

WALDORF SCHOOL OF SAN DIEGO
AUDITED FINANCIAL STATEMENTS

JUNE 30, 2020

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Waldorf School of San Diego
San Diego, California

We have audited the accompanying financial statements of Waldorf School of San Diego, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 Waldorf School of San Diego as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Summarized Comparative Information

The financial statements of Waldorf School of San Diego as of and for the year ended June 30, 2019 were audited by The Ozurovich Group, Inc. who was acquired by Ozurovich & Associates on December 1, 2019, and expressed an unmodified audit opinion on those audited financial statements dated November 15, 2019. The summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ozurovich & Associates

Rancho Santa Margarita, California
February 4, 2021

WALDORF SCHOOL OF SAN DIEGO
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

	2020		2019	
	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>Total</u>	<u>Total</u>
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 687,734	\$ 147,524	\$ 835,258	\$ 364,287
Tuition receivable, net of allowance for doubtful accounts of \$40,259 and \$24,008, respectively	96,337	-	96,337	48,346
Inventory	72,758	-	72,758	106,756
Prepaid expenses	12,491	-	12,491	34,988
<i>Total current assets</i>	<u>869,320</u>	<u>147,524</u>	<u>1,016,844</u>	<u>554,377</u>
Property and equipment - net (Note 5)	5,088,526	-	5,088,526	5,230,674
	<u>5,088,526</u>	<u>-</u>	<u>5,088,526</u>	<u>5,230,674</u>
TOTAL ASSETS	<u>\$ 5,957,846</u>	<u>\$ 147,524</u>	<u>\$ 6,105,370</u>	<u>\$ 5,785,051</u>

Statement of financial position continued on the following page

WALDORF SCHOOL OF SAN DIEGO
STATEMENT OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

	2020		2019	
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	Total	Total
LIABILITIES				
<i>Current liabilities</i>				
Accounts payable	\$ 56,970	\$ -	\$ 56,970	\$ 43,612
Accrued payroll (as restated)	107,566	-	107,566	93,912
Other accrued liabilities (Note 4)	16,330	-	16,330	16,914
Current portion of long-term debt (Note 6)	135,561	-	135,561	129,914
Deferred revenue	262,595	-	262,595	378,027
<i>Total current liabilities</i>	<u>579,022</u>	<u>-</u>	<u>579,022</u>	<u>662,379</u>
<i>Long-term liabilities</i>				
Line of credit (Note 5)	-	-	-	150
PPP loan payable (Note 7)	742,225	-	742,225	-
Long-term debt - net (Note 6)	3,500,892	-	3,500,892	3,636,480
<i>Total long-term liabilities</i>	<u>4,243,117</u>	<u>-</u>	<u>4,243,117</u>	<u>3,636,630</u>
TOTAL LIABILITIES	<u>4,822,139</u>	<u>-</u>	<u>4,822,139</u>	<u>4,299,009</u>
NET ASSETS				
Net assets without donor restrictions	1,135,707	-	1,135,707	1,340,664
Net assets with donor restrictions (Note 9)	-	147,524	147,524	145,378
TOTAL NET ASSETS	<u>1,135,707</u>	<u>147,524</u>	<u>1,283,231</u>	<u>1,486,042</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,957,846</u>	<u>\$ 147,524</u>	<u>\$ 6,105,370</u>	<u>\$ 5,785,051</u>

See independent auditor's report and accompanying notes.

