

Community School of Music and Arts

Financial Statements

June 30, 2019 and 2018



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community School of Music and Arts
Mountain View, California

We have audited the accompanying financial statements of Community School of Music and Arts (a California nonprofit corporation) (the "School"), which comprise the statements of financial position as of June 30, 2019 and 2018, and 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community School of Music and Arts as of June 30, 2019 and 2018, 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.

Change in Accounting Principle

As described in Note 3 to the financial statements, the School has adopted Accounting Standard Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

December 10, 2019

Community School of Music and Arts
 Statements of Financial Position
 June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,285,416	\$ 1,958,945
Investments	739,767	700,140
Accounts receivable	277,301	262,413
Contributions receivable, current portion	340,540	304,000
Prepaid expenses and deposits	109,345	107,025
Total current assets	2,752,369	3,332,523
Property and equipment, net	9,701,330	9,775,963
Other assets		
Cash designated by board for capital replacement fund	276,220	125,773
Cash restricted for new facilities	2,299,159	1,984,273
Investments restricted for endowment	744,364	744,364
Contributions receivable, net of current portion	135,000	25,000
Total other assets	3,454,743	2,879,410
Total assets	\$ 15,908,442	\$ 15,987,896
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 51,282	\$ 57,731
Accrued liabilities	228,039	144,268
Deferred revenue	944,147	1,194,799
Total current liabilities	1,223,468	1,396,798
Long-term debt	400,000	500,000
Total liabilities	1,623,468	1,896,798
Net assets		
Without donor restrictions		
Operating fund	686,163	945,850
Board designated capital replacement fund	276,220	125,773
Property and equipment, net of liabilities	9,285,497	9,275,963
Total without donor restrictions	10,247,880	10,347,586
With donor restrictions		
Restricted for a specified purpose	2,922,730	2,749,148
Restricted to passage of time	370,000	250,000
Held in perpetuity	744,364	744,364
Total net assets with donor restrictions	4,037,094	3,743,512
Total net assets	14,284,974	14,091,098
Total liabilities and net assets	\$ 15,908,442	\$ 15,987,896

The accompanying notes are an integral part of these financial statements.

Community School of Music and Arts
Statement of Activities
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Tuition and fees			
Tuition and fees	\$ 6,096,463	\$ -	\$ 6,096,463
Financial aid	<u>(544,747)</u>	-	<u>(544,747)</u>
Total tuition and fees	5,551,716	-	5,551,716
Contributions	441,642	588,320	1,029,962
Government grants	107,849	-	107,849
Net investment income	9,786	39,627	49,413
Other income	164,086	-	164,086
Special events, net of direct expenses of \$137,599	186,428	-	186,428
Contributions in-kind	73,608	-	73,608
Net assets released from restriction	<u>334,365</u>	<u>(334,365)</u>	<u>-</u>
Total revenue and support	<u>6,869,480</u>	<u>293,582</u>	<u>7,163,062</u>
Functional expenses			
Program services			
Music School	3,596,052	-	3,596,052
Art School	852,447	-	852,447
In-School	<u>1,676,503</u>	-	<u>1,676,503</u>
Total program services	<u>6,125,002</u>	-	<u>6,125,002</u>
Support services			
Management and general	495,653	-	495,653
Fundraising	<u>348,531</u>	-	<u>348,531</u>
Total support services	<u>844,184</u>	-	<u>844,184</u>
Total functional expenses	<u>6,969,186</u>	-	<u>6,969,186</u>
Change in net assets	(99,706)	293,582	193,876
Net assets, beginning of year	<u>10,347,586</u>	<u>3,743,512</u>	<u>14,091,098</u>
Net assets, end of year	<u>\$ 10,247,880</u>	<u>\$ 4,037,094</u>	<u>\$ 14,284,974</u>

The accompanying notes are an integral part of these financial statements.

