

Community School of Music and Arts

Financial Statements

June 30, 2020 and 2019



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 26

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, 2020 and 2019, 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, 2020 and 2019, 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 ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, effective July 1, 2019. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 1 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.



Armanino^{LLP}
San Jose, California

December 16, 2020

Community School of Music and Arts
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,753,560	\$ 1,285,416
Investments	763,969	739,767
Accounts receivable	187,281	277,301
Contributions receivable, current portion	42,172	340,540
Prepaid expenses and deposits	109,271	109,345
Total current assets	3,856,253	2,752,369
Property and equipment, net	9,667,593	9,701,330
Other assets		
Cash designated by board for capital replacement fund	276,861	276,220
Cash restricted for new facilities	2,362,907	2,299,159
Investments restricted for endowment	744,364	744,364
Contributions receivable, net of current portion	-	135,000
Total other assets	3,384,132	3,454,743
Total assets	\$ 16,907,978	\$ 15,908,442
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 14,164	\$ 51,282
Accrued liabilities	431,379	228,039
Deferred revenue	919,457	944,147
Total current liabilities	1,365,000	1,223,468
Long-term liabilities		
Note payable	300,000	400,000
Paycheck Protection Program loan	926,300	-
Total long-term liabilities	1,226,300	400,000
Total liabilities	2,591,300	1,623,468
Net assets		
Without donor restrictions		
Operating fund	973,427	686,163
Board designated capital replacement fund	276,861	276,220
Property and equipment, net of liabilities	9,364,093	9,285,497
Total without donor restrictions	10,614,381	10,247,880
With donor restrictions		
Restricted for a specified purpose	2,822,933	2,922,730
Restricted to passage of time	135,000	370,000
Held in perpetuity	744,364	744,364
Total net assets with donor restrictions	3,702,297	4,037,094
Total net assets	14,316,678	14,284,974
Total liabilities and net assets	\$ 16,907,978	\$ 15,908,442

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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Tuition and fees			
Tuition and fees	\$ 5,616,673	\$ -	\$ 5,616,673
Financial aid	(441,379)	-	(441,379)
Total tuition and fees	5,175,294	-	5,175,294
Contributions	957,269	65,750	1,023,019
Other income	114,630	-	114,630
Government grants	108,362	-	108,362
Contributions in-kind	119,690	-	119,690
Net investment income	8,118	24,201	32,319
Net assets released from restriction	424,748	(424,748)	-
Total revenue and support	6,908,111	(334,797)	6,573,314
Functional expenses			
Program services			
Music School	3,664,839	-	3,664,839
Art School	723,899	-	723,899
In-School	1,428,044	-	1,428,044
Total program services	5,816,782	-	5,816,782
Support services			
Management and general	407,644	-	407,644
Fundraising	317,184	-	317,184
Total support services	724,828	-	724,828
Total functional expenses	6,541,610	-	6,541,610
Change in net assets	366,501	(334,797)	31,704
Net assets, beginning of year	10,247,880	4,037,094	14,284,974
Net assets, end of year	\$ 10,614,381	\$ 3,702,297	\$ 14,316,678

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
Other income	164,086	-	164,086
Government grants	107,849	-	107,849
Contributions in-kind	73,608	-	73,608
Net investment income	9,786	39,627	49,413
Special events, net of direct expenses of \$137,599	186,428	-	186,428
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>-</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>-</u>	<u>844,184</u>
Total functional expenses	<u>6,969,186</u>	<u>-</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 Functional Expenses
For the Year Ended June 30, 2020

