investment returns.

NOTE 2 - ENDOWMENT - CONTINUED

Strategies Employed for Achieving Objectives - Continued

As a general policy guideline, the target asset allocations for the Fund are 65% to equities, 20% to fixed income investments, and 15% to other alternative investments, including hedge funds, funds of funds, structured notes, private equity and private real estate. The asset allocation plan provides for diversification of assets in an effort to maximize the investment return and manage the risk of the Fund consistent with market conditions. Due to the fluctuation of market values, allocations within a specified range constitute compliance with the policy.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a spending policy of distributing annually from the Fund an amount up to 5% of the trailing endowment assets' value as of June 30 of each year, subject to the Board's approval. Under certain circumstances, the Organization is permitted to spend an amount in excess of the 5% cap. Such spending would require a vote of greater than two-thirds of the members of the Board.

In establishing this policy, the Organization considered the long-term expected return on its endowment funds. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment funds to grow, at a minimum, at a rate equal to inflation rate plus 5%. This is consistent with the Organization's objective to maintain the purchasing power of the endowment funds held in perpetuity as well as to provide additional real growth through new gifts and investment return.

NOTE 3 - PLEDGES RECEIVABLE

Net pledges receivable amounted to $493,000 and $829,000 as of June 30, 2012 and 2011, respectively. Unamortized discount of $2,000 at both June 30, 2012 and 2011, was calculated using risk-free interest rate applicable to the years in which the pledges were received. No allowance was recorded at June 30, 2012 and 2011, as management considered all pledges receivable to be fully collectible. Estimated annual collections on pledges receivable are as follows:

Less than one year	$ 417,000
One to five years	78,000
	495,000
Less: unamortized discount	(2,000)
	$ 493,000

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	2012	2011
Land	$ 3,095,000	$ 3,095,000
Buildings and building improvements	10,482,000	8,726,000
Machinery and equipment	29,000	29,000
Furniture and equipment	584,000	549,000
Computer equipment and software	1,216,000	927,000
Construction in progress	167,000	547,000
	15,573,000	13,873,000
Less: accumulated depreciation and amortization	(3,549,000)	(2,987,000)
	$ 12,024,000	$ 10,886,000

Depreciation and amortization expense for the years ended June 30, 2012 and 2011 amounted to $562,000 and $439,000, respectively.

NOTE 5 - INTANGIBLE ASSETS

Intangible assets consisted of the following as of June 30:

	2012	2011
Goodwill	$ 78,000	$ 78,000
Loan issuance costs	40,000	35,000
Bond issuance costs (Note 6)	326,000	309,000
Website development cost	56,000	34,000
	500,000	456,000
Less: accumulated amortization	(167,000)	(151,000)
	$ 333,000	$ 305,000

Amortization expense for the years ended June 30, 2012 and 2011 amounted to $16,000 and $12,000, respectively.

NOTE 6 - BONDS PAYABLE

Pursuant to the Board of Trustees' resolution to expand, renovate, and rehabilitate the Organization's facilities and to refinance the prior debt related to the acquisition of the campus (collectively, the Project), on November 1, 2006, The California Infrastructure and Economic Development Bank (the Issuer) issued the Variable Rate Demand Revenue Bonds, Series 2006 (the Bonds) in the aggregate amount of $7,000,000 on behalf of the Organization, pursuant to a loan and trust agreement (the Agreement) between the Issuer, the Organization, and Wells Fargo Bank (the Trustee). The Issuer acted as a flow-through conduit in the transaction and is not contingently liable should the Organization default on its payment of the Bonds. The Bonds mature on November 1, 2036, with interest payable at varying rates determined weekly, not to exceed 12.00%. The weekly variable interest rates in effect on June 30, 2012 and 2011 were 0.19% and 0.08%, respectively. Interest expense on the Bonds amounted to $120,000 for each of the years ended June 30, 2012 and 2011, respectively.

