

**Community School of Music and Arts**

Financial Statements

June 30, 2022 and 2021



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## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

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

In our opinion, the 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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis of Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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



Armanino<sup>LLP</sup>  
San Jose, California

January 11, 2023

Community School of Music and Arts  
Statements of Financial Position  
June 30, 2022 and 2021

	2022	2021
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 2,126,021	\$ 1,577,239
Operating investments	490,341	490,341
Accounts receivable	291,316	238,417
Contributions receivable, current portion	174,500	9,452
Prepaid expenses and deposits	<u>116,086</u>	<u>186,590</u>
Total current assets	<u>3,198,264</u>	<u>2,502,039</u>
Property and equipment, net	<u>13,876,537</u>	<u>13,448,753</u>
Other assets		
Cash designated by board for capital replacement fund	277,481	277,183
Cash restricted for term loan obligations	-	175,000
Cash restricted for new facilities	-	801,359
Investments restricted for endowment, unappropriated earnings	416,578	679,965
Investments restricted for endowment, corpus	744,364	744,364
Contributions receivable, net of current portion	<u>142,000</u>	<u>-</u>
Total other assets	<u>1,580,423</u>	<u>2,677,871</u>
Total assets	<u>\$ 18,655,224</u>	<u>\$ 18,628,663</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 26,644	\$ 34,169
Accrued liabilities	582,637	760,149
Deferred revenue	1,176,273	960,490
Notes payable, current portion	<u>-</u>	<u>175,000</u>
Total current liabilities	<u>1,785,554</u>	<u>1,929,808</u>
Notes payable, net of current portion	<u>700,000</u>	<u>1,325,000</u>
Total liabilities	<u>2,485,554</u>	<u>3,254,808</u>
Net assets		
Without donor restrictions		
Operating fund	1,206,620	1,742,390
Board designated capital replacement fund	277,481	277,183
Property and equipment, net of notes payable	<u>13,176,537</u>	<u>8,979,226</u>
Total without donor restrictions	<u>14,660,638</u>	<u>10,998,799</u>
With donor restrictions		
Restricted for a specified purpose	465,318	3,510,692
Restricted to passage of time	299,350	120,000
Held in perpetuity	<u>744,364</u>	<u>744,364</u>
Total net assets with donor restrictions	<u>1,509,032</u>	<u>4,375,056</u>
Total net assets	<u>16,169,670</u>	<u>15,373,855</u>
Total liabilities and net assets	<u>\$ 18,655,224</u>	<u>\$ 18,628,663</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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains (losses) and other support			
Tuition and fees			
Tuition and fees	\$ 5,334,672	\$ -	\$ 5,334,672
Financial aid	(390,908)	-	(390,908)
Total tuition and fees	4,943,764	-	4,943,764
Contributions	1,784,988	598,089	2,383,077
Net investment income (loss)	1,461	(263,387)	(261,926)
Government grants	114,909	-	114,909
Contributions in-kind	109,959	-	109,959
Other income	540,065	-	540,065
Net assets released from restriction	3,200,726	(3,200,726)	-
Total revenue, gains (losses) and other support	10,695,872	(2,866,024)	7,829,848
Functional expenses			
Program services			
Music School	3,976,585	-	3,976,585
Art School	763,744	-	763,744
In-School	1,599,913	-	1,599,913
Total program services	6,340,242	-	6,340,242
Support services			
Management and general	385,772	-	385,772
Fundraising	308,019	-	308,019
Total support services	693,791	-	693,791
Total functional expenses	7,034,033	-	7,034,033
Change in net assets	3,661,839	(2,866,024)	795,815
Net assets, beginning of year	10,998,799	4,375,056	15,373,855
Net assets, end of year	\$ 14,660,638	\$ 1,509,032	\$ 16,169,670