Community School of Music and Arts
Statement of Activities
For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Tuition and fees			
Tuition and fees	\$ 5,778,825	\$ -	\$ 5,778,825
Financial aid	<u>(495,112)</u>	-	<u>(495,112)</u>
Total tuition and fees	5,283,713	-	5,283,713
Contributions	397,198	1,594,698	1,991,896
Government grants	108,749	-	108,749
Net investment income	2,295	88,694	90,989
Other income	95,131	-	95,131
Special events, net of direct expenses of \$115,867	189,412	-	189,412
Net assets released from restriction	<u>365,103</u>	<u>(365,103)</u>	<u>-</u>
Total revenue and support	<u>6,441,601</u>	<u>1,318,289</u>	<u>7,759,890</u>
Functional expenses			
Program services			
Music School	3,222,383	-	3,222,383
Art School	907,780	-	907,780
In-School	<u>1,500,932</u>	-	<u>1,500,932</u>
Total program services	<u>5,631,095</u>	-	<u>5,631,095</u>
Support services			
Management and general	305,461	-	305,461
Fundraising	<u>375,939</u>	-	<u>375,939</u>
Total support services	<u>681,400</u>	-	<u>681,400</u>
Total functional expenses	<u>6,312,495</u>	-	<u>6,312,495</u>
Change in net assets	129,106	1,318,289	1,447,395
Net assets, beginning of year	<u>10,218,480</u>	<u>2,425,223</u>	<u>12,643,703</u>
Net assets, end of year	<u>\$ 10,347,586</u>	<u>\$ 3,743,512</u>	<u>\$ 14,091,098</u>

The accompanying notes are an integral part of these financial statements.

Community School of Music and Arts
Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program Services				Support Services			Total
	Music School	Art School	In-School	Total Program Services	Management and General	Fundraising	Total Support Services	
Expenses								
Personnel expenses								
Salaries	\$ 2,427,149	\$ 523,227	\$ 1,294,769	\$ 4,245,145	\$ 263,136	\$ 263,061	\$ 526,197	\$ 4,771,342
Payroll taxes	182,056	39,332	97,571	318,959	16,922	19,491	36,413	355,372
Employee benefits	126,104	18,168	58,077	202,349	7,453	12,854	20,307	222,656
Total personnel expenses	<u>2,735,309</u>	<u>580,727</u>	<u>1,450,417</u>	<u>4,766,453</u>	<u>287,511</u>	<u>295,406</u>	<u>582,917</u>	<u>5,349,370</u>
Facilities	325,849	94,623	9,329	429,801	8,885	5,554	14,439	444,240
Professional services	60,018	15,699	63,543	139,260	138,025	11,638	149,663	288,923
Art and music supplies and maintenance	28,052	36,398	72,839	137,289	-	-	-	137,289
Bank charges	92,276	21,004	5,307	118,587	205	827	1,032	119,619
Occupancy	64,626	18,767	29,718	113,111	1,762	1,102	2,864	115,975
Outside services	69,723	8,665	19,112	97,500	-	-	-	97,500
Office expense	28,555	10,545	10,127	49,227	23,960	16,057	40,017	89,244
Marketing	20,507	17,577	5,859	43,943	-	14,648	14,648	58,591
Interest	-	-	-	-	23,685	-	23,685	23,685
Miscellaneous	3,680	2,299	6,080	12,059	7,647	815	8,462	20,521
Total expenses before depreciation	<u>3,428,595</u>	<u>806,304</u>	<u>1,672,331</u>	<u>5,907,230</u>	<u>491,680</u>	<u>346,047</u>	<u>837,727</u>	<u>6,744,957</u>
Depreciation	<u>167,457</u>	<u>46,143</u>	<u>4,172</u>	<u>217,772</u>	<u>3,973</u>	<u>2,484</u>	<u>6,457</u>	<u>224,229</u>
	<u>\$ 3,596,052</u>	<u>\$ 852,447</u>	<u>\$ 1,676,503</u>	<u>\$ 6,125,002</u>	<u>\$ 495,653</u>	<u>\$ 348,531</u>	<u>\$ 844,184</u>	<u>\$ 6,969,186</u>
Percentage of total	<u>52 %</u>	<u>12 %</u>	<u>24 %</u>	<u>88 %</u>	<u>7 %</u>	<u>5 %</u>	<u>12 %</u>	<u>100 %</u>

The accompanying notes are an integral part of these financial statements.

