IDYLLWILD ARTS FOUNDATION

FINANCIAL REPORT

JUNE 30, 2022

IDYLLWILD ARTS FOUNDATION
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SingerLewak
Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Idyllwild Arts Foundation

Opinion

We have audited the financial statements of Idyllwild Arts Foundation (the "School"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 GAAS 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 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 GAAS, 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.

Singer Lewak LLP

February 28, 2023

IDYLLWILD ARTS FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

ASSETS

	2022	2021
Current assets		
Cash and cash equivalents	$ 4,538,923	$ 9,015,940
Tuition receivable	440,125	46,538
Contributions receivable	3,223,000	1,312,000
Inventory	222,085	201,471
Prepaid expenses and other receivables	370,214	114,108
Total current assets	8,794,347	10,690,057
Noncurrent assets		
Contributions receivable	5,365,000	2,000
Property and equipment, net	22,226,891	22,036,805
Deposits and other assets	102,346	24,508
Investments	7,106,747	8,398,927
Total noncurrent assets	34,800,984	30,462,240
Total assets	**$ 43,595,331**	**$ 41,152,297**

LIABILITIES AND NET ASSETS

	2022	2021
Current liabilities		
Accounts payable	$ 616,180	$ 750,591
Accrued expenses	1,155,307	1,172,680
Deferred revenue	7,391,983	6,020,894
Line of credit	1,129,902	157,191
Capital lease obligations	41,294	46,971
Notes payable	59,595	59,595
Total current liabilities	10,394,261	8,207,922
Noncurrent liabilities		
Capital lease obligations	45,818	87,112
Notes payable	1,135,880	3,162,178
Total noncurrent liabilities	1,181,698	3,249,290
Total liabilities	11,575,959	11,457,212
Net assets		
Without donor restrictions	15,593,922	18,973,463
With donor restrictions	16,425,450	10,721,622
Total net assets	32,019,372	29,695,085
Total liabilities and net assets	**$ 43,595,331**	**$ 41,152,297**

See notes to financial statements.

IDYLLWILD ARTS FOUNDATION

STATEMENT OF ACTIVITIES

June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support			
Academy tuition and fees	$ 19,266,117	$ -	$ 19,266,117
Summer program fees	913,283	-	913,283
Less financial aid and scholarships	(8,068,308)	-	(8,068,308)
Net academy tuition and summer program fees	12,111,092	-	12,111,092
Gifts, grants, and contributions	1,276,567	8,495,214	9,771,781
Other earned revenue	360,478	-	360,478
Interest income	4,738	-	4,738
Total operating revenues and support	13,752,875	8,495,214	22,248,089
Net assets released from restrictions			
Satisfaction of restrictions	1,843,638	(1,843,638)	-
Total revenues and support	15,596,513	6,651,576	22,248,089
Operating expenses			
Program services	17,090,236	-	17,090,236
General and administrative	3,019,523	-	3,019,523
Fundraising	2,034,585	-	2,034,585
Total operating expenses	22,144,344	-	22,144,344
Change in net assets from operating activities	(6,547,831)	6,651,576	103,745
Non-operating activities			
Net investment loss	-	(947,748)	(947,748)
Gain on debt extinguishment – PPP loan	1,968,397	-	1,968,397
Gain on disposal of assets	22,000	-	22,000
Employee retention credit	1,059,333	-	1,059,333
Other income	118,560	-	118,560
Total non-operating activities	3,168,290	(947,748)	2,220,542
Change in net assets	(3,379,541)	5,703,828	2,324,287
Net assets, beginning of year	18,973,463	10,721,622	29,695,085
Net assets, end of year	**$ 15,593,922**	**$ 16,425,450**	**$ 32,019,372**

See notes to financial statements.

