THE WALDORF SCHOOL OF SAN DIEGO

Financial Report

June 30, 2023

WRR

WEST RHODE & ROBERTS

Contents

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the Waldorf School of San Diego

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, 2023, 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, 2023, 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.

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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 2022 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 31, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

West Rhode + Roberts

WEST RHODE & ROBERTS

San Diego, California
November 1, 2023

THE WALDORF SCHOOL OF SAN DIEGO

STATEMENT OF FINANCIAL POSITION

June 30, 2023

(With Summarized Financial Information for June 30, 2022)

	2023	2022 (Note 12)
Assets		
Cash and cash equivalents	$ 295,613	$ 296,386
Restricted cash and cash equivalents	200,000	200,000
Accounts receivable	35,696	140,633
Inventory	37,652	49,434
Prepaid expenses	40,165	18,317
Property and equipment	4,682,170	4,815,738
Total assets	$ 5,291,296	$ 5,520,508
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	$ 415,532	$ 183,590
Tuition deposits and advance payments	280,986	293,784
Long term debt	3,190,309	3,336,686
Total liabilities	3,886,827	3,814,060
Commitments (Note 9)		
Net assets:		
Without donor restrictions	1,223,689	1,568,990
With donor restrictions	180,780	137,458
Total net assets	1,404,469	1,706,448
Total liabilities and net assets	$ 5,291,296	$ 5,520,508

THE WALDORF SCHOOL OF SAN DIEGO

STATEMENT OF ACTIVITIES

Year Ended June 30, 2023

(With Summarized Financial Information for the Year Ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 (Note 12)
Support and revenues				
Tuition and fees	$ 5,879,073	$ -	$ 5,879,073	$ 5,191,428
Financial aid and discounts	(1,849,319)	-	(1,849,319)	(1,446,496)
Net tuition and fees	4,029,754	-	4,029,754	3,744,932
Contributions	232,824	236,320	469,144	854,226
Merchandise and scrip sales	193,944	-	193,944	138,615
Other income	36,856	-	36,856	77,093
Net assets released from restrictions,			-	
satisfaction of program restrictions	192,998	(192,998)	-	-
Total revenues and support	4,686,376	43,322	4,729,698	4,814,866
Expenses				
Program services				
Instructional and student activities	4,032,977	-	4,032,977	3,566,088
Supporting services				
General and administrative	698,738	-	698,738	693,645
Fundraising	299,962	-	299,962	113,878
Total supporting services	998,700	-	998,700	807,523
Total expenses	5,031,677	-	5,031,677	4,373,611
Change in net assets	(345,301)	43,322	(301,979)	441,255
Net assets at beginning of year	1,568,990	137,458	1,706,448	1,265,193
Net assets at end of year	$ 1,223,689	$ 180,780	$ 1,404,469	$ 1,706,448

THE WALDORF SCHOOL OF SAN DIEGO

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2023

(With Summarized Financial Information for the Year Ended June 30, 2022)

	Instructional and Student Activities	General and Administrative	Fundraising	2023 Total	2022 (Note 12)
Expenses					
Salaries	$ 2,337,120	$ 435,178	$ 64,207	$ 2,836,505	$ 2,550,122
Payroll taxes & employee benefits	501,670	93,413	13,782	608,865	547,824
	2,838,790	528,591	77,989	3,445,370	3,097,946
Professional fees	201,491	37,518	39,001	278,010	111,624
Educational services and materials	270,143	-	-	270,143	228,556
Facilities expenses	168,900	31,450	4,640	204,990	276,338
Cost of goods sold	-	-	165,010	165,010	109,684
Interest and bank service charges	114,856	21,386	3,156	139,398	151,339
Depreciation	110,052	20,492	3,023	133,567	141,341
Utilities	87,001	16,200	2,390	105,591	84,847
Equipment rental and maintenance	54,862	10,215	1,507	66,584	20,060
Insurance	42,994	8,006	1,181	52,181	43,741
Advertising & promotion	38,766	-	-	38,766	18,173
Bad debt expense	37,718	-	-	37,718	19,292
Membership dues	30,454	-	-	30,454	27,678
Office expense	18,904	3,520	519	22,943	23,002
Property taxes	18,046	3,360	496	21,902	19,990
Donated goods and services	-	18,000	1,050	19,050	-
Total expenses	$ 4,032,977	$ 698,738	$ 299,962	$ 5,031,677	$ 4,373,611

THE WALDORF SCHOOL OF SAN DIEGO
STATEMENT OF CASH FLOWS
Year Ended June 30, 2023
(With Summarized Financial Information for the Year Ended June 30, 2022)