Community School of Music and Arts
Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program Services				Support Services			Total
	Music School	Art School	In-School	Total Program Services	Management and General	Fundraising	Total Support Services	
Expenses								
Personnel expenses								
Salaries	\$ 2,191,549	\$ 593,865	\$ 1,200,260	\$ 3,985,674	\$ 153,378	\$ 286,879	\$ 440,257	\$ 4,425,931
Payroll taxes	160,939	43,475	88,505	292,919	8,831	21,031	29,862	322,781
Employee benefits	108,896	23,167	55,115	187,178	11,523	19,828	31,351	218,529
Total personnel expenses	<u>2,461,384</u>	<u>660,507</u>	<u>1,343,880</u>	<u>4,465,771</u>	<u>173,732</u>	<u>327,738</u>	<u>501,470</u>	<u>4,967,241</u>
Facilities	280,802	81,542	8,039	370,383	7,657	4,785	12,442	382,825
Professional services	39,586	5,933	9,916	55,435	74,672	19,333	94,005	149,440
Art and music supplies and maintenance	22,669	35,902	64,248	122,819	-	-	-	122,819
Bank charges	79,792	20,162	8,721	108,675	246	663	909	109,584
Occupancy	61,549	17,873	18,850	98,272	1,678	1,049	2,727	100,999
Outside services	69,563	17,286	22,888	109,737	-	-	-	109,737
Office expense	18,286	6,287	8,461	33,034	12,401	6,320	18,721	51,755
Marketing	17,503	15,003	5,001	37,507	-	12,504	12,504	50,011
Interest	-	-	-	-	27,890	-	27,890	27,890
Miscellaneous	4,669	2,100	6,778	13,547	2,017	1,077	3,094	16,641
Total expenses before depreciation	<u>3,055,803</u>	<u>862,595</u>	<u>1,496,782</u>	<u>5,415,180</u>	<u>300,293</u>	<u>373,469</u>	<u>673,762</u>	<u>6,088,942</u>
Depreciation	<u>166,580</u>	<u>45,185</u>	<u>4,150</u>	<u>215,915</u>	<u>5,168</u>	<u>2,470</u>	<u>7,638</u>	<u>223,553</u>
	<u>\$ 3,222,383</u>	<u>\$ 907,780</u>	<u>\$ 1,500,932</u>	<u>\$ 5,631,095</u>	<u>\$ 305,461</u>	<u>\$ 375,939</u>	<u>\$ 681,400</u>	<u>\$ 6,312,495</u>
Percentage of total	<u>51 %</u>	<u>14 %</u>	<u>24 %</u>	<u>89 %</u>	<u>5 %</u>	<u>6 %</u>	<u>11 %</u>	<u>100 %</u>

The accompanying notes are an integral part of these financial statements.

Community School of Music and Arts
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 193,876	\$ 1,447,395
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Forgiveness of debt	(100,000)	(100,000)
Loss on disposal of equipment	-	16,563
Depreciation	224,229	223,553
Contributions restricted for long-term purposes	(314,886)	(1,312,398)
Net realized and unrealized gains on investments	(39,627)	(88,694)
Changes in operating assets and liabilities		
Accounts receivable	(14,888)	(110,902)
Contributions receivable	(146,540)	329,627
Prepaid expenses and deposits	(2,320)	(15,183)
Accounts payable	(22,282)	18,184
Accrued liabilities	83,771	9,263
Deferred revenue	(250,652)	263,144
Net cash provided by (used in) operating activities	(389,319)	680,552
Cash flows from investing activities		
Purchases of equipment	(10,737)	(33,947)
Payments on construction in progress	(123,026)	(23,436)
Purchase of investments	(1,447,056)	-
Proceeds from sale of investments	1,447,056	-
Net cash used in investing activities	(133,763)	(57,383)
Cash flows from financing activities		
Contributions restricted for long-term purposes	314,886	1,312,398
Net cash provided by financing activities	314,886	1,312,398
Net increase (decrease) in cash	(208,196)	1,935,567
Cash, cash equivalents and restricted cash, beginning of year	4,068,991	2,133,424
Cash, cash equivalents and restricted cash, end of year	\$ 3,860,795	\$ 4,068,991
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 1,285,416	\$ 1,958,945
Cash restricted for new facilities	2,299,159	1,984,273
Cash designated by board for capital replacement fund	276,220	125,773
	\$ 3,860,795	\$ 4,068,991

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 24,795	\$ 29,000
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Supplemental schedule of noncash investing and financing activities

Forgiveness of debt	\$ 100,000	\$ 100,000
Property and equipment included in accounts payable	\$ 15,833	\$ -

The accompanying notes are an integral part of these financial statements.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2019 and 2018

1. NATURE OF OPERATIONS

Community School of Music and Arts ("CSMA" or "the School") located at the Finn Center has been a nonprofit center for arts education since 1968 and was incorporated in California in 1969. The School's mission is to inspire excellence through art and music education for people of all ages and abilities. Since its founding, the School has reached tens of thousands of Bay Area residents through private music lessons, classes, camps, visual and digital arts, free concerts, exhibitions, and community outreach events. The School receives revenue and support from tuition and contract fees, as well as from individual, corporate, foundation and government contributions. In keeping with its mission, the School provides financial aid to qualifying applicants.