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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains (losses) and other support			
Tuition and fees			
Tuition and fees	\$ 4,390,186	\$ -	\$ 4,390,186
Financial aid	<u>(316,500)</u>	-	<u>(316,500)</u>
Total tuition and fees	4,073,686	-	4,073,686
Contributions	556,523	404,888	961,411
Forgiveness of Paycheck Protection Program loan	926,300	-	926,300
Net investment income (loss)	3,331	406,337	409,668
Government grants	111,162	-	111,162
Contributions in-kind	76,716	-	76,716
Other income	33,752	-	33,752
Net assets released from restriction	<u>229,335</u>	<u>(229,335)</u>	<u>-</u>
Total revenue, gains (losses) and other support	<u>6,010,805</u>	<u>581,890</u>	<u>6,592,695</u>
Functional expenses			
Program services			
Music School	3,174,591	-	3,174,591
Art School	602,477	-	602,477
In-School	<u>1,080,528</u>	-	<u>1,080,528</u>
Total program services	<u>4,857,596</u>	-	<u>4,857,596</u>
Support services			
Management and general	375,400	-	375,400
Fundraising	<u>302,522</u>	-	<u>302,522</u>
Total support services	<u>677,922</u>	-	<u>677,922</u>
Total functional expenses	<u>5,535,518</u>	-	<u>5,535,518</u>
Change in net assets	475,287	581,890	1,057,177
Net assets, beginning of year	<u>10,523,512</u>	<u>3,793,166</u>	<u>14,316,678</u>
Net assets, end of year	<u>\$ 10,998,799</u>	<u>\$ 4,375,056</u>	<u>\$ 15,373,855</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, 2022

Expenses	Program Services				Support Services			Total
	Music School	Art School	In-School	Total Program Services	Management and General	Fundraising	Total Support Services	
Personnel expenses								
Salaries	\$ 2,586,486	\$ 458,678	\$ 1,370,664	\$ 4,415,828	\$ 185,550	\$ 230,638	\$ 416,188	\$ 4,832,016
Payroll taxes	194,346	34,167	105,296	333,809	10,452	16,590	27,042	360,851
Employee benefits	168,049	17,790	32,485	218,324	4,295	17,233	21,528	239,852
Total personnel expenses	<u>2,948,881</u>	<u>510,635</u>	<u>1,508,445</u>	<u>4,967,961</u>	<u>200,297</u>	<u>264,461</u>	<u>464,758</u>	<u>5,432,719</u>
Facilities	354,938	95,973	8,528	459,439	8,320	4,992	13,312	472,751
Professional services	18,536	5,239	13,372	37,147	128,047	9,428	137,475	174,622
Outside services	150,476	2,580	-	153,056	-	-	-	153,056
Bank charges	92,755	16,440	39	109,234	238	818	1,056	110,290
Art and music supplies and maintenance	24,712	20,472	52,288	97,472	-	-	-	97,472
Occupancy	69,300	18,738	1,665	89,703	1,624	975	2,599	92,302
Office expense	29,165	9,007	3,636	41,808	15,519	12,492	28,011	69,819
Marketing	21,466	18,782	2,683	42,931	-	10,733	10,733	53,664
Interest	-	-	-	-	25,571	-	25,571	25,571
Miscellaneous	2,356	672	3,588	6,616	625	801	1,426	8,042
Total expenses before depreciation	<u>3,712,585</u>	<u>698,538</u>	<u>1,594,244</u>	<u>6,005,367</u>	<u>380,241</u>	<u>304,700</u>	<u>684,941</u>	<u>6,690,308</u>
Depreciation	<u>264,000</u>	<u>65,206</u>	<u>5,669</u>	<u>334,875</u>	<u>5,531</u>	<u>3,319</u>	<u>8,850</u>	<u>343,725</u>
	<u>\$ 3,976,585</u>	<u>\$ 763,744</u>	<u>\$ 1,599,913</u>	<u>\$ 6,340,242</u>	<u>\$ 385,772</u>	<u>\$ 308,019</u>	<u>\$ 693,791</u>	<u>\$ 7,034,033</u>
Percentage of total	<u>57 %</u>	<u>11 %</u>	<u>23 %</u>	<u>91 %</u>	<u>5 %</u>	<u>4 %</u>	<u>9 %</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, 2021