WALDORF SCHOOL OF SAN DIEGO
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

	2020		2019	
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	Total	Total
REVENUES				
Tuition, school fees, & extended care (net of discounts of \$1,300,266 and \$1,474,532, respectively)	\$ 4,047,811	\$ -	\$ 4,047,811	\$ 3,927,233
Field trip income	-	106,824	106,824	157,866
Merchandise and scrip sales	282,787	-	282,787	463,675
Total Revenues	<u>4,330,598</u>	<u>106,824</u>	<u>4,437,422</u>	<u>4,548,774</u>
SUPPORT				
Grants	-	45,000	45,000	40,594
Donations	157,370	50,250	207,620	338,812
Fundraising income	138,172	-	138,172	170,657
Total Support	<u>295,542</u>	<u>95,250</u>	<u>390,792</u>	<u>550,063</u>
Total Revenue and Support	4,626,140	202,074	4,828,214	5,098,837
NET ASSETS RELEASED FROM RESTRICTIONS (NOTE 10)				
Satisfaction of program restrictions	199,928	(199,928)	-	-
Total net assets released from restrictions	<u>199,928</u>	<u>(199,928)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE, SUPPORT, AND RECLASSIFICATIONS	<u>4,826,068</u>	<u>2,146</u>	<u>4,828,214</u>	<u>5,098,837</u>
OPERATING EXPENSES				
Program services - Educational instruction	4,000,265	-	4,000,265	3,945,105
Supporting services				
Management and general	964,485	-	964,485	929,121
Fundraising	267,306	-	267,306	386,529
Total supporting services	<u>1,231,791</u>	<u>-</u>	<u>1,231,791</u>	<u>1,315,650</u>
TOTAL OPERATING EXPENSES	<u>5,232,056</u>	<u>-</u>	<u>5,232,056</u>	<u>5,260,755</u>
OTHER INCOME/(EXPENSES)				
Rental income	27,822	-	27,822	37,403
Interest income	269	-	269	501
Miscellaneous income	172,940	-	172,940	258
TOTAL OTHER INCOME/(EXPENSES)	<u>201,031</u>	<u>-</u>	<u>201,031</u>	<u>38,162</u>
CHANGE IN NET ASSETS	(204,957)	2,146	(202,811)	(123,756)
NET ASSETS, Beginning of year	<u>1,340,664</u>	<u>145,378</u>	<u>1,486,042</u>	<u>1,609,798</u>
NET ASSETS, End of year	<u>\$ 1,135,707</u>	<u>\$ 147,524</u>	<u>\$ 1,283,231</u>	<u>\$ 1,486,042</u>

See independent auditor's report and accompanying notes.

**WALDORF SCHOOL OF SAN DIEGO
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)**

	2020				2019	
	Program Services	Supporting Services			TOTAL	TOTAL
	Educational Instruction	Management and General	Fund Raising	Sub-total		
Salaries	\$ 2,386,092	\$ 437,454	\$ 26,654	\$ 464,108	\$ 2,850,200	\$ 2,880,990
Payroll taxes	204,840	37,555	2,288	39,843	244,683	245,102
Employee benefits	421,158	77,213	4,705	81,918	503,076	350,812
Total salaries and related expenses	<u>3,012,090</u>	<u>552,222</u>	<u>33,647</u>	<u>585,869</u>	<u>3,597,959</u>	<u>3,476,904</u>
Advertising expense	-	13,256	-	13,256	13,256	9,134
Auto	2,691	-	-	-	2,691	8,234
Bad debt expense	-	24,676	-	24,676	24,676	2,308
Board expenses	-	6,269	-	6,269	6,269	-
Charity and Outreach	-	3,224	-	3,224	3,224	3,260
Classroom supplies	81,418	-	-	-	81,418	119,305
Cost of goods sold	85,341	-	189,407	189,407	274,748	342,360
Depreciation	129,651	32,413	-	32,413	162,064	150,169
Equipment rental	11,466	2,867	-	2,867	14,333	14,483
Facilities expenses	202,807	67,602	-	67,602	270,409	178,116
Field trips and classroom expenses	106,775	-	-	-	106,775	177,287
Finance charges and merchant fees	-	10,079	-	10,079	10,079	13,900
Fundraising	-	-	3,482	3,482	3,482	6,852
Insurance	-	77,782	-	77,782	77,782	65,526
Interest	420	180	-	180	600	6,401
Membership dues	-	28,904	-	28,904	28,904	33,071
Miscellaneous	-	940	-	940	940	(371)
Mortgage interest	102,931	44,113	-	44,113	147,044	151,710
Office expenses	-	3,411	-	3,411	3,411	9,079
Professional development	16,082	-	-	-	16,082	46,658
Professional services	-	54,741	-	54,741	54,741	52,788
Property taxes	9,892	4,240	-	4,240	14,132	13,288
Taxes and licenses	-	2,111	-	2,111	2,111	1,846
Security	4,975	-	-	-	4,975	8,306
Special events	-	-	35,727	35,727	35,727	50,598
Telephone and internet	-	20,284	-	20,284	20,284	19,654
Tuition Protection Plan	173,041	-	-	-	173,041	212,865
Utilities	60,685	15,171	-	15,171	75,856	75,998
Total expenses before donated goods and services	<u>4,000,265</u>	<u>964,485</u>	<u>262,263</u>	<u>1,226,748</u>	<u>5,227,013</u>	<u>5,249,729</u>
Donated goods and services	-	-	5,043	5,043	5,043	11,026
TOTAL EXPENSES	<u><u>\$ 4,000,265</u></u>	<u><u>\$ 964,485</u></u>	<u><u>\$ 267,306</u></u>	<u><u>\$ 1,231,791</u></u>	<u><u>\$ 5,232,056</u></u>	<u><u>\$ 5,260,755</u></u>