As of June 30, 2012, principal maturities of the Bonds are as follows:

June 30,	
2013	$ 160,000
2014	170,000
2015	180,000
2016	190,000
2017 and thereafter	5,870,000
	$ 6,570,000

To secure the payment of principal of and interest on the Bonds, the Organization has an irrevocable Letter of Credit issued by First Republic Bank (the Letter of Credit and the Bank, respectively) and an irrevocable Support Letter of Credit issued by The Bank of New York (the Support Letter of Credit and the Support Letter of Credit Bank, respectively). The initial Letter of Credit expired on November 17, 2011 and was automatically renewed until November 17, 2016. The amount of the Letter of Credit on any date is based upon the aggregate principal amount of the outstanding Bonds on or prior to such date and interest on such Bonds for 45 days calculated at a rate of 12.00% per annum, which is the maximum interest rate payable on the Bonds. Under the terms of the related Reimbursement Agreement with the Bank, the Organization is required to repay any amounts drawn on the Letter of Credit immediately. On June 30, 2012 and 2011, the amount of the Letter of Credit was $6,667,000 and $6,819,000, respectively, with no amounts outstanding.

NOTE 6 - BONDS PAYABLE - CONTINUED

The Organization is required to pay an annual fee of 1.40% on the Letter of Credit. The annual fee increased to 1.50% on November 9, 2011. The fee is paid in advance and amortized monthly. At June 30, 2012 and 2011, the amount of unamortized Letter of Credit fee was $33,000 and $35,000, respectively, and is included in prepaid expenses in the accompanying statements of financial position. Amortized fee amounted to $100,000 and $103,000 for the years ended June 30, 2012 and 2011, respectively, and is included in the interest expense in the accompanying financial statements.

The initial Support Letter of Credit was set to expire on November 13, 2012. On November 9, 2011, the Organization obtained a new irrevocable Support Letter of Credit from the U.S. Bank National Association (the new Support Letter of Credit and the new Support Letter of Credit Bank, respectively), which is set to expire on November 8, 2012. Upon a written request, the Organization may request annual extensions through November 17, 2016.

The Organization is required to comply with certain financial covenants under the terms of the Reimbursement Agreement. As of June 30, 2012 and 2011, the Organization was in compliance with these covenants.

As of June 30, 2012 and 2011, bond issuance costs of approximately $326,000 and 309,000, respectively, were incurred in issuing the bonds, including escrow and underwriter fees, management, legal and other professional fees, support letter of credit fees, and other related costs. These costs are capitalized in accordance with accounting principles generally accepted in the United States of America and included in intangible assets in the accompanying statements of financial position (Note 5). These costs are being amortized over the term of the bonds. Amortization expense for the years ended June 30, 2012 and 2011 amounted $11,000 and $10,000, respectively, and is included in depreciation and amortization expense in the accompanying financial statements.

NOTE 7 - LINE OF CREDIT

On July 29, 2009, the Organization entered into a line of credit agreement with a financial institution, which allowed for maximum borrowings of $500,000. The line of credit bore interest at prime rate, but not less than 5.00% per annum, and matured on January 1, 2012.

The line of credit was secured by all deposit accounts, intangibles, equipment and other tangible properties and required the Organization to comply with certain financial covenants. As of June 30, 2011, there was no amount outstanding under this line of credit.

NOTE 8 - TERM LOAN

On July 21, 2011, the Organization entered into a term loan agreement (Term Loan Agreement) with a financial institution, which allows for maximum borrowings of $750,000. The Term Loan Agreement bears interest at prime rate plus 0.25% (3.50% as of June 30, 2012), and matures on June 30, 2014. As of June 30, 2012, the amount outstanding under this term loan amounted to $325,000.

The Term Loan Agreement is secured by all deposit accounts, accounts receivable, intangibles, equipment, investments, and other tangible properties and requires the Organization to comply with certain financial covenants. As of June 30, 2012, the Organization was in compliance with these covenants.

As of June 30, 2012, principal maturities of the term loan are as follows:

June 30,	
2013	$ 200,000
2014	125,000
	$ 325,000

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted assets consisted of the following as of June 30:

	2012	2011
Assets restricted for music/arts	$ 8,000	$ 8,000
Assets restricted for financial aid	368,000	-
Assets restricted for iPads for students	-	3,000
Assets restricted for technology	-	13,000
Assets restricted for specialty building (capital campaign)	-	1,072,000
Assets restricted for other program-related purposes	1,000	1,000
Assets restricted for summer grant program	-	32,000
Assets restricted for art grant	1,000	-
Assets restricted for arts/new curriculum/athletics	5,000	-
Assets restricted for Lund - staff development	21,000	-
Assets restricted for board room challenge	-	9,000
Total temporarily restricted assets	$ 404,000	$ 1,138,000

NOTE 12 - RETIREMENT PLAN – CONTINUED

The Organization makes a matching contribution equal to 100% of the participant's contribution up to a maximum of 4% of the participant's eligible compensation. For the years ended June 30, 2012 and 2011, the Board approved an additional discretionary contribution of 2% of each participant's compensation. Total contributions for the years ended June 30, 2012 and 2011, amounted to $143,000 and $92,000, respectively.