	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	\$ 2,221,843	\$ 376,666	\$ 867,548	\$ 3,466,057	\$ 184,973	\$ 230,434	\$ 415,407	\$ 3,881,464
Payroll taxes	166,199	27,730	65,840	259,769	12,595	15,581	28,176	287,945
Employee benefits	171,297	31,995	110,584	313,876	4,911	20,627	25,538	339,414
Total personnel expenses	<u>2,559,339</u>	<u>436,391</u>	<u>1,043,972</u>	<u>4,039,702</u>	<u>202,479</u>	<u>266,642</u>	<u>469,121</u>	<u>4,508,823</u>
Facilities	168,554	49,061	4,711	222,326	4,596	2,872	7,468	229,794
Professional services	28,224	8,123	13,880	50,227	134,897	8,461	143,358	193,585
Outside services	19,950	975	-	20,925	-	-	-	20,925
Bank charges	89,682	7,557	314	97,553	331	531	862	98,415
Art and music supplies and maintenance	14,376	11,158	9,482	35,016	-	-	-	35,016
Occupancy	67,704	19,512	-	87,216	1,847	1,152	2,999	90,215
Office expense	42,402	11,899	2,068	56,369	12,907	10,862	23,769	80,138
Marketing	13,072	13,072	1,867	28,011	-	9,337	9,337	37,348
Interest	-	-	-	-	13,376	-	13,376	13,376
Miscellaneous	21	-	-	21	837	84	921	942
Total expenses before depreciation	<u>3,003,324</u>	<u>557,748</u>	<u>1,076,294</u>	<u>4,637,366</u>	<u>371,270</u>	<u>299,941</u>	<u>671,211</u>	<u>5,308,577</u>
Depreciation	<u>171,267</u>	<u>44,729</u>	<u>4,234</u>	<u>220,230</u>	<u>4,130</u>	<u>2,581</u>	<u>6,711</u>	<u>226,941</u>
	<u>\$ 3,174,591</u>	<u>\$ 602,477</u>	<u>\$ 1,080,528</u>	<u>\$ 4,857,596</u>	<u>\$ 375,400</u>	<u>\$ 302,522</u>	<u>\$ 677,922</u>	<u>\$ 5,535,518</u>
Percentage of total	<u>57 %</u>	<u>11 %</u>	<u>20 %</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  
 Statements of Cash Flows  
 For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 795,815	\$ 1,057,177
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Forgiveness of Paycheck Protection Program loan	-	(926,300)
Forgiveness of notes payable	(100,000)	-
Depreciation	343,725	226,941
Contributions restricted for capital campaign	(250,000)	(277,388)
Net unrealized (gains) losses on investments	338,272	(345,087)
Changes in operating assets and liabilities		
Accounts receivable	(52,899)	(51,136)
Contributions receivable	(307,048)	32,720
Prepaid expenses and deposits	70,504	(77,319)
Accounts payable	(7,524)	6,472
Accrued liabilities	(177,512)	117,202
Deferred revenue	215,783	41,033
Net cash provided by (used in) operating activities	869,116	(195,685)
Cash flows from investing activities		
Purchases of property and equipment	(546,408)	(8,102)
Payments on construction in progress	(225,101)	(3,774,898)
Purchase of investments	(74,885)	(971,250)
Proceeds from sale of investments	-	910,000
Net cash used in investing activities	(846,394)	(3,844,250)
Cash flows from financing activities		
Contributions restricted for capital campaign	250,000	277,388
Borrowings on notes payable	-	1,200,000
Principal payments on notes payable	(700,000)	-
Net cash provided by (used in) financing activities	(450,000)	1,477,388
Net decrease in cash	(427,278)	(2,562,547)
Cash, cash equivalents and restricted cash, beginning of year	2,830,781	5,393,328
Cash, cash equivalents and restricted cash, end of year	\$ 2,403,503	\$ 2,830,781
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 2,126,021	\$ 1,577,239
Cash designated by board for capital replacement fund	277,481	277,183
Cash restricted for term loan obligations	-	175,000
Cash restricted for new facilities	-	801,359
	\$ 2,403,502	\$ 2,830,781

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, 2022 and 2021

	2022	2021
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 24,681	\$ 10,383
Supplemental schedule of noncash investing and financing activities		
Construction in progress included in accrued liabilities	\$ -	\$ 225,101
Forgiveness of notes payable	\$ 100,000	\$ 926,300

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

Community School of Music and Arts  
Notes to Financial Statements  
June 30, 2022 and 2021

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 nearly 1,700 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, nearly 1,200 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.