See independent auditor's report and accompanying notes.

WALDORF SCHOOL OF SAN DIEGO
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (202,811)	\$ (123,756)
Adjustments to reconcile change in net assets to net cash (used) by operating activities		
Depreciation and amortization	162,064	150,169
Change in debt issuance costs for loans payable	600	6,401
Donated stock	-	(206,172)
(Increase) decrease in assets		
Tuition receivable	(47,991)	(5,639)
Contributions receivable	-	794
Inventory	33,998	(42,148)
Prepaid expenses	22,497	(11,786)
Increase (decrease) in liabilities		
Accounts payable	13,358	(4,613)
Accrued expenses	13,070	3,407
Deferred revenue	(115,432)	(81,584)
Net cash (used) by operating activities	(120,647)	(314,927)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of donated stock	-	206,172
Capital expenditures	(19,916)	(173,493)
Net cash (used)/provided by investing activities	(19,916)	32,679
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	(150)	150
Proceeds from long-term debt	742,225	-
Principal payments on long-term debt	(130,541)	(125,875)
Net cash provided/(used) by financing activities	611,534	(125,725)
NET INCREASE/(DECREASE) IN CASH	470,971	(407,973)
CASH AND CASH EQUIVALENTS, beginning of year	364,287	772,260
CASH AND CASH EQUIVALENTS, end of year	\$ 835,258	\$ 364,287
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest paid	\$ 147,644	\$ 158,111

See independent auditor's report and accompanying notes.

**WALDORF SCHOOL OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – ORGANIZATION

The Waldorf School of San Diego (the “School”) began in 1981 with a small and enthusiastic group of individuals studying the educational philosophy of Rudolf Steiner. The school began to grow each year as the School expanded educational programs. The School is incorporated and operates as a not-for-profit School.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the School is presented to assist in understanding the School’s financial statements. The financial statements and notes are representations of the School’s management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Basis of Accounting

The financial statements of the School have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The School is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Include contributions, fundraising, fees and other forms of unrestricted revenue and expenditures related to the general operations and fundraising efforts of the School.

Net Assets With Donor Restrictions – Include gifts and grants received that are restricted with respect to time or use by the donor or grantor. When the restrictions expire, the net assets of this fund are reclassified to net assets without donor restrictions. Restricted gifts and grants received are reported as unrestricted revenue if the restriction is met in the same reporting period.

