Financial Report

THE WALDORF SCHOOL
OF SAN DIEGO

June 30, 2021

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Contents

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Waldorf School of San Diego
San Diego, California

We have audited the accompanying financial statements of The Waldorf School of San Diego (the School), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses 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.

Auditor's 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 The Waldorf School of San Diego as of June 30, 2021, 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.

West Rhode & Roberts

WEST RHODE & ROBERTS

San Diego, California
February 28, 2022

THE WALDORF SCHOOL OF SAN DIEGO

STATEMENT OF FINANCIAL POSITION
June 30, 2021

ASSETS	
Cash and cash equivalents	$ 938,105
Restricted cash and cash equivalents	135,000
Accounts receivable	8,665
Inventory	65,417
Prepaid expenses	612
Property and equipment	4,955,019
Total assets	$ 6,102,818
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable and accrued expenses	$ 216,195
Tuition deposits and advance payments	424,922
Refundable advance	696,256
Long term debt	3,500,252
Total liabilities	4,837,625
Commitments (Note 10)	
Net assets:	
Without donor restrictions	1,147,793
With donor restrictions	117,400
Total net assets	1,265,193
Total liabilities and net assets	$ 6,102,818

THE WALDORF SCHOOL OF SAN DIEGO

STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities			
REVENUES AND SUPPORT			
Tuition and fees	$ 4,266,417	$ -	$ 4,266,417
Financial aid and discounts	(1,244,322)	-	(1,244,322)
Net tuition and fees	3,022,095	-	3,022,095
Contributions	889,032	133,406	1,022,438
Merchandise and scrip sales	164,010	-	164,010
Special events	56,824	10,600	67,424
Other income	59,618	-	59,618
Net assets released from restrictions, satisfaction of program restrictions	174,130	(174,130)	-
Total revenues and support	4,365,709	(30,124)	4,335,585
EXPENSES			
Program services			
Instructional and student activities	3,313,294	-	3,313,294
Supporting services			
General and administrative	640,777	-	640,777
Fundraising	340,508	-	340,508
Total supporting services	981,285	-	981,285
Cost of direct benefits to donors	27,042	-	27,042
Total expenses	4,321,621	-	4,321,621
Operating revenues and support in excess of expenses	44,088	(30,124)	13,964
Change in net assets	44,088	(30,124)	13,964
NET ASSETS AT BEGINNING OF YEAR	1,103,705	147,524	1,251,229
NET ASSETS AT END OF YEAR	$ 1,147,793	$ 117,400	$ 1,265,193

THE WALDORF SCHOOL OF SAN DIEGO

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	Instructional and Student Activities	General and Administrative	Fundraising	Total
EXPENSES				
Salaries	$ 1,866,518	$ 396,568	$ 134,435	$ 2,397,521
Payroll taxes & employee benefits	445,450	94,642	32,083	572,175
	2,311,968	491,210	166,518	2,969,696
Educational services and materials	298,364	-	-	298,364
Facilities expenses	203,911	43,324	14,687	261,922
Interest and bank service charges	116,759	24,807	8,409	149,975
Depreciation	112,228	23,845	8,083	144,156
Cost of goods sold	24,955	-	97,190	122,145
Utilities	62,016	13,176	4,467	79,659
Insurance	55,861	11,868	4,023	71,752
Bad debt expense	39,871	8,471	2,872	51,214
Professional fees	26,996	5,736	1,944	34,676
Donated goods and services	-	-	28,372	28,372
Membership dues	19,187	4,077	1,382	24,646
Equipment rental and maintenance	15,318	2,062	699	18,079
Office expense	9,000	6,905	648	16,553
Property taxes	12,486	2,653	899	16,038
Advertising & promotion	4,374	929	315	5,618
Charity and outreach	-	1,714	-	1,714
Total expenses	$ 3,313,294	$ 640,777	$ 340,508	$ 4,294,579