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.

In-school

The School offers award-winning in-school programs (Art4Schools and Music4Schools), reaching nearly 20,000 students at 51 schools in San Mateo and Santa Clara Counties during the COVID-19 pandemic, 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.

Community School of Music and Arts  
Notes to Financial Statements  
June 30, 2022 and 2021

2. PROGRAM SERVICES (continued)

In-school (continued)

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 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 of Directors 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. In the absence of explicit donor stipulations, the placed-in-service approach is used for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. Placed-in-service approach restricted net assets are released when they have been placed-in-service (see Note 14).

Community School of Music and Arts  
Notes to Financial Statements  
June 30, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021, 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.

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 when promised services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those services by applying the following steps:

Community School of Music and Arts  
Notes to Financial Statements  
June 30, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- Identify the contract(s) with a customer
- Identify the performance obligation in the contract(s)
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract, and
- Recognize revenue when, or as, the School satisfies a performance obligation.

Tuition and fee amounts received for 2022-2023 programs as of June 30, 2022 are classified as deferred revenue.

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.

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 (see Note 9). 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.

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.



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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2022 and 2021, 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, 2022 has not yet been filed.

Adoption of new accounting standard

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The update requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including fixed assets, supplies, services, and other items. The update includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The School adopted ASU 2020-07 with a date of initial application of July 1, 2021, using the full retrospective approach.

The adoption of ASU 2020-07 did not have a significant impact on the School's financial position, result of operations, or cash flows. The School has updated disclosures as necessary.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Subsequent events

The School has evaluated subsequent events through January 11, 2023, 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 consisted of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Annual fund	\$ <u>316,500</u>	\$ <u>9,452</u>
	<u>\$ 316,500</u>	<u>\$ 9,452</u>

\$142,000 of contributions receivable are expected to be collected during the year ending June 30, 2024. The remaining portion of contributions receivable is expected to be collected during the year ending June 30, 2023.

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5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following as of June 30:

	2022	2021
Buildings	\$ 15,510,501	\$ 10,558,288
Land	1,707,096	1,707,096
Program equipment	607,564	486,154
Furniture and fixtures	183,881	98,342
Office equipment	55,824	50,578
Construction in progress - without donor restrictions	-	1,673,473
Construction in progress - with donor restrictions	-	2,719,426
	18,064,866	17,293,357
Accumulated depreciation	(4,188,329)	(3,844,604)
	\$ 13,876,537	\$ 13,448,753

Depreciation expense for the years ended June 30, 2022 and 2021 was \$343,725 and \$226,941, respectively.

6. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The School's investments were held by Vanguard as a General Endowment Fund, a Student Financial Aid Endowment Fund, including earnings available for general operations as described in Note 15. The General Endowment Fund and Student Financial Aid Endowment Fund investments include restricted funds stipulated by the donors to be invested in perpetuity.

The following table sets forth by level, within the fair value hierarchy, the School's assets at fair value as of June 30, 2022:

	Level 1	Level 2	Level 3	Fair Value
Mutual funds	\$ 1,651,283	\$ -	\$ -	\$ 1,651,283

The following table sets forth by level, within the fair value hierarchy, the School's assets at fair value as of June 30, 2021:

	Level 1	Level 2	Level 3	Fair Value
Mutual funds	\$ 1,914,670	\$ -	\$ -	\$ 1,914,670

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6. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

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

	2022	2021
Net investment income		
Interest and dividend income, net of fees	\$ 74,885	\$ 61,250
Net unrealized gains (losses)	(338,272)	345,087
	(263,387)	406,337
Investment income - without donor restrictions	1,461	3,331
Net investment income	\$ (261,926)	\$ 409,668

7. LONG-TERM DEBT AND LINE OF CREDIT

The School has a line of credit 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. The maturity date of the line of credit is May 1, 2023. There were no outstanding balances on this line of credit as of June 30, 2022 and 2021. The original creditor was Boston Private Bank & Trust Company, but is now Silicon Valley Bank, as the latter acquired the former in July 2021. The School did not draw any funds from the line of credit during the year ended June 30, 2022.