2. PROGRAM SERVICES

Music School

The School offers private music lessons, classes, ensembles, workshops/camps, and master classes for over 2,000 students, taught by a distinguished, international faculty of 75 on over 20 instruments. The School also offers a wide variety of concerts and lectures in Tateuchi Hall.

Art School

The School provides on-site art instruction, including weekly classes, vacation camps and special workshops. Annually, over 1,500 children, youth, teens, and adults receive instruction in a variety of disciplines, including drawing, painting, printmaking, sculpture, multimedia composition, animation, and folk arts. Vacation camps for children in grades K-8 offer fun and creative art classes in a safe and supportive atmosphere. The School also offers exhibitions and art lectures in Mohr Gallery.

In-School

The School offers award-winning in-school programs (Art4Schools and Music4Schools), reaching over 21,000 students at over 54 schools in San Mateo and Santa Clara Counties, with a sequential, standards-based, and comprehensive curriculum. CSMA raises funds to subsidize programs at schools serving students at high risk of academic failure. The programs' reach is extended by after school art clubs and music programs.

The Art4Schools curriculum develops technical skills and an understanding of the language of art while also teaching appreciation and cultural understanding of art and its history. End-of-the-year exhibits present thousands of pieces of student art.

The Music4Schools program teaches singing, creative movement, instruments, music appreciation, and cultural understanding of music and its origins. In addition, students have the opportunity to participate in an instrumental music program during school hours and/or after school. End-of-the-year choral and instrumental music performances let children share what they have learned before a live audience.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2019 and 2018

2. PROGRAM SERVICES (continued)

Corporate Arts Program

The Corporate Arts Program offers quality music lessons and art classes directly to employees during the workday, giving them the opportunity to recharge, refocus and re-energize through a creative experience.

Community Outreach

The School provides free public performances and gallery exhibitions onsite at the Finn Center year-round. The School's Community Concert Series includes diverse performances and events by Stanford Live, CSMA Merit Scholars, faculty, and professional musicians. Exhibitions in the Mohr Gallery showcase emerging and established visual artists with artist talks, receptions and hands-on workshops. In addition, CSMA participates in a number of community outreach events annually providing free hands-on arts activities, info booths and public performances and exhibitions at local fairs and festivals and other public venues (e.g. hospitals, businesses, etc.).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of Community School of Music and Arts have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Net assets and changes therein are classified as follows:

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Under this category, the School maintains an undesignated operating fund, property and equipment fund plus any net assets designated by the Board for specific purposes.
- *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.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

Revenues are reported as increases in net assets without restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor restriction or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as transfers between net assets with restrictions and net assets without restrictions.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less. The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Investments

Investments are reported at fair value and represent endowment funds and other investment funds. Investments received by donation are recorded at fair value at the date of donation. Net realized and unrealized gains or losses are classified as increases or decreases in net assets without restrictions, unless their use is restricted by the donor.

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The School determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3) as follows:

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the School's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable

Accounts receivable represents amounts due from program services and are stated at the amount the School expects to collect for program fees. Provisions for losses on receivables are made when considered necessary to maintain an adequate allowance to cover uncollectible amounts. Accounts receivable are charged against the allowance when the School determines that payments will not be received. Any subsequent receipts are credited to the allowance. As of June 30, 2019 and 2018, the School estimated no allowance for doubtful accounts to be considered necessary.

Contributions receivable

Unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Annual fund contributions receivable are considered to be fully collectible, and as a result, no allowance for doubtful accounts is considered necessary. For information on the capital campaign receivable see Note 4.

Property and equipment

Property and equipment are recorded at cost at the date of purchase or fair value for donated items. Equipment purchases over \$1,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are charged to expense when incurred. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 55 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Deferred revenue

The School collects tuition and other fees for the summer semester at the end of the fiscal year, but does not recognize the revenue until it is earned in the following fiscal year. These fees collected in advance are recorded as a current liability on the School's statements of financial position.

Revenue recognition

Tuition and fee revenue is recognized during the applicable school year. Tuition and fee amounts received for 2019-2020 programs as of June 30, 2019 are classified as deferred revenue. Fees collected for programs are recognized when programs are provided.

