

Financial Report



June 30, 2022



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited the School's 2021 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 28, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.



WEST RHODE & ROBERTS

San Diego, California
March 31, 2023

THE WALDORF SCHOOL OF SAN DIEGO

STATEMENT OF FINANCIAL POSITION

June 30, 2022

(With Summarized Financial Information for June 30, 2021)

	<u>2022</u>	<u>2021</u> (Note 13)
ASSETS		
Cash and cash equivalents	\$ 296,386	\$ 938,105
Restricted cash and cash equivalents	200,000	135,000
Accounts receivable	140,633	8,665
Inventory	49,434	65,417
Prepaid expenses	18,317	612
Property and equipment	4,815,738	4,955,019
Total assets	<u>\$ 5,520,508</u>	<u>\$ 6,102,818</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 183,590	\$ 216,195
Tuition deposits and advance payments	293,784	424,922
Refundable advance	-	696,256
Long term debt	3,336,686	3,500,252
Total liabilities	<u>3,814,060</u>	<u>4,837,625</u>
Commitments (Note 9)		
Net assets:		
Without donor restrictions	1,568,990	1,147,793
With donor restrictions	137,458	117,400
Total net assets	<u>1,706,448</u>	<u>1,265,193</u>
Total liabilities and net assets	<u>\$ 5,520,508</u>	<u>\$ 6,102,818</u>

THE WALDORF SCHOOL OF SAN DIEGO

STATEMENT OF ACTIVITIES

Year Ended June 30, 2022

(With Summarized Financial Information for the Year Ended June 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 (Note 13)
<u>Operating Activities</u>				
REVENUES AND SUPPORT				
Tuition and fees	\$ 5,191,428	\$ -	\$ 5,191,428	\$ 4,266,417
Financial aid and discounts	<u>(1,446,496)</u>	<u>-</u>	<u>(1,446,496)</u>	<u>(1,244,322)</u>
Net tuition and fees	3,744,932	-	3,744,932	3,022,095
Contributions	772,083	82,143	854,226	1,022,438
Merchandise and scrip sales	138,615	-	138,615	164,010
Special events	77,907	-	77,907	67,424
Other income	18,205	-	18,205	59,618
Net assets released from restrictions, satisfaction of program restrictions	<u>62,085</u>	<u>(62,085)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>4,813,827</u>	<u>20,058</u>	<u>4,833,885</u>	<u>4,335,585</u>
EXPENSES				
Program services				
Instructional and student activities	<u>3,566,088</u>	<u>-</u>	<u>3,566,088</u>	<u>3,313,294</u>
Supporting services				
General and administrative	693,645	-	693,645	640,777
Fundraising	<u>113,878</u>	<u>-</u>	<u>113,878</u>	<u>340,508</u>
Total supporting services	<u>807,523</u>	<u>-</u>	<u>807,523</u>	<u>981,285</u>
Cost of direct benefits to donors	<u>19,019</u>	<u>-</u>	<u>19,019</u>	<u>27,042</u>
Total expenses	<u>4,392,630</u>	<u>-</u>	<u>4,392,630</u>	<u>4,321,621</u>
Operating revenues and support in excess of expenses	<u>421,197</u>	<u>20,058</u>	<u>441,255</u>	<u>13,964</u>
Change in net assets	421,197	20,058	441,255	13,964
NET ASSETS AT BEGINNING OF YEAR	<u>1,147,793</u>	<u>117,400</u>	<u>1,265,193</u>	<u>1,251,229</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,568,990</u>	<u>\$ 137,458</u>	<u>\$ 1,706,448</u>	<u>\$ 1,265,193</u>

THE WALDORF SCHOOL OF SAN DIEGO

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022

(With Summarized Financial Information for the Year Ended June 30, 2021)

	Instructional and Student Activities	General and Administrative	Fundraising	2022 Total	2021 (Note 13)
EXPENSES					
Salaries	\$ 2,101,692	\$ 438,343	\$ 10,087	\$ 2,550,122	\$ 2,397,521
Payroll taxes & employee benefits	451,491	94,166	2,167	547,824	572,175
	<u>2,553,183</u>	<u>532,509</u>	<u>12,254</u>	<u>3,097,946</u>	<u>2,969,696</u>
Facilities expenses	227,745	47,500	1,093	276,338	261,922
Educational services and materials	228,556	-	-	228,556	298,364
Interest and bank service charges	124,726	26,014	599	151,339	149,975
Depreciation	116,487	24,295	559	141,341	144,156
Professional fees	91,995	19,187	442	111,624	34,676
Cost of goods sold	11,768	-	97,916	109,684	122,145
Utilities	69,927	14,584	336	84,847	79,659
Insurance	36,049	7,519	173	43,741	71,752
Membership dues	22,811	4,758	109	27,678	24,646
Office expense	18,956	3,955	91	23,002	16,553
Equipment rental and maintenance	16,533	3,448	79	20,060	18,079
Property taxes	16,475	3,436	79	19,990	16,038
Bad debt expense	15,900	3,316	76	19,292	51,214
Advertising & promotion	14,977	3,124	72	18,173	7,332
Donated goods and services	-	-	-	-	28,372
Total expenses	<u>\$ 3,566,088</u>	<u>\$ 693,645</u>	<u>\$ 113,878</u>	<u>\$ 4,373,611</u>	<u>\$ 4,294,579</u>