THE WALDORF SCHOOL OF SAN DIEGO

STATEMENT OF CASH FLOWS
Year Ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 13,964
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	144,156
Change in operating assets and liabilities:	
Accounts receivable	87,672
Inventory	7,341
Prepaid expenses	11,879
Accounts payable and accrued expenses	3,327
Refundable advance	(45,969)
Tuition deposits and advance payments	162,327
Net cash provided by operating activities	384,697
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of fixed assets	(10,649)
Net cash used in investing activities	(10,649)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on long term debt	(136,201)
Net cash used in financing activities	(136,201)
Change in cash and cash equivalents	237,847
Cash and cash equivalents at beginning of year	835,258
Cash and cash equivalents at end of year	$ 1,073,105
Cash and cash equivalents consist of:	
Cash and cash equivalents	$ 938,105
Restricted cash and cash equivalents	135,000
	$ 1,073,105
SUPPLEMENTAL SCHEDULES OF CASH FLOW INFORMATION	
Cash paid for interest	$ 140,942

Note 1. Organization and Significant Accounting Policies

Organization and Activities

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.

Significant Accounting Policies

Method of Accounting – The accompanying financial statements are prepared on the accrual basis of accounting.

Basis of Presentation –The financial statements of the School have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the School to report information regarding its financial position and activities according to the following net asset classifications:

> **Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the School's management and the board of directors.
>
> **Net assets with donor restrictions**: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the School or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Measure of Operations – The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the School's ongoing programs. Nonoperating activities are limited to resources that generate return from long-term investments and other activities of a nonrecurring nature.

Revenue Recognition – The School recognizes revenue in accordance with the following policies:

Tuition and Fees Revenue- The School requires tuition and fees to be paid in advance according to the terms of one of three payment options. Tuition and fees revenue is recorded as revenue during the year in which the related academic services are rendered. Tuition and fees revenue received in advance of services to be rendered are recorded as tuition deposits and advance payments (deferred tuition revenue).

Contribution revenue- Contributions are recognized as revenue when they are unconditionally pledged or when all conditions have been met. They are recorded net of allowance for uncollectible pledges and at present value.

The School reports contributions as restricted 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, revenues with donor restrictions are reclassified to revenues without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as donor restricted endowments. The income and net gains earned from such assets are generally restricted to the purpose designated by the donor. This recognition is in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 958-605.

Contributions of service are recognized if the services received (a) create or enhance non-financial 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. The School reports such contributions at their estimated fair value when received. During the year ended June 30, 2021, $25,000 of contributions of services were recorded.

Contributions in-kind are recorded based on approximate fair market value. During the year ended June 30, 2021, $3,372 of in-kind contributions were recorded.

Cash and Cash Equivalents – The School considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include cash in readily available bank accounts.

Accounts Receivable – Accounts receivable consists mainly of amounts due for tuition and contributions. All accounts receivables are reviewed for collectability and reserves for uncollectible amounts are recorded based on previous experience and history with the family. Accounts are written off against the allowance for doubtful accounts when deemed uncollectible. Management has determined that an allowance of $53,650 is needed for the year ended June 30, 2021.

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 – Purchased property is recorded at cost and donated property is recorded at the estimated fair value on the date received. The School capitalizes all amounts greater than $500. Property and equipment is depreciated on a straight-line basis as follows:

Buildings and improvements	20 years
Leasehold improvements	5 to 10 years
Furniture and equipment	3 to 15 years

Depreciation expense totaled $144,156 for the year ended June 30, 2021.

Tuition Deposits and Advance Payments – Tuition deposits and advance payments represents tuition payments received for the succeeding school year. Both will be recognized as revenue as the related school programs progress.