IDYLLWILD ARTS FOUNDATION
STATEMENT OF ACTIVITIES
June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support			
Academy tuition and fees	$ 19,662,883	$ -	$ 19,662,883
Summer program fees	485,892	-	485,892
Less financial aid and scholarships	(7,213,238)	-	(7,213,238)
Net academy tuition and summer program fees	12,935,537	-	12,935,537
Gifts, grants, and contributions	1,360,749	261,093	1,621,842
Other earned revenue	162,273	-	162,273
Interest income	51,234	-	51,234
Total operating revenues and support	14,509,793	261,093	14,770,886
Net assets released from restrictions			
Satisfaction of restrictions	2,221,443	(2,221,443)	-
Total revenues and support	16,731,236	(1,960,350)	14,770,886
Operating expenses			
Program services	13,445,669	-	13,445,669
General and administrative	2,873,845	-	2,873,845
Fundraising	1,908,710	-	1,908,710
Total operating expenses	18,228,224	-	18,228,224
Change in net assets from operating activities	(1,496,988)	(1,960,350)	(3,457,338)
Non-operating activities			
Net investment return	-	1,730,274	1,730,274
Gain on debt extinguishment – PPP loan	2,383,698		2,383,698
Net loss on disposal of assets	(17,241)	-	(17,241)
Employee retention credit	927,245		927,245
Other income	109,956	-	109,956
Total non-operating activities	3,403,658	1,730,274	5,133,932
Change in net assets	1,906,670	(230,076)	1,676,594
Net assets, beginning of year	17,066,793	10,951,698	28,018,491
Net assets, end of year	**$ 18,973,463**	**$ 10,721,622**	**$ 29,695,085**

See notes to financial statements.

IDYLLWILD ARTS FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

	Program Services				Supporting Services			
	Academy	Summer	Auxiliary	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
Personnel cost	$ 7,792,204	$ 634,732	$ 186,987	$ 8,613,923	$ 1,341,540	$ 827,415	$ 2,168,955	$ 10,782,878
Professional fees	-	-	-	-	461,540	-	461,540	461,540
Other fee for service	1,821,524	397,272	13,480	2,232,276	307,524	619,075	926,599	3,158,875
Advertising and promotion	1,200	19,859	-	21,059	-	263,104	263,104	284,163
Information technology	154,481	-	-	154,481	158,210	2,170	160,380	314,861
Occupancy	46,228	31,542	-	77,770	20,916	1,976	22,892	100,662
Travel	132,446	15,729	72	148,247	20,348	7,979	28,327	176,574
Interest	-	-	-	-	103,567	-	103,567	103,567
Insurance	972,028	227,695	9,444	1,209,167	134,093	8,968	143,061	1,352,228
Other administrative expense	236,755	22,924	207,667	467,346	71,768	256,995	328,763	796,109
Dining hall student meals	35,540	32,631	-	68,171	-	764	764	68,935
Program services	454,094	36,604	-	490,698	-	19,389	19,389	510,087
Depreciation and amortization	829,274	194,256	8,057	1,031,587	114,400	7,650	122,050	1,153,637
Facilities management	2,070,407	484,988	20,116	2,575,511	285,617	19,100	304,717	2,880,228
Total expenses by function	**$ 14,546,181**	**$ 2,098,232**	**$ 445,823**	**$ 17,090,236**	**$ 3,019,523**	**$ 2,034,585**	**$ 5,054,108**	**$ 22,144,344**

See notes to financial statements.

IDYLLWILD ARTS FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	Program Services				Supporting Services			
	Academy	Summer	Auxiliary	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
Personnel cost	$ 6,577,836	$ 839,692	$ 142,034	$ 7,559,562	$ 1,332,376	$ 885,752	$ 2,218,128	$ 9,777,690
Professional fees	-	-	-	-	358,497	-	358,497	358,497
Other fee for service	1,260,373	149,436	4,842	1,414,651	127,416	303,525	430,941	1,845,592
Advertising and promotion	(81)	61,754	-	61,673	-	154,261	154,261	215,934
Information technology	197,288	-	-	197,288	129,701	-	129,701	326,989
Occupancy	17,340	5,992	-	23,332	9,066	-	9,066	32,398
Travel	49,597	17,282	73	66,952	7,038	900	7,938	74,890
Interest	-	-	-	-	95,796	-	95,796	95,796
Insurance	713,338	92,046	19,491	824,875	176,307	117,097	293,404	1,118,279
Other administrative expense	128,701	25,682	87,990	242,373	113,826	99,271	213,097	455,470
Dining hall student meals	15,677	23,428	-	39,105	-	-	-	39,105
Program services	548,135	11,589	5,364	565,088	-	-	-	565,088
Depreciation and amortization	717,890	92,634	19,615	830,139	177,432	117,844	295,276	1,125,415
Facilities management	1,401,495	180,843	38,293	1,620,631	346,390	230,060	576,450	2,197,081
Total expenses by function	**$ 11,627,589**	**$ 1,500,378**	**$ 317,702**	**$ 13,445,669**	**$ 2,873,845**	**$ 1,908,710**	**$ 4,782,555**	**$ 18,228,224**