NOTE 13 - LITIGATION

The Organization may, from time-to-time, be involved in litigation and regulatory investigations that arise in the normal course of doing business. After consultation with legal counsel and based on current facts and circumstances, management believes that resolution of such matters, if any, is not expected to have a material adverse effect on the financial position of the Organization.

LEARNING WITH A DIFFERENCE, INC.
DBA WESTMARK SCHOOL
(A NON-PROFIT CORPORATION)

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
NOTES TO FINANCIAL STATEMENTS	5 - 19

To the Board of Trustees of
Learning With A Difference, Inc.
dba Westmark School
Encino, California

Independent Auditors' Report

We have audited the accompanying statements of financial position of Learning With A Difference, Inc. dba Westmark School (a California non-profit corporation, the Organization) as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. The financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on the 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Learning with a Difference, Inc. dba Westmark School as of June 30, 2011 and 2010, the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Kellogg + Andelson

December 15, 2011

21700 Oxnard Street, Suite 900
Woodland Hills, California 91367

Phone (818) 971-5100 Fax (818) 971-5155 www.k-a.com

LEARNING WITH A DIFFERENCE, INC.
DBA WESTMARK SCHOOL
(A NON-PROFIT CORPORATION)

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	2011	2010
ASSETS:		
Cash and cash equivalents	$ 3,092,300	$ 1,973,200
Accounts receivable, net of allowance for doubtful accounts of $31,500 and $23,300, respectively	189,300	350,900
Pledges receivable, net	828,600	152,900
Other receivables	20,300	20,700
Prepaid expenses	107,600	149,300
Property and equipment, net	10,885,900	10,264,100
Intangible assets, net	305,400	316,900
TOTAL ASSETS	$ 15,429,400	$ 13,228,000
LIABILITIES:		
Accounts payable	$ 168,700	$ 100,900
Accrued expenses	161,800	110,100
Unearned revenue	1,755,400	1,351,200
Bonds payable	6,720,000	6,865,000
TOTAL LIABILITIES	8,805,900	8,427,200
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS:		
Unrestricted	5,367,700	4,531,200
Temporarily restricted	1,138,000	151,800
Permanently restricted	117,800	117,800
TOTAL NET ASSETS	6,623,500	4,800,800
TOTAL LIABILITIES AND NET ASSETS	$ 15,429,400	$ 13,228,000

The accompanying notes are an integral part
of the financial statements

LEARNING WITH A DIFFERENCE, INC.
DBA WESTMARK SCHOOL
(A NON-PROFIT CORPORATION)

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUE AND SUPPORT:		
Tuition, academic year	$ 5,915,200	$ 4,997,200
Scholarships awarded	(364,800)	(373,700)
Tuition, academic year, net	5,550,400	4,623,500
Tuition, summer enrichment program	738,400	622,300
Transportation income	71,100	73,300
Gifts and donations	346,400	226,500
Fundraising	181,600	81,300
Investment income	2,600	5,000
Other income	116,300	114,100
Total unrestricted revenue and support	7,006,800	5,746,000
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfaction of program restrictions	1,224,200	1,360,100
Total net assets released from restrictions	1,224,200	1,360,100
Total unrestricted revenue, support, and net assets released from restrictions	8,231,000	7,106,100
EXPENSES:		
Program:		
Salaries	2,947,400	2,589,000
Employee benefits	633,300	515,900
Academic programs	433,400	370,000
Summer enrichment program	454,500	418,100
Transportation	48,500	94,200
Educational administrative	462,800	312,900
Interest	60,000	59,600
Depreciation and amortization	387,800	315,800
Total program expenses	5,427,700	4,675,500
Development:		
Salaries	201,500	187,700
Employee benefits	33,800	24,700
Development administrative	60,300	23,700
Total development expenses	295,600	236,100
Management and administrative:		
Salaries	695,800	663,400
Employee benefits	173,600	180,800
Marketing	44,800	28,200
General and administrative	443,700	345,100
Plant	190,500	139,300
Interest	60,100	60,000
Depreciation and amortization	62,700	89,600
Total management and administrative expenses	1,671,200	1,506,400
Total expenses	7,394,500	6,418,000
Increase in unrestricted net assets	836,500	688,100
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Donations	2,210,300	699,600
Net investment income	100	200
Net assets released from restrictions	(1,224,200)	(1,360,100)
Increase (decrease) in temporarily restricted net assets	986,200	(660,300)
NET CHANGE IN NET ASSETS	1,822,700	27,800
NET ASSETS, beginning of year	4,800,800	4,773,000
NET ASSETS, end of year	$ 6,623,500	$ 4,800,800

