

IDYLLWILD ARTS FOUNDATION
FINANCIAL REPORT
JUNE 30, 2021

IDYLLWILD ARTS FOUNDATION
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Idyllwild Arts Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Idyllwild Arts Foundation (the "School"), which comprise the statements of financial position as of June 30, 2021 and 2020, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Idyllwild Arts Foundation as of June 30, 2021 and 2020, 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.

Emphasis of Matter

As described in Note 2 to the financial statements, effective July 1, 2020, the School adopted new accounting guidance Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

Singer Lewak LLP

October 28, 2021

IDYLLWILD ARTS FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

ASSETS

	2021	2020
Current assets		
Cash and cash equivalents	\$ 9,015,940	\$ 5,993,830
Tuition receivable	46,538	194,446
Contributions receivable	1,312,000	2,522,190
Inventory	201,471	216,309
Prepaid expenses and other receivables	114,108	648,922
Total current assets	10,690,057	9,575,697
Noncurrent assets		
Investments	8,398,927	6,962,216
Contributions receivable	2,000	1,295,000
Property and equipment, net	22,036,805	22,309,684
Deposits and other assets	24,508	29,591
Total noncurrent assets	30,462,240	30,596,491
Total assets	\$ 41,152,297	\$ 40,172,188

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 750,591	\$ 337,360
Accrued expenses	1,172,680	971,091
Deferred revenue	6,020,894	6,812,020
Line of credit	157,191	157,191
Capital lease obligations	46,971	53,562
Notes payable	59,595	57,322
Total current liabilities	8,207,922	8,388,546
Noncurrent liabilities		
Capital lease obligations	87,112	133,662
Notes payable	3,162,178	3,631,489
Total noncurrent liabilities	3,249,290	3,765,151
Total liabilities	11,457,212	12,153,697
Net assets		
Without donor restrictions	17,748,815	17,066,793
With donor restrictions	11,946,270	10,951,698
Total net assets	29,695,085	28,018,491
Total liabilities and net assets	\$ 41,152,297	\$ 40,172,188

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	<u>(7,213,238)</u>	<u>-</u>	<u>(7,213,238)</u>
Net academy tuition and summer program fees	12,935,537	-	12,935,537
Gifts, grants, and contributions	136,101	1,485,741	1,621,842
Other earned revenue	162,273	-	162,273
Interest income	<u>51,234</u>	<u>-</u>	<u>51,234</u>
Total operating revenues and support	<u>13,285,145</u>	<u>1,485,741</u>	<u>14,770,886</u>
Net assets released from restrictions			
Satisfaction of restrictions	<u>2,221,443</u>	<u>(2,221,443)</u>	<u>-</u>
Total revenues and support	<u>15,506,588</u>	<u>(735,702)</u>	<u>14,770,886</u>
Operating expenses			
Program services	13,445,669	-	13,445,669
General and administrative	2,873,845	-	2,873,845
Fundraising	<u>1,908,710</u>	<u>-</u>	<u>1,908,710</u>
Total operating expenses	<u>18,228,224</u>	<u>-</u>	<u>18,228,224</u>
Change in net assets from operating activities	<u>(2,721,636)</u>	<u>(735,702)</u>	<u>(3,457,338)</u>
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	<u>109,956</u>	<u>-</u>	<u>109,956</u>
Total non-operating activities	<u>3,403,658</u>	<u>1,730,274</u>	<u>5,133,932</u>
Change in net assets	682,022	994,572	1,676,594
Net assets, beginning of year	<u>17,066,793</u>	<u>10,951,698</u>	<u>28,018,491</u>
Net assets, end of year	<u>\$ 17,748,815</u>	<u>\$ 11,946,270</u>	<u>\$ 29,695,085</u>

See notes to financial statements.