Estimates

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

(Note 2 continued on the following page)

**WALDORF SCHOOL OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Revenue and Support

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reported period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions

Contributed Services and Gifts In-Kind

Contributed services are recognized if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Only those amounts that meet the criteria above are recorded in the accompanying financial statements. During the years ended June 30, 2020 and 2019 the School received donated goods and services in the amounts of \$5,043 and \$11,026, respectively. The contributions were recorded at their fair market value at the date of donation. Equal amounts were also recorded as donated goods and services expense. Also, a substantial number of volunteers have donated significant amounts of their time and services in the School's core activities.

Tax Status

The School is a nonprofit benefit corporation organized under the laws of California and, as such, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, and corresponding state provisions. However, the School is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption.

The School's federal income tax and informational returns for tax years ending June 30, 2016 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the School's most significant jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ending June 30, 2016 and subsequent.

The School has adopted the provisions of Accounting Standards Codification ("ASC") 740-10-05 relating to accounting and reporting for uncertainty in income taxes. For the School, these provisions could be applicable to the incurrence of any unrelated business income attributable to the School. Because of the School's general tax-exempt status, the provisions of ASC 740-10-05 are not anticipated to have a material impact on the School's financial statements.

Vacation and Sick Leave Benefits

Neither vacation pay nor sick pay accumulates or vests. Therefore, no accrual has been made as of June 30, 2020 and 2019.

(Note 2 continued on the following page)

WALDORF SCHOOL OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purposes of the financial statements, the School considers all debt instruments purchased with a maturity of three months or less to be cash equivalents. Commercial banks have FDIC coverage up to \$250,000 per depositor per bank. As of June 30, 2020 and 2019 the uninsured amount was \$603,269 and \$185,075, respectively.

Tuition Revenues and Receivables

Tuition revenues consist of all gross tuition revenue and other School related fees earned. The School recognizes unrestricted revenues from student tuition and fees totally within the fiscal year in which the academic term is predominantly conducted. Accordingly, registration and tuition fees received for the next school term are deferred until instruction commences.

Tuition receivables are stated unpaid balances, less an allowance for doubtful accounts. The School provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of tuition payers to meet their obligations. Receivables are considered impaired if full payments are not received in accordance with the contractual terms. It is the School's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Amounts deemed uncollectible for the years ended June 30, 2020 and 2019 were \$40,259 and \$24,008, respectively.

Inventory

Inventory is stated at the lower of cost (first-in, first-out) or net realizable value. Market value is determined by comparison with recent purchases or net realizable value. Inventory consists primarily of Scrip (store gift cards), books, craft supplies, and other household goods. Revenue from the sale of inventory is recognized when persuasive evidence of the arrangement exists, delivery and performance has occurred, the price is fixed and determinable, and collectivity is probable. Generally, these criteria are met at the time the sale has occurred. The School provides for estimated customer returns and allowances by reducing sales in the period that the sale occurs.

Property and equipment

Property and equipment are recorded at cost if purchased and at fair value at the date of donation, if donated. Repairs and maintenance are expensed as incurred and improvements of property and equipment items in excess of \$500 are capitalized. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets.

(Note 2 continued on the following page)

**WALDORF SCHOOL OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment amount that will be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Deferred Revenue

Deferred revenue results from the School recognizing registration and tuition revenue in the period in which the related educational instruction is performed. Accordingly, registration and tuition fees received for the next school term are deferred until the instruction commences.

Advertising

The School uses advertising to promote its school programs amount the communities it serves. The production costs of advertising are expensed as incurred. During the years ended June 30, 2020 and 2019, advertising costs totaled \$13,256 and \$9,134, respectively.

Expense Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes and employee benefits which are allocated on the basis of estimates of time and effort for the School's personnel. The following expenses are allocated using the estimated square footage of facilities used for program and supporting functions: depreciation, mortgage interest, facilities expenses and property taxes.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2019, from where the summarized information was derived.