The accompanying notes are an integral part
of the financial statements

LEARNING WITH A DIFFERENCE, INC.
DBA WESTMARK SCHOOL
(A NON-PROFIT CORPORATION)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	$ 1,822,700	$ 27,800
Adjustments to reconcile net change in net assets to cash and cash equivalents provided by operating activities:		
Depreciation and amortization	450,500	405,400
Contributions restricted for capital purposes	(2,011,900)	(434,100)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable, net	161,600	(64,300)
(Increase) decrease in pledges receivable, net	(675,800)	258,200
Decrease (increase) in other receivables	400	(1,900)
Decrease in prepaid expenses	41,700	20,300
Increase (decrease) in accounts payable	67,800	(384,700)
Increase in accrued expenses	51,800	17,800
Increase in unearned revenue	404,200	315,600
Total adjustments	(1,509,700)	132,300
Net cash and cash equivalents provided by operating activities	313,000	160,100
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,060,800)	(1,369,400)
Net cash and cash equivalents (used in) investing activities	(1,060,800)	(1,369,400)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on bonds payable	(145,000)	(135,000)
Contributions restricted for capital purposes	2,011,900	434,100
Net cash and cash equivalents provided by financing activities	1,866,900	299,100
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,119,100	(910,200)
CASH AND CASH EQUIVALENTS, beginning	1,973,200	2,883,400
CASH AND CASH EQUIVALENTS, ending	$ 3,092,300	$ 1,973,200

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	2011	2010
Cash paid during the years for:		
Interest	$ 119,200	$ 119,500

The accompanying notes are an integral part
of the financial statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Learning With A Difference, Inc. dba Westmark School (the Organization) is a non-profit corporation located in Encino, California, which operates a school for children with learning disabilities. The Organization's basic educational program includes a lower, middle, and upper school. In addition, optional tutorial programs and summer programs are available to the students.

Basis of Presentation

The financial statements of the Organization have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

In accordance with GAAP, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. Unrestricted net assets represent the funds that are fully available, at the discretion of management and the Board of Trustees, for the Organization to utilize in its program or supporting activities.

- Temporarily restricted net assets are comprised of contributions that have been restricted by the donors for specific purposes or time periods. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets.

- Permanently restricted net assets consist of contributions that have been restricted by the donors to be maintained in perpetuity. The related income is temporarily restricted either for specific purpose (donor-imposed) or time period.

The Organization follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements,* which provides guidance on the net asset classification and reporting of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The UPMIFA was signed into law in California (CPMIFA) on September 30, 2008.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three month or less to be cash equivalents.

Accounts Receivable

Accounts receivable are reported net of allowance for doubtful accounts. Accounts for which no payment has been received for 90 consecutive days are considered delinquent, and customary collection efforts are initiated. Accounts for which no payments have been received for 12 months are written off. Collections on accounts previously written off are included in income as received.

Pledges Receivable

In accordance with GAAP, unconditional promises to give (pledges) that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected over periods in excess of one year are discounted to net present value using risk-free interest rates applicable to the years in which the pledges are received. Discount on unconditional pledges is amortized from the date the pledge was initially recognized to the date the contribution is received. Discount amortization is recognized as donation revenue.

The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Prepaid Expenses and Unearned Revenue

Income and expenses related to summer activities that are received or incurred before the end of each fiscal year are deferred to the year in which the activities occur. Deposits and prepayments are also deferred to the year to which such amounts are applicable.

Property and Equipment

Property and equipment is stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Improvements and betterments are capitalized while repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is calculated based on the straight-line method over the remaining useful lives of the assets as follows:

	Life in years
Buildings and building improvements	5 - 40
Machinery and equipment	5
Furniture and equipment	3 - 5
Computer equipment and software	3 - 5

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Intangible Assets

Intangible assets consist of goodwill, bond and loan issuance costs, and website development costs. Goodwill is capitalized at cost at the date of acquisition. During the year ended June 30, 2010, the goodwill was amortized on a straight-line method over a useful life of 15 years for financial statement purposes. Beginning July 1, 2010, amortization is no longer recognized, and goodwill is tested at least annually for impairment. There was no goodwill impairment for the year ended June 30, 2011.