See notes to financial statements.

IDYLLWILD ARTS FOUNDATION
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	$ 2,324,287	$ 1,676,594
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation and amortization	1,153,637	1,125,415
Net realized and unrealized (gains) losses on investments	1,050,149	(1,624,675)
Gain on debt extinguishment – PPP loan	(1,961,732)	(2,372,000)
Loss (gain) on sale of property and equipment	(22,000)	17,241
Change in operating assets and liabilities:		
Tuition receivable	(393,587)	147,908
Contributions receivable	(7,274,000)	2,503,190
Inventory	(20,614)	14,838
Prepaid expenses and other receivables	(256,106)	534,814
Deposits and other assets	(77,838)	5,083
Accounts payable	(134,411)	413,231
Accrued expenses	(17,373)	201,589
Deferred revenue	1,371,089	(791,126)
Net cash from operating activities	(4,258,499)	1,852,102
Cash flows from investing activities		
Proceeds from sales of investments	323,777	323,777
Purchases of investments	(188,922)	(245,877)
Reinvested interest and dividends	102,401	105,599
Contributions permanently restricted for endowment	4,775	4,465
Purchases of property and equipment	(1,343,723)	(962,536)
Proceeds from sales of property and equipment	22,000	92,759
Net cash from investing activities	(1,079,692)	(681,813)
Cash flows from financing activities		
Borrowing on line of credit	972,711	-
Proceeds on notes payable	-	1,961,732
Principal repayments on notes payable	(64,566)	(56,770)
Principal repayments of capital lease obligations	(46,971)	(53,141)
Net cash from financing activities	861,174	1,851,821
Net change in cash and cash equivalents	(4,477,017)	3,022,110
Cash and cash equivalents at beginning of year	9,015,940	5,993,830
Cash and cash equivalents at end of year	**$ 4,538,923**	**$ 9,015,940**
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	**$ 96,902**	**$ 73,571**

See notes to financial statements.

NOTE 1 – NATURE OF ORGANIZATION

Idyllwild Arts Foundation (the "School") is a nonprofit tax-exempt organization that provides its community members with an independent boarding high school, as well as auxiliary programs for students ranging in age from 5 to 99+, all focused in a variety of art disciplines.

Idyllwild Arts Foundation is the intentionally founded respite for and collective of creators envisioning the purpose of the person of the artist and the artist's role and responsibility to society. Idyllwild Arts believes that art is the greatest teacher of humanity. And that the practice of creativity, no matter the ultimate expression, hones each individual's desire and ability to craft global change.

The students of Idyllwild Arts are taught to be more attuned and aware humans and more accomplished creators, individuals who differentiate themselves in their fields and through their work. They approach life with fervent originality and focused understanding that art itself is not the sole outcome of a creative life, but rather the means to constant and necessary growth—personally, professionally and globally.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Presentation</u>
The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

<u>Reclassifications</u>
Certain reclassifications have been made to the prior year's balances in order to conform to the current year's presentation. Such reclassifications or title changes had no effect on the change in net assets as previously reported.