(Note 2 continued on the following page)

WALDORF SCHOOL OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and Uncertainties

Conditions created by the COVID-19 environment could contribute to short-term financial challenges that adversely affect the School's cash flows. Specifically, there is the potential for reductions in private donations and decreased student enrollment if program activities are forced to be significantly curtailed due to government mandated shutdowns. The School's Board of Directors has discussed these risks and uncertainties and has formulated alternative strategic plans to mitigate the effects of these concerns.

New Accounting Pronouncements

Revenue Recognition – In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2020. Early adoption is not permitted. The guidance permits the use of either a retrospective or cumulative effect transition method. The School is currently evaluating the impact that the adoption of ASU 2014-09 will have on its financial statements.

Guidance for Contributions Received and Made – In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Made. This update requires a recipient of funds from a resource provider to determine if those funds should be classified as a reciprocal exchange transaction or as a contribution based on the value that the resource provider is receiving from the transaction. Additionally, the update requires recipient organizations to determine whether a contribution is conditional based on if the agreement includes barriers that must be overcome, and either a right of return of assets transferred, or a right of release of a resource provider's obligation to transfer assets. If the agreement includes both characteristics, the recipient is not entitled to the transferred assets, and therefore does not recognize the associated revenues, until the barrier is overcome. ASU No. 2018-08 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The School has adopted ASU 2018-08 in these financial statements on a retrospective basis. No adjustments to net assets as of July 1, 2019 or 2018 was necessary and adoption of the new guidance did not have a material impact on the School's financial statements.

(Note 2 continued on the following page)

WALDORF SCHOOL OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases – In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The School is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

NOTE 3 – FAIR VALUE MEASUREMENTS

The School has adopted the provisions of ASC 820-10, for fair value measurements of financial assets and financial liabilities, and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The assets that are recorded at fair value on a recurring basis are pledges receivable. The School has no financial liabilities or non-financial items that are recorded at fair value on a non-recurring basis.

ASC 820-10 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

- Level 1: fair values are based on quoted prices in active markets for identical assets and liabilities. The School has no Level 1 assets at June 30, 2020 and 2019.
- Level 2: fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the asset. The School has no Level 2 assets at June 30, 2020 and 2019.
- Level 3: fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. The School's Level 3 assets consist of contributions receivable at June 30, 2019.

(Note 3 continued on the following page)

WALDORF SCHOOL OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair values may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering from sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

The following table sets forth a summary of changes in the fair value of the School's Level 3 assets for the year ended June 30:

	<i>Contributions Receivable</i>	
	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ -	\$ 794
New pledges	-	-
Payments received	-	(910)
Write-offs	-	-
Change in allowance for uncollectible pledges	-	-
Change in present value discount	-	116
	<hr/>	<hr/>
Balance, end of year	\$ -	\$ -

NOTE 4 – OTHER ACCRUED LIABILITIES

The School's accrued expense balance consists of the following categories at June 30:

	<u>2020</u>	<u>2019</u>
Interest	\$ 14,138	\$ 14,138
Other	2,192	2,776
Total	<u>\$ 16,330</u>	<u>\$ 16,914</u>

WALDORF SCHOOL OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following for the years ended June 30:

	<u>Method</u>	<u>Estimated Useful Lives (Years)</u>	<u>2020</u>	<u>2019</u>
Land improvements	Straight-line	10	\$ 109,153	\$ 105,653
Buildings and improvements	Straight-line	5 - 50	4,489,567	4,473,467
Equipment and furniture	Straight-line	5 - 20	312,014	311,698
Vehicles	Straight-line	5	<u>70,774</u>	<u>70,774</u>
			4,981,508	4,961,592
Less: accumulated depreciation			<u>(1,446,778)</u>	<u>(1,284,714)</u>
			3,534,730	3,676,878
Land			<u>1,553,796</u>	<u>1,553,796</u>
			<u>\$ 5,088,526</u>	<u>\$ 5,230,674</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$162,064 and \$150,169, respectively.