Bond and loan issuance costs incurred in connection with issuance of debt securities are recorded as an asset and amortized over the life of the debt in accordance with GAAP. The bond and loan issuance costs are amortized on a straight-line basis as the results are not materially different from the effective interest method.

In accordance with GAAP, external direct costs of materials and services consumed in the developing or obtaining internal use software, including website development, and the payroll and payroll related costs for employees who are associated with and who devote time to the internal-use computer software, are capitalized. Capitalized costs are amortized over approximately three years on a straight-line basis.

Impairment of Long-Lived Assets

In accordance with GAAP, the Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such review indicates an asset may not be recoverable, an impairment loss is recognized for the excess of the carrying amount over the fair value of an asset to be held and used or over the fair value less cost to sell an asset to be disposed. During the years ended June 30, 2011 and 2010, there were no events or changes in circumstances indicating that the carrying amount of the long-lived assets may not be recoverable.

Tuition Revenue

The Organization records tuition revenue in the academic term within the fiscal year in which the program is predominately conducted.

Public Contributions

Contributions are recognized as support revenue when they are received or unconditionally pledged.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Public Contributions – Continued

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 and changes in net assets as net assets released from restrictions.

In-Kind Contributions

In accordance with GAAP, in-kind services are recognized if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. In addition, the Organization receives significant amount of donated services from unpaid volunteers that are essential to the completion of the Organization's purposes. However, these services have not been recorded in the financial statements since they do not meet the accounting criteria necessary for recognition.

Functional Expenses

The costs of providing program services and supporting activities have been reported on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

Income Taxes

The Organization is exempt from federal and state income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and the corresponding provisions of the California Revenue and Taxation Code.

While the Organization is a tax exempt organization under Section 501(c)(3) of the IRC, income determined to be unrelated business income (UBI) would be taxable. The Organization evaluates uncertain tax positions through its review of the sources of income to identify UBI and certain other matters, including those which may affect its tax exempt status. The effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimatable. As of June 30, 2011 and 2010, the Organization had no uncertain tax positions requiring accrual.

The Organization files federal and California exempt organization returns. They are no longer subject to income tax examinations by taxing authorities for years before 2006 for their federal and 2005 for their state tax filings.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include those related to the Organization's allocation of certain expenses by function, allowance for doubtful accounts, allowance and discount for pledges receivable, estimates of useful lives of property and equipment, fair value of financial instruments, determination of lease terms, and accounting for impairment losses and litigation. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Organization places its cash and cash equivalents with high credit quality banking financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) up to $250,000 and $500,000, respectively. At times, such balances may be in excess of the FDIC and SIPC limits. In addition, funds in noninterest-bearing transaction accounts are fully insured by the FDIC from December 31, 2010 through December 31, 2012. Concentration with respect to accounts receivable is limited due to the large number of customers comprising the customer base.

Fair Values of Financial Instruments

For certain of the Organization's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other liabilities, the carrying amounts approximate fair value because of the relatively short period of time between the origination of these instruments and their expected realization or payment. Pledges receivable have been discounted using applicable risk-free rated to approximate fair value. For long-term debt, the carrying value approximates fair value as the interest rate on the underlying instruments fluctuates with market rates.

Recently Adopted Accounting Guidance

In the normal course of business, the Organization evaluates all new accounting pronouncements to determine the potential impact they may have on its financial statements. Based upon this review, the Organization does not expect any of the recently issued accounting pronouncements, which have not already been adopted by the Organization, to have a material impact on its financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Recently Adopted Accounting Guidance - Continued

In April 2009, the FASB issued ASC 985-805, Not-for-Profit Entities, Business Combinations, which established principles and requirements for determining whether a combination is a merger or an acquisition and determines what information to disclose to enable used of financial statements to evaluate the nature and financial effect of a merger or an acquisition. Additionally, this FASB ASC provides guidance on subsequent accounting for goodwill and other intangible assets acquired. Previously recognized goodwill is no longer amortized but must be tested for impairment at least annually. The effective date and date of adoption of this pronouncement for the Organization was July 1, 2010.