<u>Use of Estimates</u>
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

<u>Cash and Cash Equivalents</u>
For purposes of the statement of cash flows, the School considers all short-term, highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory consists of schoolbooks and supplies, Native American artifacts held for sale, and cafeteria food and supplies stated at the lower of cost or net realizable value, using the first-in, first-out method. Management has determined no reserve is required as of June 30, 2022 and 2021.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at fair value, based on quoted market prices, in the statement of financial position. Changes in unrealized gains and losses resulting from changes in fair value, less external investment expenses, are reflected in the statement of activities.

Investments received through gifts are recorded at estimated fair value at the date of donation.

Dividend and interest income are accrued when earned. Dividend and interest income earned from investments in all net asset classifications is allocated based on the individual investment asset as a percentage of total investment assets. Income from donor-restricted investments is recorded as without restriction, except where the instructions of the donor specify otherwise.

Property and Equipment

Purchased property and equipment are stated at cost and donated property and equipment are recorded at their estimated fair market value at the date of donation. Depreciation and amortization are provided using the straight-line basis over estimated useful lives as follows:

Building and building improvements	5 – 40 years
Land improvements	5 – 40 years
Furniture and equipment	3 – 20 years
Vehicles	5 years
Other assets	5 – 15 years
Leased equipment	Lesser of useful life or term of lease

Construction in progress is stated at cost and is not depreciated until such time as the relevant assets are completed and ready for operational use. Expenditures for replacements and betterments are capitalized while repairs and maintenance are charged to expense as incurred.

Impairment of Long-lived Assets

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. Measurement of an impairment loss is based on the fair value of the asset. The School did not recognize any impairment charges during the years ended June 30, 2022 and 2021.

PPP Loan

The School accounts for forgivable debt (including PPP loans) in accordance with the debt model in U.S. GAAP. The outstanding balance is presented as debt until the Company is legally released from the obligation and, at the time of legal release, will report the forgiveness as debt extinguishment.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets
Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the School.

- Net Assets with Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Donor-restricted contributions received and expended in the same reporting period are recorded as net assets without donor restrictions.

Revenue Recognition
The School recognizes tuition, room and board, and fee revenues based on the type of revenue and service provided in exchange. The School applies the following five-steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue when (or as) the School satisfies a performance obligation.

At contract inception, once the contract is determined to be within the scope of ASC 606, the School identifies the performance obligations in the contract by assessing whether the goods or services promised within each contract are distinct. The School then recognizes revenue for the amount of the transaction price that is allocated to the respective performance obligation when or as the performance obligation is satisfied.

The School recognizes revenue from the following contractual fee structure:

- Tuition Deposits: The School earns a tuition deposit from students when it reserves a place for the student in its classes and dormitories upon receiving notice of the student's intent to enroll in the School through acceptance of the tuition agreement and payment of the tuition deposit. The School recognizes tuition deposit revenue when it is paid by the student.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

- Tuition and Room & Board Revenue: The School earns tuition and room and board revenue from the students as it provides education instruction and room and board through the program period. The School recognizes tuition and room and board revenue when it becomes nonrefundable to the student under the tuition agreement terms. The School provides tuition remission and financial aid to eligible students. The School recognizes these discounts as reductions to revenue.

- Fee Revenue: The School endeavors to provide students an environment conducive to learning and has set up health and technology infrastructure as part of those efforts. The School earns fees from students for the provision of these amenities. Likewise, the School provides materials and incurs costs for hands-on instruction. The School is reimbursed by the student for these materials and costs through a lab fee. The fee is earned when the School provides the materials for hands-on instruction.

- Additional Instruction Revenue: The School earns revenue by providing additional instruction to individual students outside of its normal curriculum. This revenue is earned when the additional instruction is provided by the School.

- Revenue from the Sale of Goods: The School operates a bookstore, gallery, and vending machines on its campus. The School earns revenue from the sale of goods through these venues.

- Revenues from Grants, Donations, Endowments: The School receives contributions in the form of grants, donations, and endowments. Some agreements that fall under this category are conditional upon performance by the School, such as use of the contribution for a specific purpose, but do not involve reciprocal services. In these cases, the School recognizes revenue when the condition imposed under the agreement is met.