IDYLLWILD ARTS FOUNDATION
STATEMENT OF ACTIVITIES
June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support			
Academy tuition and fees	\$ 21,115,290	\$ -	\$ 21,115,290
Summer program fees	3,156,100	-	3,156,100
Less financial aid and scholarships	<u>(7,468,590)</u>	<u>-</u>	<u>(7,468,590)</u>
Net academy tuition and summer program fees	16,802,800	-	16,802,800
Gifts, grants, and contributions	1,028,066	4,876,873	5,904,939
Other earned revenue	277,108	-	277,108
Interest income	<u>33,221</u>	<u>-</u>	<u>33,221</u>
Total operating revenues and support	<u>18,141,195</u>	<u>4,876,873</u>	<u>23,018,068</u>
Net assets released from restrictions			
Satisfaction of restrictions	<u>2,326,535</u>	<u>(2,326,535)</u>	<u>-</u>
Total revenues and support	<u>20,467,730</u>	<u>2,550,338</u>	<u>23,018,068</u>
Operating expenses			
Program services	16,622,638	-	16,622,638
General and administrative	3,033,463	-	3,033,463
Fundraising	<u>1,970,642</u>	<u>-</u>	<u>1,970,642</u>
Total operating expenses	<u>21,626,743</u>	<u>-</u>	<u>21,626,743</u>
Change in net assets from operating activities	<u>(1,159,013)</u>	<u>2,550,338</u>	<u>1,391,325</u>
Non-operating activities			
Net investment return	-	364,420	364,420
Net loss on disposal of assets	4,627	-	4,627
Other income	<u>67,509</u>	<u>-</u>	<u>67,509</u>
Total non-operating activities	<u>72,136</u>	<u>364,420</u>	<u>436,556</u>
Change in net assets	(1,086,877)	2,914,758	1,827,881
Net assets, beginning of year	<u>18,153,670</u>	<u>8,036,940</u>	<u>26,190,610</u>
Net assets, end of year	<u>\$ 17,066,793</u>	<u>\$ 10,951,698</u>	<u>\$ 28,018,491</u>

See notes to financial statements.

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

	Program Services				Supporting Services			Total
	Academy	Summer	Auxiliary	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
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
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020

	Program Services				Supporting Services			Total
	Academy	Summer	Auxiliary	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
Personnel cost	\$ 7,685,405	\$ 1,617,016	\$ 144,941	\$ 9,447,362	\$ 1,301,292	\$ 1,225,849	\$ 2,527,141	\$ 11,974,503
Professional fees	-	-	-	-	191,415	-	191,415	191,415
Other fee for service	1,307,098	220,443	6,347	1,533,888	346,362	213,019	559,381	2,093,269
Advertising and promotion	1,458	99,681	-	101,139	396	166,438	166,834	267,973
Information technology	7,076	-	-	7,076	134,657	-	134,657	141,733
Occupancy	53,345	253,673	-	307,018	22,976	7,650	30,626	337,644
Travel	158,290	32,506	158	190,954	26,146	26,572	52,718	243,672
Interest	-	-	-	-	37,243	-	37,243	37,243
Insurance	519,315	144,102	18,809	682,226	152,459	53,276	205,735	887,961
Other administrative expense	98,404	49,640	239,352	387,396	205,539	62,936	268,475	655,871
Dining hall student meals	33,672	391,105	-	424,777	-	-	-	424,777
Program services	672,471	115,564	858	788,893	-	-	-	788,893
Depreciation and amortization	628,971	174,530	22,780	826,281	184,652	64,526	249,178	1,075,459
Facilities management	1,465,802	406,738	53,088	1,925,628	430,326	150,376	580,702	2,506,330
Total expenses by function	\$ 12,631,307	\$ 3,504,998	\$ 486,333	\$ 16,622,638	\$ 3,033,463	\$ 1,970,642	\$ 5,004,105	\$ 21,626,743

See notes to financial statements.