THE WALDORF SCHOOL OF SAN DIEGO

STATEMENT OF CASH FLOWS

Year Ended June 30, 2022

(With Summarized Financial Information for the Year Ended June 30, 2021)

	2022	2021 (Note 13)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 441,255	\$ 13,964
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	141,341	144,156
Change in operating assets and liabilities:		
Accounts receivable	(131,968)	87,672
Inventory	15,984	7,341
Prepaid expenses	(17,705)	11,879
Accounts payable and accrued expenses	(32,605)	3,327
Refundable advance	(696,256)	(45,969)
Tuition deposits and advance payments	(131,138)	162,327
Net cash (used in) provided by operating activities	(411,092)	384,697
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(2,061)	(10,649)
Net cash used in investing activities	(2,061)	(10,649)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long term debt	(163,566)	(136,201)
Net cash used in financing activities	(163,566)	(136,201)
Change in cash and cash equivalents	(576,719)	237,847
Cash and cash equivalents at beginning of year	1,073,105	835,258
Cash and cash equivalents at end of year	\$ 496,386	\$ 1,073,105
 Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 296,386	\$ 938,105
Restricted cash and cash equivalents	200,000	135,000
	\$ 496,386	\$ 1,073,105
 SUPPLEMENTAL SCHEDULES OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 134,768	\$ 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, 2022, no contributions of services were recorded.

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NOTES TO FINANCIAL STATEMENTS

Contributions in-kind are recorded based on approximate fair market value. During the year ended June 30, 2022, no 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 \$45,600 is needed for the year ended June 30, 2022.

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 \$141,341 for the year ended June 30, 2022.

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 was forgivable if it was used for qualifying expenses as described in the CARES Act. The PPP loan qualified for forgiveness and was accounted for under FASB ASC 958-605. The loan was forgiven and is recorded as a contribution on the Statement of Activities for the year ended June 30, 2022.

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, 2022 the amount totaled \$19,019.

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.

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 March 31, 2023, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that needed to be disclosed.

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	\$ 296,386
Accounts receivable	<u>140,633</u>
Total financial assets available within one year	<u>437,019</u>
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	<u>137,458</u>
Total amounts unavailable for general expenditures within one year	<u>137,458</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 299,561</u>

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. Investments and Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The School uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

The hierarchy for fair value measurement are described as follows:

Level 1 - quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - observable market-based inputs or unobservable inputs that are corroborated by market data. May include quoted prices in a market that is not active.

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Level 3 - unobservable inputs that cannot be corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the 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 U.S. GAAP.

Note 4. Accounts Receivable

Accounts receivable consists of the following at June 30, 2033:

Tuition receivable	\$ 186,233
Less allowance	(45,600)
Net tuition receivable	<u>\$ 140,633</u>

Note 5. Property and Equipment

Property and equipment are comprised of the following at June 30, 2022:

Buildings and improvements	\$ 4,489,567
Land	1,553,796
Equipment and furniture	322,662
Land improvements	109,153
Vehicles	<u>70,774</u>
	6,545,952
Less accumulated depreciation	<u>(1,730,214)</u>
	<u>\$ 4,815,738</u>

Note 6. 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 \$200,000.

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. On December 31, 2021, per terms of the agreement, the interest rate was reevaluated and the adjusted interest rate until maturity remained at 3.9%.

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.

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NOTES TO FINANCIAL STATEMENTS

Principal payments due on long term debt are as follows:

2023	\$ 144,190
2024	155,844
2025	162,032
2026	168,465
2027	<u>2,706,155</u>
Long term debt	<u>\$ 3,336,686</u>

The School is subject to compliance with certain debt covenants, including restrictions on additional indebtedness. At June 30, 2022, the management believed that the School was in compliance with its debt covenants.

Note 7. 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, 2022 are available for the following purposes or periods:

School programs	\$ 120,675
Field trips and classroom funds	<u>16,783</u>
	<u>\$ 137,458</u>

Note 8. 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, 2022:

Field trips and classroom funds	\$ 54,001
School programs	<u>8,084</u>
	<u>\$ 62,085</u>

Note 9. Commitments

Operating Leases – The School leases various office equipment and space under operating leases. For the year ended June 30, 2022, rent expense totaled \$69,450. At June 30, 2022, the minimum lease commitments under such operating leases are:

<u>Years Ending June 30,</u>	
2023	\$ 16,766
2024	3,338
2025	3,338
2026	<u>2,782</u>
	<u>\$ 26,224</u>

Note 10. 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 \$54,426 were made by the School during the year ended June 30, 2022.

Note 11. Risks and Uncertainties

Concentration of Credit Risk - The School maintains its cash in bank accounts which at times may exceed federally insured deposit limits. The School has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

COVID-19 Risk - In 2020, the COVID-19 virus was declared a global pandemic. The School has implemented extensive measures to protect the health and safety of its employees and students and continues to adapt day to day operations and processes to safely carry out its mission. The School continues to monitor and assess the implications to its business and take necessary actions to mitigate potential adverse consequences.

Note 12. Related Party Transactions

During the year ended June 30, 2022, an employee of the school was also the owner of a business that the school buys items for resale from. She was paid \$2,049 for these items during the year.

In addition, five out of fifteen members of the board are also employees of the school.

Note 13. June 30, 2021 Financial Information

The financial statements include certain prior year summarized comparative information in total, but not in 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, 2021, from which the summarized information was derived. Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the changes in net assets.