Contributions are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions received are reported as with or without donor restriction, depending upon donor restrictions, if any.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Contributed materials and equipment are reflected as contributions in the accompanying financial statements at their estimated fair values at date of receipt. Contributed services are reflected in the financial statements at the fair value of the services received. Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. No material contributed services meeting the criteria for recognition were received during the years ended June 30, 2019 and 2018.

Tuition assistance

The School provides various forms of financial aid to students, including scholarships and discounts, which are recognized as a reduction to tuition and fees revenue.

Expense allocation

The costs of providing the various programs and other activities have been reported on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and support services benefited. Indirect expense allocations are based on space utilization and an analysis of personnel time.

Income tax

The School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and section 23701(d) of the California Revenue and Taxation Code, except on net income derived from unrelated business activities. Accordingly, there is no provision for income taxes. The School evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts.

The School has evaluated its current tax positions and has concluded that as of June 30, 2019 and 2018, the School does not have any significant uncertain tax positions for which a reserve would be necessary.

The School's federal Return of Organization Exempt from Income Tax (Form 990) for the last three fiscal years are subject to possible Internal Revenue Service examination. As of the date of this report, the School's return covering the fiscal year ended June 30, 2019 has not yet been filed.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue, support and expenses during the period. Accordingly, actual results could differ from those estimates.

Risks and uncertainties

The School invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

Reclassifications

Certain reclassifications have been made to the June 30, 2018 financial statement presentation to conform to the June 30, 2019 presentation. These reclassifications do not affect overall changes in net assets.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
 - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
 - c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
 - d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.

Community School of Music and Arts
Notes to Financial Statements
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

- e. Methods used to allocate costs among program and support functions.
 - f. Underwater endowment funds.
3. Reporting investment return net of external and direct internal investment expenses.
 4. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The School adopted the provisions of this ASU during the year ended June 30, 2019, and applied the amendments on a retrospective basis for all periods presented, with the option to omit the disclosures for liquidity and availability of resources for the prior year comparative period.

Subsequent events

The School has evaluated subsequent events through December 10, 2019, which is the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the School's financial statements.

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of unconditional promises to give from the School's capital campaign and annual fund.

Capital campaign contributions receivable consist of restricted promises to be used for the development of the adjoining property (250 San Antonio Road) to integrate it functionally and aesthetically into the CSMA Campus.

Contributions receivable consisted of the following:

	2019	2018
Capital campaign	\$ 177,000	\$ 306,500
Annual fund	298,540	22,500
	\$ 475,540	\$ 329,000

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Notes to Financial Statements
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4. CONTRIBUTIONS RECEIVABLE (continued)

All contributions receivable are expected to be collected during the year ending June 30, 2020, except for \$135,000 of annual fund receivables scheduled to be collected during the year ending June 30, 2021.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2019	2018
Buildings	\$ 10,558,288	\$ 10,558,288
Land	1,707,096	1,707,096
Program equipment	474,476	474,476
Office equipment	40,848	39,290
Furniture and fixtures	46,184	35,447
Construction in progress	259,171	121,870
	13,086,063	12,936,467
Accumulated depreciation	(3,384,733)	(3,160,504)
	\$ 9,701,330	\$ 9,775,963

Depreciation expense for the years ended June 30, 2019 and 2018 was \$224,229 and \$223,553, respectively.

6. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The School's pooled investments were held as a General Endowment Fund and a Student Financial Aid Endowment Fund in a financial institution as of June 30, 2018. In July 2018, the School sold their investments in the financial institution and purchased mutual fund and money market fund investments held at another financial institution. The General Endowment Fund and Student Financial Aid Endowment Fund investments include restricted funds stipulated by the donors to be invested in perpetuity, with the earnings available for general operations as described in Note 16.

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Notes to Financial Statements
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6. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the School's assets at fair value as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Mutual funds	\$ 765,010	\$ -	\$ -	\$ 765,010
Money market fund	<u>719,121</u>	<u>-</u>	<u>-</u>	<u>719,121</u>
	<u>\$ 1,484,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,484,131</u>

The following table sets forth by level, within the fair value hierarchy, the School's assets at fair value as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Pooled investments	<u>\$ -</u>	<u>\$ 1,444,504</u>	<u>\$ -</u>	<u>\$ 1,444,504</u>

Net investment income for the years ended June 30, consisted of the following:

	<u>2019</u>	<u>2018</u>
Net investment income		
Interest and dividend income	\$ 39,462	\$ 11,452
Net realized and unrealized gains	2,679	98,962
Investment fees	<u>(2,514)</u>	<u>(21,720)</u>
	39,627	88,694
Investment income - without donor restrictions	<u>9,786</u>	<u>2,295</u>
Net investment income	<u>\$ 49,413</u>	<u>\$ 90,989</u>

7. LONG-TERM DEBT AND LINE OF CREDIT

The School has a line of credit with Boston Private Bank & Trust Company that provides for a secured credit arrangement to provide advances up to \$500,000 to support general operations. The line of credit is secured by all accounts receivable, equipment, and deposit accounts. There were no outstanding balances on this line of credit as of June 30, 2019 and 2018. The maturity date of the line of credit is May 1, 2021. As of June 30, 2019, \$500,000 was available to be drawn on the line of credit. The line of credit includes a financial covenant to maintain tangible net worth of not less than \$5 million. At June 30, 2019 and 2018, the School was in compliance with this financial covenant.

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7. LONG-TERM DEBT AND LINE OF CREDIT (continued)

The School has a long-term promissory note payable to the family trust of a former board member. The note originated on April 11, 2006 and requires annual interest only payments at a rate of 2.91% per annum of the outstanding principal balance. All outstanding principal is due in full in April 2029 and the note is secured by a deed of trust on the 250 San Antonio Road property. When the lender makes the written contribution for the note forgiveness the School recognizes the contribution. During the years ended June 30, 2019 and 2018, the lender forgave \$100,000, respectively, and the School recognized a contribution and reduction to the outstanding principal balance due. As of June 30, 2019 and 2018, the outstanding balance on the promissory note was \$400,000 and \$500,000, respectively.

The School also has an unsecured long-term loan agreement in place. The loan agreement originated on May 29, 2019 and provides for advances up to \$500,000. Interest accrues on any unpaid outstanding principal at an interest rate of 2.91%, compounded quarterly, and is payable annually in arrears. The School is able to draw from the loan for a period of 18 months beginning on the date of the initial advance. All outstanding principal and accrued interest is due on the ten year anniversary of the last day of the 18 month draw period. As of June 30, 2019, no advances have been made under the loan agreement.

8. OPERATING LEASE COMMITMENT

The School maintains a ground lease with the City of Mountain View (the "City") which expires June 30, 2055, with a renewal option to June 30, 2080, and requires minimum monthly rental payments of \$7,692. The City has the ability to increase rent based on the Consumer Price Index for urban consumers in the San Francisco-Oakland-San Jose Metropolitan Statistical Area.

In addition, the School maintains one equipment lease with quarterly payments of \$100. The lease expires in October 2022.

Future minimum lease payments (without adjustments for changes in the Consumer Price Index) are as follows:

<u>Year ending June 30,</u>		
2020	\$	92,702
2021		92,702
2022		92,702
2023		92,402
2024		92,302
Thereafter		<u>2,861,368</u>
		<u><u>\$ 3,324,178</u></u>

Rent expense for equipment and ground lease for the years ended June 30, 2019 and 2018 was \$89,054 and \$84,760, respectively.

Community School of Music and Arts
Notes to Financial Statements
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9. CONTRIBUTIONS IN-KIND

Contributions in-kind consist of donated equipment, professional services and supplies. Contributions for professional services were approximately \$73,000 for the year ended June 30, 2019. There were no contributions in-kind for the year ended June 30, 2018.

In-kind auction donations, which have been included in special events income, for the years ended June 30, 2019 and 2018 totaled \$48,799 and \$30,479, respectively.

10. RELATED PARTY TRANSACTIONS

The School's volunteer board members are active in the oversight of the fundraising events and activities and making private contributions. During the years ended June 30, 2019 and 2018, contributions received from Board of Director members and management totaled approximately \$126,000 and \$409,000, respectively. Gifts in the year ended June 30, 2018 included capital campaign contributions.

11. CONTINGENCIES

Grants and contracts awarded to the School are subject to the funding agencies' criteria terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred in connection with the grants do not comply with the established criteria that govern them. In such cases, the School could be held responsible for repayments to the funding agency for the costs or be subject to a reduction of future funding in the amount of the costs.

Management does not anticipate any material questioned costs for the contracts and grants administered during the period. The School would be responsible for the absorption of any over-expenditure of its restricted grants which cannot be covered by additional grant funds or contributions from other sources.