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 was amended on April 18, 2019. The promissory note payable 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 payable forgiveness the School recognizes the contribution. During the year ended June 30, 2022, the lender forgave \$100,000, and the School recognized a contribution and reduction to the outstanding principal balance due. As of June 30, 2022 and 2021, the outstanding balance on the promissory note was \$200,000 and \$300,000, respectively. The note allows for additional borrowings not to exceed \$500,000 during the term of the note. No additional borrowings have occurred as of June 30, 2022.

The School 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. During the year ended June 30, 2021, the School was advanced \$500,000. As of June 30, 2022 and 2021, the outstanding balance on the long-term loan was \$500,000.

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

On April 27, 2020, the School entered into a loan with a bank (the "Loan") pursuant to the Paycheck Protection Program ("PPP") in the aggregate principal amount of \$926,300 (the "PPP Loan") under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The PPP Loan was evidenced by a promissory note and matured 2 years from the disbursement date. The PPP Loan bore interest at 1% per annum. Principal and interest were deferred until the Small Business Administration ("SBA") remitted loan forgiveness when the School submitted its forgiveness application. Under the terms of the CARES Act, PPP loan recipients could apply for and be granted forgiveness for all or a portion of loans granted under the PPP. The Loan was subject to forgiveness to the extent proceeds were used for payroll costs, including payments required to continue group healthcare benefits, and certain rent, utility, and mortgage interest expense (collectively, "Qualifying Expenses"), pursuant to the terms and limitations of the PPP. In January 2021, the School received full forgiveness for the interest and \$926,300 principal of the PPP Loan. For the year ended June 30, 2021, interest expense was not significant under the Loan.

On December 8, 2020, the School entered into a term loan agreement with the David and Lucile Packard Foundation in the amount of \$700,000. Interest payments were due semi-annually on May 30 and November 30 commencing on May 30, 2021 at a rate of 0.5% per annum. Principal payments of \$175,000 were due semi-annually on May 30 and November 30 commencing on May 30, 2022 and ending on November 30, 2023. The School was required to restrict 25% of the term loan's outstanding principal balance which was solely for the purpose of timely satisfaction of the School's payment obligations. As of June 30, 2021, the outstanding balance of the loan was \$700,000 and \$175,000 cash was restricted for the loan. During the year ended June 30, 2022, the loan was fully repaid.

The future maturities of the notes payable are \$200,000 during the year ended June 30, 2029 and \$500,000 during the year ended June 30, 2031.

8. OPERATING LEASE COMMITMENT

The School maintains a ground lease with the City of Mountain View (the "City") which expires on June 30, 2055, with multiple renewal options to extend until 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. Monthly rent for the ground lease was \$7,692 for the year ended June 30, 2022.

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

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8. OPERATING LEASE COMMITMENT (continued)

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

<u>Year ending June 30,</u>	
2023	\$ 92,502
2024	92,302
2025	92,302
2026	92,302
2027	92,302
Thereafter	<u>2,584,462</u>
	<u><u>\$ 3,046,172</u></u>

Rent expense for equipment and ground lease for the years ended June 30, 2022 and 2021 was \$92,702 and \$92,738, respectively.

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.

9. CONTRIBUTIONS IN-KIND

The School allows organizations and individuals to contribute in-kind goods and services. The School recognizes these donations separately from other contributions. For the years ended June 30, 2022 and 2021, the total goods and services contributed totaled \$109,959 and \$76,716, respectively. The largest in-kind donation were legal services from the School's external counsel, which totaled \$64,985 for the year ended June 30, 2022. The in-kind goods contributed were utilized for the annual auction held by the School.

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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, 2022 and 2021, contributions received from Board of Director members and management totaled approximately \$49,900 and \$85,000, respectively. The School did not have any receivables due from related parties as of June 30, 2022 and 2021. The School did not have any outstanding payments due to related parties as of June 30, 2022 and 2021.

11. CONCENTRATIONS

Approximately 90% of the School's contributions receivable balance as of June 30, 2022 is due from one donor. Approximately 100% of the School's contributions receivable balance as of June 30, 2021 is due from two donors. Approximately 78% and 50% of the School's contribution revenue for the years ended June 30, 2022 and 2021 were received from three donors and two donors, respectively.