WALDORF SCHOOL OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – LONG-TERM DEBT

Long-term debt consists of the following mortgage note outstanding as of June 30:

	2020	2019
In November 2013, the School entered into a 3.90% fixed rate term loan with an original principal amount of \$4,400,000 payable in monthly installments of principal and interest of \$23,132 with a bank. The loan has an amortization period of 25 years, and matures in November 2018.		
In December 2016, the School re-financed this loan with the same bank. The new agreement extended the maturity date of the loan to December 2026, but kept the same amortization period of 25 years from the original date of the loan. The interest rate will remain at 3.90% for the next five years and then will switch to a variable rate with a floor of 3.90% until maturity. The note is collateralized by the real property of the School. The School is also required to maintain certain financial covenants, which it did not as of June 30, 2020. As of the date of this report, the School is in negotiations to obtain a temporary waiver of the breached financial covenant. Finally, the School is required to maintain \$135,000 on deposit at all times with the bank holding the note.	\$ 3,637,353	\$ 3,767,894
Less: Current portion of long-term debt	(135,561)	(129,914)
Long-term debt	\$ 3,501,792	\$ 3,637,980

Long-term debt is due as follows for the years ended June 30:

2021		\$ 135,561
2022		141,033
2023		146,726
Thereafter		3,214,033
		\$ 3,637,353

(Note 6 continued on the following page)

WALDORF SCHOOL OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – LONG-TERM DEBT (Continued)

In November 2013, the School simultaneously refinanced its mortgage loans with RSF bank and financed the purchase of real property by entering into one mortgage loan with First Bank (see above). In December 2016, the School re-financed this loan with First Bank. The costs of the re-finance were booked as deferred loan costs. Per ASU No. 2015-03, debt issuance fees for the above loan and subsequent re-finance, have been included in loan payable balance on the balance sheet and are being expensed as interest expense over the life of the loan.

	<u>2020</u>	<u>2019</u>
Total loan balance	\$ 3,637,353	\$ 3,767,894
Less: debt issuance costs	(900)	(1,500)
Net loan balance	<u>\$ 3,636,453</u>	<u>\$ 3,766,394</u>

NOTE 7 – PPP LOAN PAYABLE

On April 21, 2020, the School received loan proceeds in the amount of \$742,225 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The School intends to use the proceeds for purposes consistent with the PPP. While the School currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, it cannot assure that it will not take actions that could cause the School to be ineligible for forgiveness of the loan, in whole or in part.

NOTE 8 – LINES OF CREDIT

On November 18, 2013 the School entered into a revolving line of credit with First Bank. The terms are as follows. The maximum amount on the line available to be borrowed is \$100,000. Interest is due and payable on a monthly basis and is the greater of the Prime Rate (3.25% at June 30, 2020) plus 25 basis points. The original maturity date of the line of credit was November 18, 2017 upon which all unpaid interest and the outstanding balance is due and payable in full. The loan is secured by the real property of the School. In December 2016, the agreement has been subsequently renewed by extending the maturity date to December 2026. The balance on the First Bank line of credit at June 30, 2020 and 2019 was none.

(Note 8 continued on the following page)

WALDORF SCHOOL OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – LINES OF CREDIT (Continued)

The School also has entered into a revolving line of credit with Wells Fargo. The terms are as follows. The maximum amount on the line available to be borrowed is \$150,000. Interest is due and payable on a monthly basis and is the greater of the Prime Rate (3.25% at June 30, 2020) plus 250 basis points. The maturity date of is open ended, but the debt is callable by the lender within 30 days upon which all unpaid interest and the outstanding balance is due and payable in full. The balance on the Wells Fargo line of credit at June 30, 2020 and 2019 was none and \$150, respectively.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