The timing of the School's revenue recognition may differ from the timing of payment by its students. A receivable is recorded when revenue is recognized prior to payment and the School has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the School records deferred revenue until the performance obligations are satisfied.

The School has elected the practical expedient that permits an entity not to recognize a significant financing component if the time between the transfer of a good or service and payment is one year or less. The School does not enter into contracts in which the period between payment by the customer and the transfer of promised goods or services to the customer is greater than 12 months.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)
During the years ended June 30, 2022 and 2021, the School recognized revenue in the following amounts:

	2022	2021
Academy tuition	$ 8,742,019	$ 9,216,786
Academy room and board	9,233,238	9,026,474
Other fees	980,340	1,133,786
Summer tuition and fees	610,931	485,892
Private lessons	310,520	285,837
Summer room and board	302,352	-
Academy Scholarships and discounts	(7,444,808)	(6,752,087)
Academy tuition remission	(300,000)	(259,000)
Summer scholarships and discounts	(310,745)	(199,421)
Summer tuition remission	(12,755)	(2,730)
Total	**$ 12,111,092**	**$ 12,935,537**

The School excludes revenue sales tax and other government-assessed and imposed taxes on revenue-generating activities that are invoiced to customers.

Functional Allocation of Expenses
The expenses of providing various programs and other activities have been presented on a functional basis. Program expenses include direct costs associated with programs and facilities management costs which are used by all programs. In addition, certain costs have been allocated among the programs and supporting services benefited. The expenses of providing various programs and other activities have been presented on a functional basis. Directly identifiable expenses are charged to programs, general and administrative expense and fundraising services. Expenses related to more than one function are allocated based on the proportion of total time spent by the staff of the School on the activity.

Donated Materials and Services
Donated services are recognized in the financial statements if those services require specialized skills, are provided by individuals with those skills, and would have been purchased had they not been provided by contribution. Significant donated materials are recorded as contributions at their estimated fair values at the time of donation.

Income Taxes
The School is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code. Management has analyzed the tax positions taken by the School, and has concluded that, as of June 30, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The School is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

CARES Act:
The School received the Employee Retention Credit (ERC) under the CARES Act. The refundable tax credit is 50% of up to $10,000 in wages paid by an eligible employer whose business has been financially impacted by COVID-19. For the years ended June 30, 2022 and 2021, the School recognized revenues of $1,059,333 and $927,245, respectively, from the ERC.

Estimated Fair Value of Financial Instruments
In accordance with U.S. GAAP, in determining fair value, the School uses the market or income approach. Based on this approach, the School utilizes certain assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The School utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the School is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and the reliability of the information used to determine fair values.

A three-tier value hierarchy categorizes the inputs as follows:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For the years ended June 30, 2022 and 2021, the application of valuation techniques applied to similar assets and liabilities has been consistent.

The basis of fair value for equities and fixed income funds differs depending on the investment. The following is a description of the valuation methodologies used for such instruments measured at fair value:

- *Equity funds* – The basis of fair value for equities is the market value based on quoted market prices; they are classified within Level 1 of the valuation hierarchy.

- *Fixed Income funds* – The fair value of fixed income funds is the market value based on quoted market prices; they are classified within Level 1 of the fair value hierarchy.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk
Certain financial instruments held by the School potentially subject the School to concentrations of credit risk. These financial instruments include cash and cash equivalents, tuition and contribution receivables, and investments.

The School maintains its cash and cash equivalents in several financial institutions that, from time to time, exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC), which is insured up to $250,000. As of June 30, 2022 and 2021, the School had deposits in excess of federally insured amounts of $3,862,987 and $7,335,514, respectively. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

With respect to contributions and receivables, the School routinely assesses the financial strength of its creditors and students and believes that the related credit risk exposure is limited.

Investment securities, in general, are exposed to various risks—such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements. The School attempts to limit its credit risk associated with investments by utilizing the expertise and processes of an outside investment consultant.