IDYLLWILD ARTS FOUNDATION
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 1,676,594	\$ 1,827,881
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation and amortization	1,125,415	1,075,459
Net realized and unrealized gains on investments	(1,624,675)	(364,420)
Gain on debt extinguishment - PPP loan	(2,372,000)	-
Loss (gain) on sale of property and equipment	17,241	(4,627)
Change in operating assets and liabilities:		
Tuition receivable	147,908	(2,262)
Contributions receivable	2,503,190	(3,573,560)
Inventory	14,838	54,962
Prepaid expenses and other receivables	534,814	1,431,955
Deposits and other assets	5,083	31,140
Accounts payable	413,231	(312,639)
Accrued expenses	201,589	(49,426)
Deferred revenue	(791,126)	(4,374,567)
Net cash from operating activities	1,852,102	(4,260,104)
Cash flows from investing activities		
Proceeds from sales of investments	323,777	170,936
Purchases of investments	(245,877)	(267,860)
Reinvested interest and dividends	105,599	157,112
Contributions permanently restricted for endowment	4,465	110,750
Purchases of property and equipment	(962,536)	(2,291,379)
Proceeds from sales of property and equipment	92,759	22,443
Net cash from investing activities	(681,813)	(2,097,998)
Cash flows from financing activities		
Borrowing on line of credit	-	157,191
Proceeds on notes payable	1,961,732	3,309,500
Principal repayments on notes payable	(56,770)	(26,709)
Principal repayments of capital lease obligations	(53,141)	(85,184)
Net cash from financing activities	1,851,821	3,354,798
Net change in cash and cash equivalents	3,022,110	(3,003,304)
Cash and cash equivalents at beginning of year	5,993,830	8,997,134
Cash and cash equivalents at end of year	\$ 9,015,940	\$ 5,993,830
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 73,571	\$ 37,243
Property and equipment acquired through capital leases	\$ -	\$ 211,335

See notes to financial statements.

IDYLLWILD ARTS FOUNDATION

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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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).

Reclassifications

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.

Use of Estimates

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.

Cash and Cash Equivalents

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.

IDYLLWILD ARTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF 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, 2021 and 2020.

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, 2021 and 2020.

IDYLLWILD ARTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

IDYLLWILD ARTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Effective July 1, 2020, the School adopted Financial Accounting Standards Board (FASB), Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), using the modified retrospective method. Applying this standard to contracts that were not completed at the date of initial application was determined to have an insignificant impact on the School's revenue recognition.

Under ASC 606, 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-step: (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 adopted ASC 606 for all applicable contracts using the modified retrospective method, which would have required a cumulative-effect adjustment, if any, as of the date of adoption. The adoption of ASC 606 did not have a material impact on the School's financial statements as of the date of adoption. As a result, a cumulative-effect adjustment was not required.

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.
- 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.

IDYLLWILD ARTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

- 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.

IDYLLWILD ARTS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

During the years ended June 30, 2021 and 2020, the School recognized revenue in the following amounts:

	2021	2020
Academy tuition	\$ 9,216,786	\$ 9,808,800
Academy room and board	9,026,474	10,311,997
Other fees	1,133,786	828,290
Summer tuition and fees	485,892	1,990,858
Private lessons	285,837	166,203
Summer room and board	-	1,165,242
Academy Scholarships and discounts	(6,752,087)	(6,174,967)
Academy tuition remission	(259,000)	(270,000)
Summer scholarships and discounts	(199,421)	(881,005)
Summer tuition remission	(2,730)	(142,618)
Total	\$ 12,935,537	\$ 16,802,800

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

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, 2021 and 2020, 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.

CARES Act:

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law and includes changes to the Internal Revenue Code for refundable payroll tax credits, deferment of employer payments for social security tax, net operating loss carryback periods, alternative minimum tax credits, net interest deduction limitations, and depreciation of certain leasehold improvements. 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, 2021 and 2020, the School recognized revenues of \$927,245 and \$0, respectively, from the ERC.