Refundable Advance – The School received a second loan in the amount of $696,256 in February 2021 under the Paycheck Protection Program (PPP). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loan is forgivable if it is used for qualifying expenses as described in the CARES Act. The School believes the PPP loan qualifies for forgiveness and has elected to account for the PPP loan under FASB ASC 958-605. Under this model, the School has recorded a refundable advance and will record revenue when the PPP loan is forgiven. In the prior year, the School received $742,225 under the PPP program that was forgiven and is recorded as a contribution on the Statement of Activities for the year ended June 30, 2021.

Cost of Direct Benefits to Donors – The costs of special events that represent a direct benefit to donors are separately reported. For the year ended June 30, 2021, the amount totaled $27,042 respectively.

Income Taxes – The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the State Revenue and Taxation Code. The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification No. 740-10, *Accounting for Uncertainties in Income Tax*, which sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The School has reviewed its positions for all open tax years and has determined that it has no uncertain tax positions requiring accrual or disclosure.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Functional Allocation of Expenses – The statement of functional expenses presents expense by function and natural classification. Expenses directly attributable to a specific functional area of the School are reported as expenses of those functional areas. A portion of costs that benefit multiple functional areas (indirect costs) have been allocated across programs and supporting services based on the full-time employee equivalents of a programs or supporting service. Depreciation is allocated based on a square footage basis. These allocations are determined by management and are consistently applied.

Recently adopted accounting standards - In May 2014, FASB issued Accounting Standards update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The School adopted the new standard, Accounting Standards Codification 606, effective July 1, 2020, using the modified retrospective approach. There was no change to beginning retained earnings as a result of the new accounting policy.

Subsequent Events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The School recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at that date, including the estimates inherent in the process of preparing financial statements. The School’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after that date and before the financial statements are available to be issued.

The School has evaluated subsequent events through February 28, 2022, which is the date the financial statements are available for issuance, and concluded that the below event needed to be disclosed.

On January 18, 2022, the School’s second PPP loan in the amount of $696,256 was forgiven. The amount will be recorded as a contribution on the Statement of Activities for the year ended June 30, 2022.

Note 2. Liquidity and Availability of Resources

The School’s financial assets available for general expenditure, that is without donor restrictions limiting their use within one year of the statement of financial position date, are as follows:

Financial Assets		
Cash and cash equivalents	$	1,073,105
Accounts receivable		8,665
Total financial assets available within one year		1,081,770
Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions		117,400
Total amounts unavailable for general expenditures within one year		117,400
Total financial assets available to management for general expenditure within one year	$	964,370

The School maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 3. Fair Value Measurements

Due to the short-term nature of cash equivalents, receivables, prepaid expenses, accounts payable and deferred revenue, fair value approximates carrying value. In accordance with Financial Accounting Standards Board Codification No. 820 (FASB ASC 820), fair value is defined as the price that the School would receive upon selling an asset or transferring a liability in an orderly transaction to an independent buyer in the principal or most advantageous market of the asset.

FASB ASC 820 also establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs and to establish the classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The standard describes three-tier hierarchy of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the School has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the School's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The School's statement of financial position includes cash and cash equivalents which have been considered Level 1 assets and are reported at fair value based on quoted prices. The fair value of a financial instrument is 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. Fair value is best determined based upon quoted market prices.

The management of the School is responsible for making the fair value measurements and disclosures in the financial statements. As part of fulfilling this responsibility, the management of the School has established an accounting and financial reporting process for determining the fair value measurements and disclosures, which identifies and adequately supports the valuation methods and assumptions used and ensures that the presentation of the fair value measurement is in accordance with accounting principles generally accepted in the United States of America.

Note 4. Accounts Receivable

Accounts receivable consists of:

Tuition receivable	$ 62,315
Less allowance	(53,650)
Net tuition receivable	$ 8,665

Note 5. Property and Equipment

Property and equipment are comprised of the following at June 30, 2021:

Buildings and improvements	$ 4,489,567
Land	1,553,796
Equipment and furniture	322,662
Land improvements	109,153
Vehicles	70,774
	6,545,952
Less accumulated depreciation	(1,590,933)
	$ 4,955,019

Note 6. Lines of Credit

The School has a line of credit with First Bank for $100,000 expiring in December 2026. The line of credit is secured by the real property of the School. As of June 30, 2021, there was no amount outstanding.