Recently Issued Accounting Pronouncements
In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use (ROU) asset for all leases. For finance leases, the lessee would recognize interest expense and amortization of the ROU asset and, for operating leases, the lessee would recognize a straight-line total lease expense. ASU 2016-02, as deferred, is effective fiscal years beginning after December 15, 2021 and early adoption is permitted. This Update should be applied through a modified retrospective transition approach for leases existing at, or entered into after evaluating, the beginning of the earliest comparative period presented in the financial statements. Management believes the adoption of this guidance will not have a material effect on the School’s financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)
In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. Management does not believe the adoption of this guidance will have a material effect on the School's financial statements.

NOTE 3 – AVAILABLE RESOURCES AND LIQUIDITY

The disruption resulting from the COVID-19 pandemic is currently expected to be temporary, but there is considerable uncertainty around the duration.

The following table reflects the School's current financial assets as of June 30, 2022 and 2021:

	2022	2021
Cash and cash equivalents	$ 4,538,923	$ 9,015,940
Tuition receivable	440,125	46,538
Contributions receivable	3,223,000	1,312,000
Financial assets available to meet cash needs for general expenditures within the next fiscal year	**$ 7,997,048**	**$ 10,374,478**

The School considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The School also has a $1 million revolving line of credit with Citizens Business Bank that is available for use if needed to manage cash flow.

When preparing the budget each year, the School's Senior Leadership Team evaluates the financial assets, as well as expected earned revenue for the year that will be available to cover the operating expenses for the upcoming fiscal year. The main earned revenue streams come from the following sources:

- Tuition Revenue – a net tuition goal is set each year, but the final number is set once the school year begins. The original net tuition goal is estimated with a fairly high degree of certainty.

NOTE 3 – AVAILABLES RESOURCES AND LIQUIDITY (Continued)

- Summer Revenue – an estimate for summer revenue is set each year, but finalized once the summer program is over, which crosses periods into the new fiscal year.

- Endowment Draw – the annual distribution is derived from the investment policy which allows a distribution amount to be between 0% and 4.5% of the value based on a three-year rolling average. The distribution amount is left up to the CFO's discretion within the agreed upon percentage. The draw can be increased to 5% with Finance Committee approval.

- Auxiliary Revenue – sales from bookstore. This amount is fairly consistent on an annual basis and is somewhat insignificant.

- Miscellaneous Revenue – additional revenue is expected each year from various sources. This amount is fairly consistent on an annual basis and is somewhat insignificant.

In comparing the earned revenue to the budgeted expenses, management determines the fundraising goal required to achieve a balanced budget. The table below depicts the amount needed:

	2022	2021
Earned income, budgeted amount:		
Academy revenue	$ 11,084,498	$ 11,700,000
Summer revenue	1,884,273	1,144,044
Auxiliary revenue	375,000	400,000
Endowment draw	340,000	290,000
Contributed revenue	6,217,000	-
Miscellaneous revenue	1,998,084	150,000
Total earned revenue	21,898,855	13,684,044
Less budgeted expenses, less depreciation	(22,215,890)	(19,845,990)
Additional contributed funds required	**$ 317,035**	**$ 6,161,946**

The School plans on creating new and expanded earned revenue models in the coming years that will supplement the traditional forms of revenue. These different revenue streams will allow the School to bring in additional revenue throughout the entire year, provide educational programs to individuals of all ages, as well as allow the School to focus on preparing middle school and early high school students for becoming academy students and increasing our revenue streams across the board and throughout the entire year.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

At June 30, 2022 and 2021, the School had the following contributions receivable:

	2022	2021
Due in one year	$ 3,223,000	$ 1,312,000
Due in one to five years	5,365,000	2,000
Total contributions receivable	**$ 8,588,000**	**$ 1,314,000**

NOTE 5 – PROPERTY AND EQUIPMENT, NET

As of June 30, 2022 and 2021, the School's property and equipment consisted of the following:

	2022	2021
Buildings and improvements	$ 28,115,796	$ 27,656,707
Land	5,612,324	5,612,324
Furniture and equipment	3,395,179	3,417,744
Construction in progress	2,571,753	1,715,156
Land improvements	1,397,938	1,397,938
Vehicles	960,555	939,220
Other assets	635,214	635,214
Capital lease equipment	209,371	230,706
	42,898,130	41,605,009
Less accumulated depreciation	(20,671,239)	(19,568,204)
Total property and equipment	**$ 22,226,891**	**$ 22,036,805**

Construction in progress at June 30, 2022 and 2021, respectively, represents planning and construction costs on the film lot site project and the dorm room renovation projects.