	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	\$ 2,452,223	\$ 426,162	\$ 1,098,870	\$ 3,977,255	\$ 198,397	\$ 242,908	\$ 441,305	\$ 4,418,560
Payroll taxes	180,352	31,504	81,778	293,634	11,447	16,696	28,143	321,777
Employee benefits	130,829	8,034	68,292	207,155	3,660	10,441	14,101	221,256
Total personnel expenses	<u>2,763,404</u>	<u>465,700</u>	<u>1,248,940</u>	<u>4,478,044</u>	<u>213,504</u>	<u>270,045</u>	<u>483,549</u>	<u>4,961,593</u>
Facilities	338,569	98,316	9,693	446,578	9,232	5,769	15,001	461,579
Professional services	76,936	26,344	49,485	152,765	152,323	13,388	165,711	318,476
Bank charges	101,917	16,335	3,882	122,134	419	605	1,024	123,158
Art and music supplies and maintenance	27,566	24,389	59,857	111,812	-	-	-	111,812
Occupancy	67,704	19,660	18,577	105,941	1,846	1,154	3,000	108,941
Outside services	69,463	4,920	7,138	81,521	-	-	-	81,521
Office expense	27,538	8,410	13,931	49,879	11,871	14,394	26,265	76,144
Marketing	12,372	10,604	3,535	26,511	-	8,837	8,837	35,348
Miscellaneous	5,299	1,409	8,670	15,378	5,284	411	5,695	21,073
Interest	-	-	-	-	9,035	-	9,035	9,035
Total expenses before depreciation	<u>3,490,768</u>	<u>676,087</u>	<u>1,423,708</u>	<u>5,590,563</u>	<u>403,514</u>	<u>314,603</u>	<u>718,117</u>	<u>6,308,680</u>
Depreciation	<u>174,071</u>	<u>47,812</u>	<u>4,336</u>	<u>226,219</u>	<u>4,130</u>	<u>2,581</u>	<u>6,711</u>	<u>232,930</u>
	<u>\$ 3,664,839</u>	<u>\$ 723,899</u>	<u>\$ 1,428,044</u>	<u>\$ 5,816,782</u>	<u>\$ 407,644</u>	<u>\$ 317,184</u>	<u>\$ 724,828</u>	<u>\$ 6,541,610</u>
Percentage of total	<u>56 %</u>	<u>11 %</u>	<u>22 %</u>	<u>89 %</u>	<u>6 %</u>	<u>5 %</u>	<u>11 %</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, 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
Bank charges	92,276	21,004	5,307	118,587	205	827	1,032	119,619
Art and music supplies and maintenance	28,052	36,398	72,839	137,289	-	-	-	137,289
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
Miscellaneous	3,680	2,299	6,080	12,059	7,647	815	8,462	20,521
Interest	-	-	-	-	23,685	-	23,685	23,685
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
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 31,704	\$ 193,876
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	48,651	-
Depreciation	232,930	224,229
Contributions restricted for long-term purposes	(63,748)	(314,886)
Net realized and unrealized (gains) losses on investments	15,481	(2,679)
Changes in operating assets and liabilities		
Accounts receivable	90,020	(14,888)
Contributions receivable	433,368	(146,540)
Prepaid expenses and deposits	73	(2,320)
Accounts payable	(40,618)	(22,282)
Accrued liabilities	203,340	83,771
Deferred revenue	(24,690)	(250,652)
Net cash provided by (used in) operating activities	826,511	(352,371)
Cash flows from investing activities		
Purchases of equipment	(61,962)	(10,737)
Payments on construction in progress	(182,382)	(123,026)
Purchase of investments	(768,457)	(1,484,004)
Proceeds from sale of investments	728,775	1,447,056
Net cash used in investing activities	(284,026)	(170,711)
Cash flows from financing activities		
Contributions restricted for long-term purposes	63,748	314,886
Proceeds from Paycheck Protection Program loan	926,300	-
Net cash provided by financing activities	990,048	314,886
Net increase (decrease) in cash	1,532,533	(208,196)
Cash, cash equivalents and restricted cash, beginning of year	3,860,795	4,068,991
Cash, cash equivalents and restricted cash, end of year	\$ 5,393,328	\$ 3,860,795
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 2,753,560	\$ 1,285,416
Cash restricted for new facilities	2,362,907	2,299,159
Cash designated by board for capital replacement fund	276,861	276,220
	\$ 5,393,328	\$ 3,860,795

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 11,536	\$ 24,795
--	-----------	-----------

Supplemental schedule of noncash investing and financing activities

Forgiveness of debt	\$ 100,000	\$ 100,000
Property and equipment included in accounts payable	\$ 3,500	\$ 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, 2020 and 2019

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.

In December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") originated in Wuhan, China and has since spread to a number of other countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S., including California, where the School is located, have declared a state of emergency. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, which includes significant provisions to provide relief and assistance to affected organizations.

COVID-19 could adversely affect the economies and financial markets of many countries, namely the United States, resulting in an economic downturn that could affect the School in a variety of ways. Although the School has transitioned all major programs to an online format due to the COVID-19 pandemic, the School cannot anticipate all of the ways in which COVID-19 could adversely impact the School's operations. The School is continuing to monitor and assess the effects of the COVID-19 pandemic on the School's operations but the ultimate impact of the COVID-19 outbreak, the CARES Act and other governmental initiatives is highly uncertain and subject to change.

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 1,700 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.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

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.

In-School

The School offers award-winning in-school programs (Art4Schools and Music4Schools), reaching over 19,000 students at 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 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").