The School also has entered into a revolving line of credit with Wells Fargo, with $150,000 as the maximum amount available to be borrowed. Interest is due and payable on a monthly basis and is the greater of the Prime Rate (3.25% at June 30, 2021) plus 250 basis points. There is no maturity date, 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. As of June 30, 2021, there was no amount outstanding.

Note 7. Long Term Debt

In November 2013, the School entered into a 3.90% fixed rate term loan with an original principal amount of $4,400,000. On December 21, 2016, the School refinanced the fixed rate term loan by signing an amended and restated promissory note with the same bank. The note is collateralized by the School's real property. In addition, the note is supported by a cash reserve requirement of not less than $135,000.

The agreement extended the maturity date of the loan to December 2026, with interest rate fixed at 3.9% until December 21, 2021 with principal and interest paid monthly. Beginning December 22, 2021, the interest rate will switch to a variable rate with a floor of 3.90% until maturity.

Loan costs are amortized over the life of the loan using the straight-line method, which approximates effective interest rate method. Principal payments on the note are due pursuant to a repayment schedule.

Principal payments due on long term debt are as follows:

2022	$ 158,764
2023	149,892
2024	155,844
2025	162,032
2026	168,465
Thereafter	2,706,155
	3,501,152
Less unamortized loan costs	(900)
Long term debt	$ 3,500,252

The School is subject to compliance with certain debt covenants, including restrictions on additional indebtedness. At June 30, 2021, the management believed that the School was in compliance with its debt covenants.

Note 8. Net Assets with Donor Restrictions

Net assets with donor restrictions represent contributions and other inflows received by the School, which are limited in their use by the donor-imposed stipulations.

Net assets with donor restrictions at June 30, 2021 are available for the following purposes or periods:

School programs	$ 88,193
Field trips and Classroom funds	29,207
	$ 117,400

Note 9. Net Assets Released from Restrictions

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restriction consist of the following at June 30, 2021:

School programs	$ 131,286
Field trips and Classroom funds	42,844
	$ 174,130

Note 10. Commitments

Operating Leases – The School leases various office equipment and space under operating leases. For the year ended June 30, 2021, rent expense totaled $30,260. At June 30, 2021, the minimum lease commitments under such operating leases are:

2022	$ 18,936
2023	16,766
2024	3,338
2025	3,338
2026	2,782
	$ 45,160

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. The school matches the employee's contributions up to 30% of the employee's contribution. The match is designated prior to the beginning of each calendar year. Matching contributions of $53,893 were made by the School during the year ended June 30, 2021.

Note 12. Risks and Uncertainties

Concentration of Credit Risk - The School maintains its cash in bank deposit accounts, which at times, exceed federally insured deposit limits. The School adheres to a policy by which cash balances in excess of short term needs are diversified amongst short-term, low risk investment vehicles. The School has not experienced any losses in such accounts.

COVID-19 Risk - In 2020, the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. The ultimate disruption which may be caused by the pandemic is uncertain; however it has not resulted in a material adverse impact on the School's financial position, operations, and cash flows, such disruptions or restrictions may occur in the future. Possible effects may include but are not limited to disruptions or restrictions on our employee's ability to work, decline in value of assets held, including property and equipment and marketable securities and changes to the current regulatory environment. Management is actively working to mitigate the impact of these and other unforeseen potential disruptions to operations.

Note 13. Related Party Transactions

During the year ended June 30, 2021, an employee of the school was also the owner of a business that the school buys items for resale from. She was paid $4,543 for these items during the year.

In addition, it was noted that five out of fifteen members of the board are also employees of the school.