NOTE 6 – LINES OF CREDIT

The School maintains separate revolving lines of credit for capital projects with a bank that allows the School to borrow up to a maximum of $3,250,000, as of June 30, 2022 and 2021. Two of the lines mature on March 5, 2024, and the other on March 5, 2028. All lines are unsecured. Interest on all lines is payable at a variable rate determined by the bank's reference rate, Prime Rate plus 0.25% (Prime rate was 4.75% and 3.5% as of June 30, 2022 and 2021, respectively). The School had $2,120,098 and $3,092,809 available on the lines as of June 30, 2022 and 2021, respectively.

NOTE 6 – LINES OF CREDIT

The agreement contains certain financial and reporting covenants that the School is required to maintain at all times. As of June 30, 2022, the School was not in compliance with certain financial and reporting covenants related to the lines of credit and obtained a waiver.

NOTE 7 – NOTES PAYABLE

On April 20, 2020, the School signed a promissory note of $2,372,000 for a PPP loan bearing interest at 1.0% in accordance with the CARES Act. The School used the PPP loan proceeds for eligible costs and on June 10, 2021 received full forgiveness of the outstanding PPP loan balance of $2,372,000 and accrued interest expense of $26,839.

On March 16, 2021, the School signed a promissory note of $1,961,732 for a PPP loan bearing interest at 1.0% in accordance with the CARES Act. The School used the PPP loan proceeds for eligible costs and on August 3, 2021, the School received full forgiveness of the outstanding PPP loan balance of $1,961,732 and accrued interest expense of $6,665.

As of June 30, 2022 and 2021, the School had notes payable outstanding as follows:

	2022	2021
PPP loan – unsecured with an interest rate of 1.0%. Includes accrued interest of $6,665. Forgiven in full in August 2021.	$ -	$ 1,966,789
Note payable – secured by real property with an interest rate of 4.0%. Payable in monthly principal and interest installments of $6,961. Collateralized by a building with a carrying value of $1,316,468. Debt matures February 2035.	824,529	873,538
Note payable – secured by real property with an interest rate of 3.375% initially, after 84th payment converts to 3.5%. Payable in monthly principal and interest installments of $1,934. Collateralized by a building with a carrying value of $356,127. Debt matures June 2045.	370,946	381,446
	1,195,475	3,221,773
Less current portion	(59,595)	(59,595)
Notes payable, noncurrent	**$ 1,135,880**	**$ 3,162,178**

NOTE 7 – NOTES PAYABLE (Continued)

The following is a schedule of the future payments required under the notes payable obligations after June 30, 2022:

Year Ending June 30,	
2023	$ 59,595
2024	64,439
2025	67,035
2026	69,737
2027	72,548
Thereafter	862,121
Total	**$ 1,195,475**

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2022 and 2021, net assets with donor restrictions are restricted for the following purposes or periods:

	2022	2021
Subject to expenditure for specified purpose:		
Academy scholarships	$ 1,756,000	$ 361,000
Academy programs	592,903	142,903
Summer scholarships	1,404,563	477,998
Summer programs	250,145	245,145
Capital campaign	71,752	71,752
Special projects	5,243,340	1,023,897
	9,318,703	2,322,695
Subject to the School's spending policy and appropriation:		
Endowment funds restricted in perpetuity		
Academy scholarships	1,425,052	1,420,277
Academy programs	771,175	768,675
Summer scholarships and program	1,218,400	1,218,200
Undesignated endowments	1,999,823	1,999,823
Unappropriated endowment earnings	1,692,297	2,991,952
	7,106,747	8,398,927
Total net assets with donor restrictions	**$ 16,425,450**	**$ 10,721,622**