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

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.

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.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2020 and 2019, 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.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2020-2021 programs as of June 30, 2020 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.

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, 2020 and 2019.

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.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020 and 2019, 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, 2020 has not yet been filed.

Change in accounting principle

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). ASU 2018-08 clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional.

The School adopted this ASU during the year ended June 30, 2020 using the modified prospective method. The adoption of ASU 2018-08 did not have a material impact on the School's financial position, results of operations or cash flows. The School has evaluated contributions received and contributions made and determined there is no change as a result of adoption of this standard.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

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.

As discussed in Note 1, the School's business and operations has been significantly impacted by the effects of the COVID-19 outbreak and resulting economic conditions. The significance of the impact of the COVID-19 pandemic on the School is being actively monitored and is highly uncertain; however, it is possible the pandemic, and resulting economic reaction, could have a material adverse effect on the business, financial condition, results of operations and cash flows.

Reclassifications

Certain reclassifications have been made to the June 30, 2019 financial statement presentation to conform to the June 30, 2020 presentation. These reclassifications do not affect overall changes in net assets.

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

	2020	2019
Annual fund	\$ 42,172	\$ 298,540
Capital campaign	-	177,000
	\$ 42,172	\$ 475,540

All contributions receivable are expected to be collected during the year ending June 30, 2021.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2020	2019
Buildings	\$ 10,558,288	\$ 10,558,288
Land	1,707,096	1,707,096
Program equipment	482,337	474,476
Furniture and fixtures	98,342	46,184
Office equipment	46,290	40,848
Construction in progress	392,903	259,171
	13,285,256	13,086,063
Accumulated depreciation	(3,617,663)	(3,384,733)
	\$ 9,667,593	\$ 9,701,330

Depreciation expense for the years ended June 30, 2020 and 2019 was \$232,930 and \$224,229, respectively.

6. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The School's investments were held by Vanguard as a General Endowment Fund and a Student Financial Aid Endowment Fund. 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.

The following table sets forth by level, within the fair value hierarchy, the School's assets at fair value as of June 30, 2020:

	Level 1	Level 2	Level 3	Fair Value
Mutual funds	\$ 1,508,333	\$ -	\$ -	\$ 1,508,333
	\$ 1,508,333	\$ -	\$ -	\$ 1,508,333

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

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

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

6. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

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

	2020	2019
Net investment income		
Interest and dividend income	\$ 39,682	\$ 39,462
Net realized and unrealized gains (losses)	(15,481)	2,679
Investment fees	-	(2,514)
	24,201	39,627
Investment income - without donor restrictions	8,118	9,786
Net investment income	\$ 32,319	\$ 49,413

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, 2020 and 2019. The maturity date of the line of credit is May 1, 2021. The School did not draw any funds from the line of credit during the year ended June 30, 2020. As of June 30, 2020, \$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, 2020 and 2019, the School was in compliance with this financial covenant.

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 forgiveness the School recognizes the contribution. During the years ended June 30, 2020 and 2019, the lender forgave \$100,000, respectively, and the School recognized a contribution and reduction to the outstanding principal balance due. As of June 30, 2020 and 2019, the outstanding balance on the promissory note was \$300,000 and \$400,000, 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, 2020.

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, 2020, no advances have been made under the loan agreement.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

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 is evidenced by a promissory note and matures 2 years from the disbursement date. The PPP Loan bears interest at 1% per annum. Principal and interest are deferred for 10 months after the covered period, or until the Small Business Administration ("SBA") remits loan forgiveness if the School submitted its forgiveness application. The PPP Loan contains customary events of default relating to, among other things, payment defaults or breaches of the terms of the PPP Loan. Upon the occurrence of an event of default, the Lender may require immediate repayment of all amounts outstanding under the Note.

Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of loans granted under the PPP. The Loan is subject to forgiveness to the extent proceeds are 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. The School intends to use the Loan amount on Qualifying Expenses and intends to apply for forgiveness. However, no assurance is provided that the School will obtain forgiveness of the Loan in whole or in part. Loan forgiveness is subject to the approval of the Small Business Administration. The School is eligible for loan forgiveness in an amount equal to the payments made during the 24-week period beginning on the Loan date, with the exception that no more than 40% of the amount of loan forgiveness may be for expenses other than payroll costs.

The School has elected to account for the Loan as Debt under ASC 470 and is included in the accompanying statements of financial position. For the year ended June 30, 2020, interest expense was not significant under the Loan.