IDYLLWILD ARTS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2021 and 2020, 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.

IDYLLWILD ARTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF 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, 2021 and 2020, the School had deposits in excess of federally insured amounts of \$7,335,514 and \$5,449,598, 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)* (ASU 2016-02), 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. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. In June 2020, ASU 2020-05 deferred ASU 2016-02 one year and ASU 2016-02 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.

IDYLLWILD ARTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 – CHANGE IN ACCOUNTING PRINCIPLES

During the year ended June 30, 2021, the School adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the School expects to be entitled in exchange for those goods or services. To do this, the School applies the five-step model in the FASB's guidance, which requires the School to: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue, when or as, the School satisfies the performance obligation.

The School adopted the new revenue recognition guidance electing to use a modified retrospective adoption approach applied to those contracts which were not completed as of July 1, 2020. Prior to this adoption, the School recognized revenue in accordance with the terms of the underlying agreements, which title and risk of loss had been transferred, when collectability was reasonably assured, and when pricing was fixed or determinable. This generally occurred when products were transferred to customers or when services were performed. In addition, the School elected to apply certain of the permitted practical expedients within the revenue recognition guidance and make certain accounting policy elections including those related to significant sales tax. Adoption of the revenue recognition guidance did not have a material impact on the School's reported earnings or cash flows; however, adoption did increase the amount and level of disclosures concerning the School's revenues.

IDYLLWILD ARTS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – AVAILABLES RESOURCES AND LIQUIDITY

Global Pandemic:

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

The COVID-19 global pandemic has had a negative impact on the School’s financial results. Estimated loss of revenues include refunds issued to students. Certain tuition receivables were deemed uncollectible due to the financial impact on students’ families and additional bad debts. The School also incurred additional costs related to the purchase of supplies, personal protective equipment, legal fees and additional security. As the School was closed for a period of time, expenses related to utilities and dining services were not incurred and additional staffing reductions created a cost savings of approximately \$510,000. The total projected impact of COVID-19 on the School’s financial results, net of cost savings is approximately \$590,000.

The following table reflects the School’s current financial assets as of June 30, 2021 and 2020:

	2021	2020
Cash and cash equivalents	\$ 9,015,940	\$ 5,993,830
Tuition receivable	46,538	194,446
Contributions receivable	1,312,000	2,522,190
Financial assets available to meet cash needs for general expenditures within the next fiscal year	\$ 10,374,478	\$ 8,710,466

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.
- 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.

IDYLLWILD ARTS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – AVAILABLES RESOURCES AND LIQUIDITY (Continued)

- 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:

Earned income, budgeted amount:	
Academy revenue	\$ 11,700,000
Summer revenue	1,144,044
Endowment draw	290,000
Auxiliary revenue	400,000
Miscellaneous revenue	<u>150,000</u>
 Total earned revenue	 13,684,044
 Less budgeted expenses	 <u>(19,845,990)</u>
 Additional contributed funds required	 <u>\$ 6,161,946</u>

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

IDYLLWILD ARTS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – CONTRIBUTIONS RECEIVABLE

At June 30, 2021 and 2020, the School had the following contributions receivable:

	2021	2020
Contributions receivable, due in one year	\$ 1,312,000	\$ 2,522,190
Contributions receivable, due in one to five years	2,000	1,295,000
Total contributions receivable	\$ 1,314,000	\$ 3,817,190

NOTE 6 – PREPAID EXPENSES AND OTHER RECEIVABLES

At June 30, 2021 and 2020, the School had the following prepaid expenses and other receivables:

	2021	2020
Other prepaid expenses	\$ 105,004	\$ 35,617
Prepaid summer program expenses	9,063	594,653
Employee receivables	41	205
Miscellaneous receivables	-	18,447
Total prepaid expenses and other receivables	\$ 114,108	\$ 648,922