	<u>2020</u>	<u>2019</u>
<i>Subject to expenditure for a specified purpose:</i>		
Classroom funds	\$ 34,252	\$ 26,415
Field trips fund	17,304	22,995
School programs	<u>95,968</u>	<u>95,968</u>
	<u>\$ 147,524</u>	<u>\$ 145,378</u>

NOTE 10 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets released from donor restrictions during the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
<i>Expenditure for a specified purpose:</i>		
Classroom funds	\$ 89,022	\$ 101,172
Field trips fund	15,656	58,013
School programs	<u>95,250</u>	<u>135,575</u>
	<u>199,928</u>	<u>294,760</u>
<i>Expiration of time restrictions:</i>	<u>-</u>	<u>910</u>
	<u>\$ 199,928</u>	<u>\$ 295,670</u>

NOTE 11 – RETIREMENT PLAN

The School has a retirement plan for employees formed under Section 403(b) of the Internal Revenue Code consisting of a tax-sheltered custodial account. Under the provisions of the Plan, employees may make voluntary contributions up to 100% of annual salary. Matching contributions of \$49,543 and \$59,403 were made by the School during the years ended June 30, 2020 and 2019, respectively.

(Note 13 continued on the following page)

WALDORF SCHOOL OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – AVAILABILITY OF FINANCIAL ASSETS

The following reflects The School's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in board designated funds that could be drawn upon if the governing board approves that action.

The School's financial assets available within one year of June 30, 2020 for general expenditure are as follows:

<i>Financial assets, at year end</i>	
Cash and cash equivalents	\$ 835,258
Accounts receivable – net	96,337
Available funds on revolving lines of credit	250,000
<i>Less those unavailable for general expenditures within one year due to:</i>	
<i>Contractual or donor-imposed restrictions:</i>	
Restricted by donor with purpose restrictions	<u>(147,524)</u>
 Total	 <u>\$ 1,034,071</u>

The School's financial assets available within one year of June 30, 2019 for general expenditure are as follows:

<i>Financial assets, at year end</i>	
Cash and cash equivalents	\$ 364,287
Accounts receivable – net	48,346
Available funds on revolving lines of credit	249,850
<i>Less those unavailable for general expenditures within one year due to:</i>	
<i>Contractual or donor-imposed restrictions:</i>	
Restricted by donor with purpose restrictions	<u>(145,378)</u>
 Total	 <u>\$ 517,105</u>

As part of The School's liquidity management practices, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 13 – RELATED PARTY TRANSACTIONS

During the years ended June 30, 2020 and 2019, three immediate relatives of the School's Board of Directors were employed by the School and received wages and benefits totaling \$62,924 and \$121,313, respectively.

(Note 13 continued on the following page)

**WALDORF SCHOOL OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 13 – RELATED PARTY TRANSACTIONS (Continued)

Additionally, another immediate relative of the School's Board of Director's provided education services totaling none and \$150 during the years ended June 30, 2020 and 2019, respectively.

Furthermore, a member of the School's Board of Director's paid the School none and \$1,200 in rent for use of an office at the School during the years ended June 30, 2020 and 2019, respectively.

Finally, during the year ended June 30, 2019, an immediate relative of the School's Administrative Chair provided marketing services totaling \$1,979. This same individual paid the School \$1,676 in rent for use of an office at the School during the year ended June 30, 2019. The School collects a percentage of consigned inventory sales from this individual and those amounts were \$503 during the year ended June 30, 2019.

NOTE 14 – LITIGATION

The School may be subject to certain outside claims and litigation arising in the ordinary course of business. In the opinion of the School's management and its counsel, there are no matters which could have a material effect on the accompanying financial statements.

NOTE 15 – SUBSEQUENT EVENTS

Events subsequent to June 30, 2020 have been evaluated through February 4, 2021, the date at which the School's financial statements were available to be issued. No events requiring disclosures have occurred through this date.