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 November 2022.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

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>	
2021	\$ 92,702
2022	92,702
2023	92,402
2024	92,302
2025	92,302
Thereafter	<u>2,769,066</u>
	<u><u>\$ 3,231,476</u></u>

Rent expense for equipment and ground lease for the years ended June 30, 2020 and 2019 was \$92,830 and \$89,054, respectively.

9. CONTRIBUTIONS IN-KIND

Contributions in-kind consist of donated equipment, professional services, and supplies. Contributions in-kind were approximately \$120,000 and \$73,000 for the years ended June 30, 2020 and 2019, respectively.

In-kind auction donations, which have been included in special events income, for the year ended June 30, 2019 totaled \$48,799. There were no in-kind auction donations for the year ended June 30, 2020.

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, 2020 and 2019, contributions received from Board of Director members and management totaled approximately \$94,000 and \$126,000, respectively.

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.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

11. CONTINGENCIES (continued)

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 96% and 70% of the School's contributions receivable balance as of June 30, 2020 and 2019 is due from three donors and two donors, respectively. Approximately 29% and 51% of the School's contribution revenue for the years ended June 30, 2020 and 2019 were received from one donor and two donors, respectively.

13. BOARD DESIGNATED NET ASSETS

As of June 30, 2020 and 2019, board designated net assets were \$276,861 and \$276,220 respectively. These funds were designated to the capital replacement fund which will be used for future repairs of the Finn Center.

14. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2020	2019
Restricted to a passage of time		
General operations and support	\$ 135,000	\$ 370,000
Restricted to a specific purpose		
Capital campaign	2,351,170	2,414,288
Held in perpetuity (donor-restricted endowment corpus)	744,364	744,364
Endowment accumulated earnings - unappropriated	350,215	384,641
Offsite music and arts programs	120,427	122,680
Japanese programming	1,121	1,121
	3,567,297	3,667,094
	\$ 3,702,297	\$ 4,037,094

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.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

14. NET ASSETS WITH DONOR RESTRICTIONS (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 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, 2020, time restricted funds of \$135,000 are scheduled to be released through the year ending June 30, 2021.

15. NET ASSETS RELEASED FROM RESTRICTIONS

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

	2020	2019
Restricted to a passage of time		
General operations and support	\$ 235,000	\$ 235,000
Restricted to a specific purpose		
Capital expenditures	90,869	-
Appropriation of endowment earnings	58,627	59,365
Music program	23,000	-
Other	17,252	-
Offsite music and arts programs	-	40,000
	189,748	99,365
	\$ 424,748	\$ 334,365

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.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

16. 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, 2020 and 2019.

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

16. 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 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.

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
Notes to Financial Statements
June 30, 2020 and 2019

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, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Subject to Appropriation and Spending Policy</u>	<u>Held in Perpetuity</u>	
Donor restricted endowment funds	<u>\$ -</u>	<u>\$ 350,215</u>	<u>\$ 744,364</u>	<u>\$ 1,094,579</u>

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</u>		<u>Total</u>
		<u>Subject to Appropriation and Spending Policy</u>	<u>Held in Perpetuity</u>	
Donor restricted endowment funds	<u>\$ -</u>	<u>\$ 384,641</u>	<u>\$ 744,364</u>	<u>\$ 1,129,005</u>

Community School of Music and Arts
Notes to Financial Statements
June 30, 2020 and 2019

16. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2020 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, 2019	\$ -	\$ 384,641	\$ 744,364	\$ 1,129,005
Net investment income and change in fair value of investments	-	24,201	-	24,201
Appropriation for expenditure	-	(58,627)	-	(58,627)
Balance, June 30, 2020	<u>\$ -</u>	<u>\$ 350,215</u>	<u>\$ 744,364</u>	<u>\$ 1,094,579</u>

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
Net 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>

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
Notes to Financial Statements
June 30, 2020 and 2019

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 \$32,000 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.

Contributions receivable consists of unconditional promises to give expected to be received within one year from June 30, 2020 and will be available to support general operations of the School.

The School has a \$500,000 loan agreement 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, 2020 to fund general expenditures and other obligations as they become due:

Cash and cash equivalents	\$ 2,753,560
Investments	445,753
Accounts receivable	<u>187,281</u>
	<u>\$ 3,386,594</u>

18. SUBSEQUENT EVENTS

The School has evaluated subsequent events through December 16, 2020, the date which the financial statements were available to be issued.

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 are 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 are due semi-annually on May 30 and November 30 commencing on May 30, 2022 and ending on November 30, 2023. Borrowings under the term loan will be solely used to complete construction of the new wing.