NOTE 7 – PROPERTY AND EQUIPMENT, NET

As of June 30, 2021 and 2020, the School's property and equipment consisted of the following:

	2021	2020
Buildings and improvements	\$ 27,656,707	\$ 27,202,080
Land	5,612,324	5,612,321
Furniture and equipment	3,417,744	3,278,650
Construction in progress	1,715,156	1,507,753
Land improvements	1,397,938	1,361,048
Vehicles	939,220	947,115
Other assets	635,214	635,214
Capital lease equipment	230,706	230,706
	41,605,009	40,774,887
Less accumulated depreciation	(19,568,204)	(18,465,203)
Total property and equipment	\$ 22,036,805	\$ 22,309,684

IDYLLWILD ARTS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 7 – PROPERTY AND EQUIPMENT, NET (Continued)

Construction in progress at June 30, 2021 and 2020, respectively, represents planning and construction costs on the film lot site project.

Depreciation and amortization expense amounted to \$1,125,415 and \$1,075,459 for the years ended June 30, 2021 and 2020, respectively.

NOTE 8 – 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, 2021 and 2020. Two of the lines mature on March 5, 2022, and the other line matures on March 5, 2027. 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 3.25% as of both June 30, 2021 and 2020, respectively). The School had \$3,092,809 available on the lines as of both June 30, 2021 and 2020, respectively.

The agreement contains certain financial and reporting covenants that the School is required to maintain at all times. As of June 30, 2021, the School was in compliance with certain financial and reporting covenants related to the lines of credit.

NOTE 9 – NOTES PAYABLE

The School signed a promissory note of \$2,372,000 for a PPP loan and, in accordance with the CARES Act, the School will use the PPP loan proceeds for eligible costs that should result in full or partial forgiveness of the PPP loan. The PPP loan bears interest at 1.0% and will mature on April 20, 2022. On June 10, 2021, the School 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 and, in accordance with the CARES Act, the School will use the PPP loan proceeds for eligible costs that should result in full or partial forgiveness of the PPP loan. The PPP loan bears interest at 1.0% and will mature on March 16, 2026. Based on the uncertainty of forgiveness, the School has elected a policy to treat the funds as debt until additional information becomes available.

IDYLLWILD ARTS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – NOTES PAYABLE (Continued)

As of June 30, 2021 and 2020, the School had notes payable outstanding as follows:

	2021	2020
PPP loan – unsecured with an interest rate of 1.0%. Debt matures April 2022. Includes accrued interest of \$4,614.	\$ -	\$ 2,376,614
PPP loan – unsecured with an interest rate of 1.0%. Debt matures March 2026. Includes accrued interest of \$5,057.	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. Debt matures February 2035.	873,538	920,605
Note payable – secured by real property with an interest rate of 3.375% initially, after 84 th payment converts to 3.5%. Payable in monthly principal and interest installments of \$1,934. Debt matures June 2045.	381,446	391,592
	3,221,773	3,688,811
Less current portion	(59,595)	(57,322)
Notes payable, noncurrent	<u>\$ 3,162,178</u>	<u>\$ 3,631,489</u>

The following is a schedule of the future payments required under the notes payable obligations after June 30, 2021:

2022	\$ 59,257
2023	61,943
2024	64,439
2025	67,035
2026	2,036,526
Thereafter	932,573
Total	<u>\$ 3,221,773</u>

IDYLLWILD ARTS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2021 and 2020, net assets with donor restrictions are restricted for the following purposes or periods:

	2021	2020
<i>Subject to expenditure for specified purpose:</i>		
Academy scholarships	\$ 361,000	\$ 727,000
Academy programs	142,903	211,848
Summer scholarships	477,998	992,953
Summer programs	245,145	532,103
Capital campaign	71,752	67,045
Special projects	2,248,545	1,458,533
	3,547,343	3,989,482
<i>Subject to the School's spending policy and appropriation:</i>		
Endowment funds restricted in perpetuity		
Academy scholarships	1,420,277	1,416,402
Academy programs	768,675	768,675
Summer scholarships and program	1,218,200	1,217,610
Undesignated endowments	1,999,823	1,999,823
Unappropriated endowment earnings	2,991,952	1,559,706
	8,398,927	6,962,216
Total net assets with donor restrictions	<u>\$ 11,946,270</u>	<u>\$ 10,951,698</u>