12. BOARD DESIGNATED NET ASSETS

As of June 30, 2022 and 2021, board designated net assets were \$277,481 and \$277,183 respectively. These funds were designated to the capital replacement fund which will be used for future repairs of the Finn Center.

13. NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restrictions consisted of the following:

	2022	2021
Restricted to a passage of time		
General operations and support	\$ 299,350	\$ 120,000
Restricted to a specific purpose or held in perpetuity		
Capital campaign	-	2,719,426
Held in perpetuity (donor-restricted endowment corpus)	744,364	744,364
Endowment accumulated earnings - unappropriated	416,578	679,965
Music and arts programs	48,740	111,301
	1,209,682	4,255,056
	\$ 1,509,032	\$ 4,375,056

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. The construction was completed during the fiscal year ended June 30, 2022, and the Company reported a reduction in net assets with donor restrictions and an increase in net assets without donor restrictions.

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13. NET ASSETS WITH DONOR RESTRICTION (continued)

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 15) 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, 2022, time restricted funds of \$157,350 and \$142,000 are scheduled to be released during the years ending June 30, 2023 and 2024, respectively.

14. NET ASSETS RELEASED FROM RESTRICTIONS

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

	2022	2021
Restricted to a passage of time		
General operations and support	\$ 120,000	\$ 135,000
Restricted to a specific purpose		
Capital expenditures	2,969,426	-
Appropriation of endowment earnings	-	76,587
Music and art programs	111,300	17,748
	3,080,726	94,335
	\$ 3,200,726	\$ 229,335

15. ENDOWMENT

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



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15. ENDOWMENT (continued)

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.

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, 2022 and 2021.

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15. ENDOWMENT (continued)

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 fair market value of the fund as of each fiscal year end. The annual payout rate from the Student Financial Aid Endowment Fund shall be four percent (4%) of the fair market value of the fund as of each fiscal year end.

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.

During the year ended June 30, 2022, the Board of Directors suspended any appropriation from the endowment funds. During the year ended June 30 2021, \$76,587 was appropriated for general expenditures.

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

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15. ENDOWMENT (continued)

Return objectives and risk parameters (continued)

- Diversify securities by industry, geography, type and maturity of investments
- Fully comply with all provisions of any governmental regulations and decisions

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, 2022 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>
Donor restricted endowment funds	\$ -	\$ 416,578	\$ 744,364	\$ 1,160,942

Endowment net asset composition by type of fund as of June 30, 2021 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>
Donor restricted endowment funds	\$ -	\$ 679,965	\$ 744,364	\$ 1,424,329

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15. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2022 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, 2021	\$ -	\$ 679,965	\$ 744,364	\$ 1,424,329
Net investment loss and change in fair value of investments	-	(263,387)	-	(263,387)
Balance, June 30, 2022	<u>\$ -</u>	<u>\$ 416,578</u>	<u>\$ 744,364</u>	<u>\$ 1,160,942</u>

Changes in endowment net assets for the fiscal year ended June 30, 2021 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, 2020	\$ -	\$ 350,215	\$ 744,364	\$ 1,094,579
Net investment income and change in fair value of investments	-	406,337	-	406,337
Appropriation for expenditure	-	(76,587)	-	(76,587)
Balance, June 30, 2021	<u>\$ -</u>	<u>\$ 679,965</u>	<u>\$ 744,364</u>	<u>\$ 1,424,329</u>

16. 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.

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16. LIQUIDITY AND FUNDS AVAILABLE (continued)

Investments include endowment funds consisting of donor-restricted endowments. As described in Note 16, the endowments have an appropriation rate of 4%. During the year ended June 30, 2022, the Board of Directors suspended appropriation from the endowment funds. Accordingly, it is expected that no 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.

The current portion of contributions receivable consists of unconditional promises to give expected to be received within one year from June 30, 2022 and will be available to support general operations of the School.

As discussed in Note 7, the School's line of credit provides advances up to \$500,000 to support general operations.

The following is a quantitative disclosure which describes assets that are available or expected to be available within one year of June 30, 2022 to fund general expenditures and other obligations as they become due:

Cash and cash equivalents	\$ 2,126,021
Investments	490,340
Accounts receivable	291,316
Contributions receivable	<u>174,500</u>
	<u>\$ 3,082,177</u>