	2023	2022 (Note 12)
Cash flows from operating activities		
Change in net assets	$ (301,979)	$ 441,255
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	133,567	141,341
Change in operating assets and liabilities:		
Accounts receivable	104,937	(131,968)
Inventory	11,783	15,984
Prepaid expenses	(21,848)	(17,705)
Accounts payable and accrued expenses	231,942	(32,605)
Refundable advance	-	(696,256)
Tuition deposits and advance payments	(12,798)	(131,138)
Net cash provided by (used in) operating activities	145,604	(411,092)
Cash flows from investing activities		
Purchase of fixed assets	-	(2,061)
Net cash used in investing activities	-	(2,061)
Cash flows from financing activities		
Payments on long term debt	(146,377)	(163,566)
Net cash used in financing activities	(146,377)	(163,566)
Change in cash and cash equivalents	(773)	(576,719)
Beginning of year	496,386	1,073,105
End of year	$ 495,613	$ 496,386
Cash and cash equivalents consist of		
Cash and cash equivalents	$ 295,613	$ 296,386
Restricted cash and cash equivalents	200,000	200,000
	$ 495,613	$ 496,386
Supplemental cash flow information		
Cash paid for interest	$ 126,983	$ 134,768

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, 2023, $18,000 of services were recorded.

Contributions in-kind are recorded based on approximate fair market value. During the year ended June 30, 2023, 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 receivable 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 $25,400 is needed for the year ended June 30, 2023.

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 occurs. 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 $133,567 for the year ended June 30, 2023.

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.

Leases – Under ASC 842, the School determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the balance sheet. ROU assets represent the right to control the use of an identified asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date based on the present value of the future minimum lease payments over the lease term. Operating lease expense is recognized on a straight-line basis over the lease term. The School does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

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 February 2016, the FASB issued ASU No. 2016-02, Lease (Topic 842) that requires a lessee to recognize on statement of financial position, a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, regardless of classification of a lease as an operating or finance lease. The School adopted ASU 2016-02 on July 1, 2022, using the modified retrospective approach for operating leases with a term greater than 12 months. The School also elected the package of practice expedients permitted under the new standard that allowed the School to carry forward historical lease classification for existing leases on the adoption date, and allowed the School not to assess whether an existing contract contains a lease or initial direct costs. As permitted by the guidance, prior comparative periods will not be adjusted under this method. Consistent with the School's lease capitalization policy, the new lease standard was not adopted for existing leases with terms beyond 12 months and monthly payments under $1,000 as they do not have a material impact on the financial statements.

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 November 1, 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	$ 295,613
Accounts receivable	35,696
Total financial assets available within one year	331,309
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	180,780
Total amounts unavailable for general expenditures within one year	180,780
Total financial assets available to management for general expenditure within one year	$ 150,529

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

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.

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, 2023:

Tuition receivable	$ 61,096
Less allowance for doubtful accounts	(25,400)
Net tuition receivable	$ 35,696

Note 5. Property and Equipment

Property and equipment are comprised of the following at June 30, 2023:

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	(1,863,782)
	$ 4,682,170

Note 6. Long Term Debt

In December 2016, the School entered into a 3.9% fixed rate term loan with a 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.

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:

Years Ending June 30		
2024	$	151,932
2025		158,388
2026		164,766
2027		2,715,223
Long term debt	$	3,190,309

The School is subject to compliance with certain debt covenants, including restrictions on additional indebtedness. At June 30, 2023, 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, 2023 are available for the following purposes or periods:

School programs	$	140,737
Field trips and classroom funds		40,043
	$	180,780

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, 2023:

Field trips and classroom funds	$	151,718
School programs		41,280
	$	192,998

Note 9. 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 their 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 $59,605 were made by the School during the year ended June 30, 2023.

Note 10. 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.

Note 11. Related Party Transactions

During the year ended June 30, 2023, the School purchased products from two different employees' and one employee's spouse's businesses. The total paid to these businesses during the year was $8,245.

In addition, four employees were also members of the board during the year.

Note 12. June 30, 2022 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, 2022, 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.

Note 13. Financial Strategy

Considering cash infusions into the operations of the School and the operating expenses for the School, the net asset loss during 2023 was $301,979. The School is continuing efforts begun in prior years to meet the financial demands of its mission through increasing student count post COVID, a variety of fundraising approaches including securing and maintaining relationships with major donors, staging fundraising events, promoting annual giving and engaging foundations and philanthropies in grant support. An effort is in place to reduce costs to more closely align with average tuition income. Additional approaches to fundraising are under development. Major unrestricted or purpose-driven gifts received every few years and deployed over time are manifested in financial statements as years having high asset peaks followed by years of net loss, as expected. The net income from tuition and fundraising events is improving steadily. The number of grants submitted and received is increasing. Income from systematic appeals is increasing. Additional marketing and fundraising approaches to begin in 2023-2024 are expected to result in further improvement.