Subsequent Events

In accordance with GAAP, the events occurring between June 30, 2011 and December 15, 2011, the date these financial statements were available to be issued, were evaluated, and no material subsequent events, except as disclosed, that required recognition in these financial statements were noted.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. Such reclassifications have no effect on changes in net assets as previously reported.

NOTE 2 - ENDOWMENT

The Organization's only endowment fund, Jerry Mann Excellence in Teaching Award Endowment, was established for the purpose of giving annual cash award to teachers and is invested in accordance with donor requirements. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board has interpreted the CPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

NOTE 2 - ENDOWMENT – CONTINUED

Interpretation of Relevant Law - Continued

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the CPMIFA. In accordance with the CPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund,
- The purposes of the Organization and the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Organization, and
- The investment policies of the Organization.

Composition and Changes in Endowment Net Assets

Endowment net assets composition by type of fund is as follows at June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 117,800	$ 117,800
	$ -	$ -	$ 117,800	$ 117,800

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 117,800	$ 117,800
Investment return:				
Investment income, net	-	100	-	100
Total investment return	-	100	-	100
Appropriation of endowment assets for expenditure	-	(100)	-	(100)
Endowment net assets, end of year	$ -	$ -	$ 117,800	$ 117,800

NOTE 2 - ENDOWMENT - CONTINUED

Composition and Changes in Endowment Net Assets - Continued

Endowment net assets composition by type of fund is as follows at June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 117,800	$ 117,800
	$ -	$ -	$ 117,800	$ 117,800

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 117,800	$ 117,800
Investment return:				
Investment income, net	-	200	-	200
Total investment return	-	200	-	200
Appropriation of endowment assets for expenditure	-	(200)	-	(200)
Endowment net assets, end of year	$ -	$ -	$ 117,800	$ 117,800

Endowment Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Law requires the Organization to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. As of the years ended June 30, 2011 and 2010, the Organization did not have any deficiencies.

Return Objectives and Risk Parameters

The Organization has established overall investment and spending policies for endowment assets (the Fund) that attempt to (a) preserve the real purchasing power of the principal, (b) provide a stable source of perpetual financial support to Endowment beneficiaries in accordance with the school's spending policy and, (c) ensure the spending rate plus inflation should normally be below the rate of return generated by the endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity.

NOTE 2 - ENDOWMENT - CONTINUED

Return Objectives and Risk Parameters – Continued

Under this policy, as approved by the Board, the long-term annualized total rate of return objective for the endowment is inflation plus 5%.

A minimum rate of return equal to the rate of inflation is required to preserve the real purchasing power of the endowment, and the additional 5% is required to provide for future spending and for fees incurred administering and investing those funds. Actual returns in any given year may vary from the expected returns.

Although the investment policy recognizes the importance of preserving capital, it also reflects that varying degrees of investment risk are generally rewarded with increased returns that compensate for additional risk. Additionally, risk greater than that of a stable long-term risk securities will be required to preserve the purchasing power of the Fund. It is appropriate to pursue riskier investment strategies if such strategies are in the beneficiaries' best interest. Risk management of the investment program is focused on understanding of the Fund's investment and operational risks. The objective is to minimize operational risks and achieve appropriate compensation for the investment risks the Fund undertakes.

Strategies Employed for Achieving Objectives

To satisfy its long-term return objective, the endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and from current yield (interest and dividends). As asset allocation is the major determinant of investment performance, the Fund is allocated across a number of investment classes to provide diversification, achieve the Fund's investment objectives, and to reduce the volatility of investment returns.

As a general policy guideline, the target asset allocations for the Fund are 65% to equities, 20% to fixed income investments, and 15% to other alternative investments, including hedge funds, funds of funds, structured notes, private equity and private real estate. The asset allocation plan provides for diversification of assets in an effort to maximize the investment return and manage the risk of the Fund consistent with market conditions. Due to the fluctuation of market values, allocations within a specified range constitute compliance with the policy.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a spending policy of distributing annually from the Fund an amount up to 5% of the trailing endowment assets' value as of June 30 of each year, subject to the Board's approval. Under certain circumstances, the Organization is permitted to spend an amount in excess of the 5% cap. Such spending would require a vote of greater than two-thirds of the members of the Board.

NOTE 2 - ENDOWMENT - CONTINUED

Spending Policy and How the Investment Objectives Relate to Spending Policy - Continued

In establishing this policy, the Organization considered the long-term expected return on its endowment funds. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment funds to grow, at a minimum, at a rate equal to inflation rate plus 5%. This is consistent with the Organization's objective to maintain the purchasing power of the endowment funds held in perpetuity as well as to provide additional real growth through new gifts and investment return.