12. CONCENTRATIONS

Approximately 70% and 76% of the School's contributions receivable balance as of June 30, 2019 and 2018 is due from two donors, respectively. Approximately 51% and 57% of the School's contribution revenue for the years ended June 30, 2019 and 2018 were received from two donors, respectively.

13. BOARD DESIGNATED NET ASSETS

As of June 30, 2019 and 2018, board designated net assets were \$276,220 and \$125,773, respectively. These funds were designated to the capital replacement fund which will be used for future repairs of the Finn Center.

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14. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2019	2018
Restricted to a passage of time		
General operating and support	\$ 370,000	\$ 250,000
Restricted to a specific purpose		
Capital campaign	2,414,288	2,180,969
Held in perpetuity (donor-restricted endowment corpus)	744,364	744,364
Endowment accumulated earnings - unappropriated	384,641	404,378
Offsite music and arts programs	122,680	162,680
Japanese programming	1,121	1,121
	3,667,094	3,493,512
	\$ 4,037,094	\$ 3,743,512

Capital campaign

These net assets with restrictions represent contributions restricted by donors to be used for the development of the adjoining property (250 San Antonio Road) to integrate it functionally and aesthetically into what has become the CSMA Campus (see Note 4).

Endowment accumulated earnings - unappropriated

These net assets with restrictions represent earnings on contributions with donor restriction including amounts restricted for student financial aid (see Note 16) and without restriction for general use. These funds are recorded as net assets with restrictions, since the restrictions are removed as tuition is discounted for student financial aid or the funds without donor restriction are appropriated.

Other net assets with restrictions

These net assets with restrictions represent contributions restricted by donors to be used for specific programs and/or general operations in future periods. Because the restrictions are removed as expenditures are made for the intended purposes and/or time restrictions are met, these funds are recorded as net assets with donor restrictions.

Time restrictions relate to multi-year grants which are intended to support general operations of the School for future years. As of June 30, 2019, time restricted funds of \$370,000 are scheduled to be released through the year ending June 30, 2021.

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15. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restriction during the year were as follows:

	2019	2018
Restricted to a passage of time		
General operating	\$ 235,000	\$ 125,000
Restricted to a specific purpose		
Music program	-	130,000
Appropriation of endowment earnings	59,365	57,780
Offsite music and arts programs	40,000	52,323
	99,365	240,103
	\$ 334,365	\$ 365,103

16. ENDOWMENT

The School's endowments consist of funds established for a variety of purposes. The endowments include both donor restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Below is a brief description of the School's endowments:

General endowment fund

A net asset with restriction for which the principal value of \$401,874 was stipulated by the donors to be invested in perpetuity, with the earnings available for general operations.

Student financial aid endowment fund

A net asset with restriction for which the principal value of \$342,490 was stipulated by the donors to be invested in perpetuity, with the earnings available for student financial aid.

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16. ENDOWMENT (continued)

Interpretation of relevant law

The School's Board of Directors has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as net assets with donor restrictions (a) the original value of gifts donated to the restricted endowment, (b) the original value of subsequent gifts to the restricted endowment, and (c) accumulations to the restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, 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

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the School to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2019 and 2018.

Spending policy and how the investment objectives relate to spending policy

The annual payout rate from the General Endowment Fund shall be four percent (4%) of the average fair market value of the fund over the most recent four fiscal quarters that the fund was invested. The annual payout rate from the Student Financial Aid Endowment Fund shall be four percent (4%) of the average fair market value of the fund over the most recent four fiscal quarters that the fund was invested.

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16. ENDOWMENT (continued)

Spending policy and how the investment objectives relate to spending policy (continued)

Use of such an averaging method minimizes large fluctuations in the payout caused by unpredictable market adjustments in any fiscal year, thereby providing a more predictable distribution for planning purposes. The payout rate and the suitability of the averaging methodology shall be monitored, reviewed, and reported by the Finance Committee to the Board of Directors as of June 30 of each year. Periodic suspension of payout distributions may be recommended by the Finance Committee and implemented with the approval of the Board of Directors. Over time, it is expected that the annual payout will constitute only a portion of the fund's total return (income and appreciation), thus building up the Endowment over time, offsetting inflation, and preserving the purchasing power of the fund.