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, 2021 and 2020:

	2021	2020
<i>Satisfaction of purpose restrictions</i>		
Academy scholarships	\$ 475,450	\$ 317,524
Academy programs	76,170	154,921
Summer scholarships	231,162	564,025
Summer programs	610,704	429,977
Operating expenses	534,394	578,400
	1,927,880	2,044,847
<i>Endowment earnings appropriated</i>	293,563	281,688
Total net asset releases	<u>\$ 2,221,443</u>	<u>\$ 2,326,535</u>

IDYLLWILD ARTS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 11 – ENDOWMENT

As of June 30, 2021 and 2020, the School had the following endowment net asset composition:

	2021	2020
<i>Donor-restricted endowment fund</i>		
Original donor-restricted gift	\$ 5,406,975	\$ 5,402,510
Accumulated investment gains	2,991,952	1,559,706
Balance, end of year	\$ 8,398,927	\$ 6,962,216

Changes in endowment net assets with donor restrictions for the years ended June 30, 2021 and 2020 are as follows:

	2021	2020
Balance, beginning of year	\$ 6,962,216	\$ 6,768,734
Net investment return	105,599	364,420
Endowment contributions	1,624,675	110,750
Appropriation of endowment assets pursuant to spending rate policy	(293,563)	(281,688)
Balance, end of year	\$ 8,398,927	\$ 6,962,216

Interpretation of Relevant Law

Effective January 1, 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which govern the management and use of donor-restricted endowment funds held by charitable institutions in the state of California. Under UPMIFA, the School classified as net assets with donor restrictions the original value of gifts donated to the donor-restricted endowment and accumulations to the donor-restricted endowment made in accordance with the direction, if any, of the applicable donor gift instrument. Accumulated earnings of donor-restricted endowment funds are classified as net assets without restriction or net assets with restriction as funds available for operations in accordance with the donor specifications.

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. The total return on the endowment for the years ended June 30, 2021 and 2020 was 22.5% and 5.4%, respectively.

IDYLLWILD ARTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The School has a policy of appropriating for distribution each year 4.5% 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 6.3% annually. The long-term return on the School's endowment has been expected to be 5%.

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.

The School considers the following factors in making a determination to appropriate funds for distribution:

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 12 – 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.

IDYLLWILD ARTS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

Operating Lease

The School leases copiers under noncancelable operating leases that expire at varying dates through December 2025. Total rental expense under these lease agreements for the years ended June 30, 2021 and 2020 was \$87,893 and \$112,569, respectively.

Future minimum lease payments as of June 30, 2021 are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2022	\$ 63,423
2023	63,423
2024	63,423
2026	63,423
2027	<u>26,427</u>
Total	<u>\$ 280,119</u>

NOTE 13 – 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. For the year ended June 30, 2021, the School suspended all matching contributions. The total retirement plan expense was \$151,282 and \$329,006 for the years ended June 30, 2021 and 2020, respectively.

NOTE 14 – SUBSEQUENT EVENTS

In July 2021, the School reinstated matching contributions to the defined-contribution 403(b) retirement plan as described in Note 13.

On August 3, 2021, the School was informed by a bank that the U.S. SBA approved the School's request for forgiveness of the outstanding PPP loan balance of \$1,961,732 and accrued interest expense of \$6,665.

Management evaluated all activity through October 28, 2021 (the date the financial statements are available for issuance) and concluded that, other than those events above, no subsequent events have occurred that would require recognition in the financial statements or disclosures in the notes to the financial statements.