NOTE 3 - PLEDGES RECEIVABLE

Net pledges receivable amounted to $828,600 and $152,900 as of June 30, 2011 and 2010, respectively. Unamortized discount was $1,800 and $1,400 at June 30, 2011 and 2010, respectively. The discount was calculated using risk-free interest rate applicable to the years in which the pledges were received. No allowance was recorded at June 30, 2011 and 2010, as management considered all pledges receivable to be fully collectible.

Estimated annual collections on pledges receivable are as follows:

Less than one year	$ 453,700
One to five years	376,700
	830,400
Less: unamortized discount	(1,800)
	$ 828,600

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	2011	2010
Land	$ 3,094,600	$ 3,094,600
Buildings and building improvements	8,725,600	8,157,500
Machinery and equipment	28,800	28,800
Furniture and equipment	548,900	537,700
Computer equipment and software	927,100	819,700
Construction in progress	547,500	173,400
	13,872,500	12,811,700
Less: accumulated depreciation and amortization	(2,986,600)	(2,547,600)
	$ 10,885,900	$ 10,264,100

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT - CONTINUED

Depreciation and amortization expense for the years ended June 30, 2011 and 2010 amounted to $439,000 and $383,000, respectively.

NOTE 5 - INTANGIBLE ASSETS

Intangible assets consisted of the following as of June 30:

	2011	2010
Goodwill	$ 78,000	$ 78,000
Loan issuance costs	35,000	35,000
Bond issuance costs (Note 6)	309,200	309,200
Website development cost	34,500	34,500
	456,700	456,700
Less: accumulated amortization	(151,300)	(139,800)
	$ 305,400	$ 316,900

Amortization expense for the years ended June 30, 2011 and 2010 amounted to $11,500 and $22,400, respectively.

NOTE 6 - BONDS PAYABLE

Pursuant to the Board of Trustees' resolution to expand, renovate, and rehabilitate the Organization's facilities and to refinance the prior debt related to the acquisition of the campus (collectively, the Project), on November 1, 2006, The California Infrastructure and Economic Development Bank (the Issuer) issued the Variable Rate Demand Revenue Bonds, Series 2006 (the Bonds) in the aggregate amount of $7,000,000 on behalf of the Organization, pursuant to a loan and trust agreement (the Agreement) between the Issuer, the Organization, and Wells Fargo Bank (the Trustee). The Issuer acted as a flow-through conduit in the transaction and is not contingently liable should the Organization default on its payment of the Bonds. The Bonds mature on November 1, 2036, with interest payable at varying rates determined weekly, not to exceed 12.00%. The weekly variable interest rates in effect on June 30, 2011 and 2010 were 0.08% and 0.30%, respectively. Interest expense on the Bonds amounted to $120,100 and $119,600 for the years ended June 30, 2011 and 2010, respectively.

NOTE 6 - BONDS PAYABLE - CONTINUED

As of June 30, 2011, principal maturities of the Bonds are as follows:

June 30,	
2012	$ 150,000
2013	160,000
2014	170,000
2015	180,000
2016 and thereafter	6,060,000
	$ 6,720,000

To secure the payment of principal of and interest on the Bonds, the Organization has an irrevocable Letter of Credit issued by First Republic Bank (the Letter of Credit and the Bank, respectively) and an irrevocable Support Letter of Credit issued by The Bank of New York (the Support Letter of Credit and the Support Letter of Credit Bank, respectively). The initial Letter of Credit expired on November 17, 2011 and was automatically renewed (set to expire on November 17, 2016). The amount of the Letter of Credit on any date is based upon the aggregate principal amount of the outstanding Bonds on or prior to such date and interest on such Bonds for 45 days calculated at a rate of 12.00% per annum, which is the maximum interest rate payable on the Bonds. Under the terms of the related Reimbursement Agreement with the Bank, the Organization is required to repay any amounts drawn on the Letter of Credit immediately. On June 30, 2011 and 2010, the amount of the Letter of Credit was $6,819,420 and $6,966,565, respectively, with no amounts outstanding.

The Support Letter of Credit was set to expire on November 13, 2012. On November 9, 2011, the Organization obtained a new irrevocable Support Letter of Credit from the U.S. Bank National Association (the new Support Letter of Credit and the new Support Letter of Credit Bank, respectively), which is set to expire on November 8, 2012. In addition, upon a written request, the Organization may request annual extensions, not to extend beyond November 17, 2016.