Return objectives and risk parameters

The investment goal is to generate income and capital gains to support the School's operating expenses while preserving an inflation-adjusted capital value and optimizing the risk-adjusted return. The primary investment objectives are preservation of capital and long-term growth of assets. To that end, the investments are for total return (income and capital appreciation) without considering a specific target income rate. Nevertheless, the School shall endeavor to achieve a total annual return measured on a five-year moving average basis, equal to or greater than 5% over the rate of inflation. The performance shall be viewed in these terms and also against a broad, balanced composite as used by Vanguard such as the Russell 3000 Index invested at the respective strategic asset allocation weights. While the balanced composite shall be recognized as imperfect due to the actual allocations to sub-asset categories, it will serve as a valuable perspective into investment performance.

All endowment funds will be managed either through local community foundations or financial institutions as chosen by the Finance Committee. If managed through the local community foundations, the fund established by the School will be subject to the investment policy, guidelines and asset allocation of the community foundation with which the fund resides. The fund manager must:

- Exercise a high degree of professional care, skill, prudence and diligence in the management of assets under their direction
- Perform thorough professional analysis and judgment
- Diversify securities by industry, geography, type and maturity of investments
- Fully comply with all provisions of any governmental regulations and decisions

Community School of Music and Arts
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16. ENDOWMENT (continued)

Strategies employed for achieving objectives

Given that Community School of Music and Arts is a nonprofit organization and that the endowment funds have been gifted to the School for long-term preservation and organizational stability, accordingly the School is seeking medium volatility of returns. Some interim fluctuations in market value and rates of return may be tolerated in order to achieve the longer-term objectives.

The School's broad investment strategy shall seek diversification across multiple markets and assets classes. In managing the assets allocation policy, the School established long-term targets and ranges to provide a structure for implementation, ongoing decision-making and evaluation. These targets are expressed in percentages and shall be reviewed annually and revised only as necessary to accommodate changes in the goals and objectives of the funds.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions Subject to Appropriation and Spending Policy</u>	<u>Held in Perpetuity</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 384,641	\$ 744,364	\$ 1,129,005

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions Subject to Appropriation and Spending Policy</u>	<u>Held in Perpetuity</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 404,378	\$ 744,364	\$ 1,148,742

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16. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u> Subject to Appropriation and Spending Policy	<u>Held in Perpetuity</u>	<u>Total</u>
Balance, June 30, 2018	\$ -	\$ 404,378	\$ 744,364	\$ 1,148,742
Investment income and change in fair value of investments	-	39,627	-	39,627
Appropriation for expenditure	-	(59,364)	-	(59,364)
Balance, June 30, 2019	<u>\$ -</u>	<u>\$ 384,641</u>	<u>\$ 744,364</u>	<u>\$ 1,129,005</u>

Changes in endowment net assets for the fiscal year ended June 30, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u> Subject to Appropriation and Spending Policy	<u>Held in Perpetuity</u>	<u>Total</u>
Balance, June 30, 2017	\$ -	\$ 373,464	\$ 744,364	\$ 1,117,828
Investment income and change in fair value of investments	-	88,694	-	88,694
Appropriation for expenditure	-	(57,780)	-	(57,780)
Balance, June 30, 2018	<u>\$ -</u>	<u>\$ 404,378</u>	<u>\$ 744,364</u>	<u>\$ 1,148,742</u>

17. LIQUIDITY AND FUNDS AVAILABLE

As part of the School's liquidity management, there is a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Community School of Music and Arts
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17. LIQUIDITY AND FUNDS AVAILABLE (continued)

Investments include endowment funds consisting of donor-restricted endowments. As described in Note 16, the endowments have a payout rate of 4%. Accordingly, approximately \$30,000 of appropriations from the endowments will be available within the next 12 months.

Accounts receivable represents amounts due from tuition and fees and are stated at the amount the School expects to collect. Accounts receivable will be available to support general operations of the School.

Short-term contributions receivable consists of unconditional promises to give expected to be received within one year from June 30, 2019. The School is currently in the midst of a capital campaign to raise operating funds which will be available to fund general operations and funds to build a new program site which are not available for general operations. Unrestricted short-term contributions receivable will be available to support general operations of the School.

The School has a \$500,000 line of credit available to support general operations. See Note 7.

The following is a quantitative disclosure which describes assets that are available or expected to be available within one year of June 30, 2019 to fund general expenditures and other obligations as they become due:

Cash and cash equivalents	\$ 1,285,416
Investments	385,126
Accounts receivable	277,301
Unrestricted short-term contributions receivable	<u>101,609</u>
	<u>\$ 2,049,452</u>