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donors are as follows for the years ended June 30, 2022 and 2021:

	2022	2021
Satisfaction of purpose restrictions		
Academy scholarships	$ 80,801	$ 475,450
Academy programs	5,200	76,170
Summer scholarships	310,745	231,162
Summer programs	227,028	610,704
Operating expenses	867,957	529,929
	1,491,731	1,923,415
Endowment earnings appropriated	351,907	298,028
Total net asset releases	**$ 1,843,638**	**$ 2,221,443**

NOTE 10 – ENDOWMENT

As of June 30, 2022 and 2021, the School had the following endowment net asset composition:

	2022	2021
Donor-restricted endowment fund		
Original donor-restricted gift	$ 5,414,450	$ 5,406,975
Accumulated investment gains	1,692,297	2,991,952
Balance, end of year	**$ 7,106,747**	**$ 8,398,927**

Changes in endowment net assets with donor restrictions for the years ended June 30, 2022 and 2021 are as follows:

	2022	2021
Balance, beginning of year	$ 8,398,927	$ 6,962,216
Net investment return (loss)	(947,748)	1,730,274
Endowment contributions	7,475	4,465
Appropriation of endowment assets pursuant to spending rate policy	(351,907)	(298,028)
Balance, end of year	**$ 7,106,747**	**$ 8,398,927**

NOTE 10 – ENDOWMENT (Continued)

Interpretation of Relevant Law

The School has interpreted the California enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. At June 30, 2022 and 2021, there were no such donor stipulations. As a result of this interpretation, the School retains in perpetuity: (a) the original value of initial and subsequent gift amounts, and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the School in a manner consistent with the standard of prudence prescribed by UPMIFA.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The School has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2022, one fund with an original gift value of $5,000; a fair value of $3,191; and a deficiency of $1,809, was reported in net assets with donor restrictions. The decrease in value is primarily due to unrealized losses during the year ended as a result of temporary market fluctuations. There were no funds with deficiencies as of June 30, 2021.

Return Objectives and Risk Parameters

To satisfy its long-term rate-of-return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The School targets a diversified asset allocation that places a greater emphasis on equity-based and mutual fund investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The School has a policy of appropriating for distribution each year 4.5%, increased to 5.0% with board approval, of its endowment fund’s average fair value over the prior twelve quarters through the preceding fiscal year in which the distribution is planned. In establishing this policy, the School has considered the long-term expected return on its endowment. Accordingly, over the long term, the School expects the current spending policy to allow its endowment to grow at an average of 5.3% annually. The long-term return on the School’s endowment has been expected to be 5.0%.

This is consistent with the School’s objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts.

NOTE 10 – ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy
The School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the School and the donor-restricted endowment funds
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the School
7. The investment policies of the School

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Litigation and Claims
The School is, from time to time, involved in claims and assessments arising out of matters occurring in its normal business operations. The School has insurance coverage to provide protection against certain contingencies. Management believes that adequate provision has been made for potential liabilities resulting from the outcome of litigation and other claims.

Operating Lease
The School leases copiers under a noncancelable operating lease that expires in December 2025. Total rental expense under these lease agreements for the years ended June 30, 2022 and 2021 was $63,423 and $86,361, respectively.

Future minimum lease payments as of June 30, 2022 are as follows:

Year Ending June 30,	
2023	$ 63,423
2024	63,423
2025	63,423
2026	26,426
Total	**$ 216,695**

NOTE 12 – RETIREMENT PLAN

The School has a defined-contribution 403(b) retirement plan whereby contributions are applied to individual annuities. Under the terms of the plan, the School matches an amount up to a maximum of 4% of salary contributions by the employee. Vesting is immediate. The total retirement plan expense was $230,596 and $151,282 for the years ended June 30, 2022 and 2021, respectively.

NOTE 13 – SUBSEQUENT EVENTS

Management evaluated all activity through February 28, 2023, the date the financial statements were available to be issued.