The Organization is required to comply with certain financial covenants under the terms of the Reimbursement Agreement. As of June 30, 2011 and 2010, the Organization was in compliance with these covenants. The Organization is also required to pay an annual fee of 1.40% on the Letter of Credit. The annual fee increased to 1.50% on November 9, 2011. The fee is paid in advance and amortized monthly.

At June 30, 2011 and 2010, the amount of unamortized Letter of Credit fee was $34,700 and $33,700, respectively, and is included in prepaid expenses in the accompanying statements of financial position. Amortized fee amounted to $103,200 and $102,500 for the years ended June 30, 2011 and 2010, respectively, and is included in the interest expense in the accompanying financial statements.

NOTE 6 - BONDS PAYABLE - CONTINUED

Bond issuance costs of approximately $309,200 were incurred in issuing the bonds, including escrow and underwriter fees, management, legal and other professional fees, and other related costs. These costs are capitalized in accordance with accounting principles generally accepted in the United States of America and included in intangible assets in the accompanying statements of financial position (Note 5). These costs are being amortized over 30-year term of the bonds. Amortization expense for the years ended June 30, 2011 and 2010 amounted $10,300 and is included in depreciation and amortization expense in the accompanying financial statements.

NOTE 7 - LINE OF CREDIT

On July 29, 2009, the Organization entered into a line of credit agreement with a financial institution, which allows for maximum borrowings of $500,000. The line of credit bears interest at prime rate, but not less than 5.00% per annum, and matured on November 1, 2010. During the year ended June 30, 2011, the line of credit was renewed and is set to expire on January 1, 2012.

The line of credit is secured by all deposit accounts, intangibles, equipment and other tangible properties and requires the Organization to comply with certain financial covenants. As of June 30, 2011 and 2010, there were no amounts outstanding under this line of credit.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted assets consisted of the following as of June 30:

	2011	2010
Assets restricted for music/arts	$ 8,400	$ 8,400
Assets restricted for library computer/flat screens TV's	-	2,600
Assets restricted for iPads for students	3,300	-
Assets restricted for technology	13,000	-
Assets restricted for specialty building (capital campaign)	1,071,900	60,400
Assets restricted for staff annual funds	300	300
Assets restricted for summer grant program	31,800	79,800
Assets restricted for riding for reading	300	300
Assets restricted for board room challenge	9,000	-
Total temporarily restricted assets	$ 1,138,000	$ 151,800

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted assets consisted of the following as of June 30:

	2011	2010
Jerry Mann Excellence in Teaching Award Endowment (income is temporarily restricted for annual cash award; any undistributed income is added back to the endowment as principal)	$ 117,800	$ 117,800
Total permanently restricted assets	$ 117,800	$ 117,800

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Organization leases office equipment and software under non-cancelable operating leases expiring through January 2013 and requiring minimum monthly rental payments of $2,200. Minimum future annual lease commitments are as follows:

Year Ended June 30,	Amount
2012	$ 20,600
2013	1,600
	$ 22,200

Lease expense for the years ended June 30, 2011 and 2010 amounted to $28,300 and $25,500, respectively.

NOTE 11 - RETIREMENT PLAN

The Organization established The Westmark School 403(b) Plan (the Plan) to provide eligible employees with retirement security. The Plan was established in accordance with Section 403(b) of the IRC and allows participant and employer contributions. Participants may make a salary reduction election equal to 50% of their compensation per payroll period. A participant's salary reduction contributions during any calendar year may not exceed the maximum allowed by the IRC.

The Organization makes a matching contribution equal to 100% of the participant's contribution up to a maximum of 2% of the participant's eligible compensation. For the years ended June 30, 2011 and 2010, the Board approved an additional discretionary contribution of 2% of each participant's compensation. Total contributions for the years ended June 30, 2011 and 2010, amounted to $92,300 and $64,400, respectively.

NOTE 12 - TERM LOAN

On July 21, 2011, the Organization entered into a term loan agreement (Term Loan Agreement) with a financial institution, which allows for maximum borrowings of $750,000. The Term Loan Agreement bears interest at prime rate plus 0.25%, and matures on June 30, 2014. The Term Loan Agreement is secured by all deposit accounts, accounts receivable, intangibles, equipment, investments, and other tangible properties and requires the Organization to comply with certain financial covenants.