Financial Statements
June 30, 2023

Together with
Independent Auditors' Report

COMMUNITY SCHOOL OF MUSIC AND ARTS

Table of Contents

June 30, 2023

Robert Lee & Associates, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
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 statement of financial position as of June 30, 2023, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the year 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 the School as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Auditors' 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 auditors' 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 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 the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

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

Robert Lee + Associates, LLP

San Jose, California
December 8, 2023

COMMUNITY SCHOOL OF MUSIC AND ARTS

Statement of Financial Position

June 30, 2023

ASSETS		
Current assets:		
Cash and cash equivalents	$	2,334,037
Operating investments		562,607
Accounts receivable		59,148
Contributions receivable		195,390
Prepaid expenses		98,480
Total current assets		3,249,662
Property and equipment, net		13,545,105
Other assets:		
Investments - restricted for endowment, unappropriated earnings		499,710
Investments - restricted for endowment, net of current portion		744,364
Operating lease right-of-use asset		2,523,484
Total other assets		3,767,558
Total assets	$	20,562,325
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$	32,878
Accrued expenses		369,343
Deferred revenue		1,199,778
Operating lease liability, current		98,555
Total current liabilities		1,700,554
Long-term liabilities:		
Note payable		100,000
Operating lease liability, non-current		2,440,850
Total long-term liabilities		2,540,850
Total liabilities		4,241,404
Net assets:		
Without donor restrictions:		14,489,065
Without donor restrictions - board designated		281,531
Total net assets without donor restrictions		14,770,596
With donor restrictions		1,550,325
Total net assets		16,320,921
Total liabilities and net assets	$	20,562,325

The accompanying notes are an integral part of these financial statements

COMMUNITY SCHOOL OF MUSIC AND ARTS

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2023

	Without donor restrictions	With donor restrictions	Total
Revenue and support:			
Tuition and fees	$ 6,178,516	$ -	$ 6,178,516
Financial aid	(379,984)	-	(379,984)
Total tuition and fees	5,798,532	-	5,798,532
Contributions	1,031,854	174,070	1,205,924
Other income	186,221	-	186,221
Investment income	-	155,398	155,398
Interest income	27,968	-	27,968
In-kind contributions	150,993	-	150,993
Government grants	141,209	-	141,209
Special events, net	165,404	-	165,404
Net assets released from restriction	288,175	(288,175)	-
Total revenue	7,790,356	41,293	7,831,649
Functional expenses			
Program services			
Music School	4,039,688	-	4,039,688
Art School	840,193	-	840,193
In-School	2,031,251	-	2,031,251
Support services			
Management and general	427,760	-	427,760
Fundraising	341,506	-	341,506
Total expenses	7,680,398	-	7,680,398
Change in net assets	109,958	41,293	151,251
Net assets, beginning of year	14,660,638	1,509,032	16,169,670
Net assets, end of year	$ 14,770,596	$ 1,550,325	$ 16,320,921

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, 2023

	Program Services				Supporting Services			
	Music School	Art School	In-School	Total Progam Services	Management and General	Fundraising	Total Support Services	Total
Salaries and related expenses								
Salaries	$ 2,566,507	$ 469,210	$ 1,710,296	$ 4,746,013	$ 185,456	$ 245,735	$ 431,191	$ 5,177,204
Payroll taxes	192,513	35,779	129,659	357,951	10,422	18,280	28,702	386,653
Employee benefits	191,508	18,087	58,996	268,591	6,199	17,326	23,525	292,116
Total salaries and related expenses	2,950,528	523,076	1,898,951	5,372,555	202,077	281,341	483,418	5,855,973
Facilities	420,612	113,730	10,106	544,448	9,860	5,916	15,776	560,224
Depreciation	285,116	71,166	6,172	362,454	6,021	3,613	9,634	372,088
Professional services	21,666	7,371	16,014	45,051	175,242	7,989	183,231	228,282
Bank fees	104,460	20,608	14	125,082	346	918	1,264	126,346
Occupancy	92,693	24,997	2,216	119,906	2,450	1,250	3,700	123,606
Marketing	47,873	41,889	5,984	95,746	-	23,937	23,937	119,683
Art and music supplies and maintenance	27,311	28,565	58,990	114,866	-	-	-	114,866
Outside services	62,851	1,040	18,000	81,891	-	-	-	81,891
Office expense	20,667	7,173	5,479	33,319	16,647	16,436	33,083	66,402
Miscellaneous	5,911	578	9,325	15,814	1,103	106	1,209	17,023
Interest	-	-	-	-	14,014	-	14,014	14,014
Total expenses	$ 4,039,688	$ 840,193	$ 2,031,251	$ 6,911,132	$ 427,760	$ 341,506	$ 769,266	$ 7,680,398
Percentage of total	53%	11%	26%	90%	6%	4%	10%	100%

The accompanying notes are an integral part of these financial statements

COMMUNITY SCHOOL OF MUSIC AND ARTS

Statement of Cash Flows

For the Year Ended June 30, 2023

Cash flows from operating activities:		
Change in net assets	$	151,251
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense		372,088
Unrealized gains on investments		(108,787)
Forgiveness of notes and interst payable		(612,100)
Reduction in carrying amount of right-of-use assets - operating lease		44,174
Changes in operating assets and liabilities:		
Accounts receivable		232,168
Contributions receivable		121,110
Prepaid expenses		17,606
Accounts payable		6,234
Accrued expenses		(201,194)
Deferred revenue		23,505
Operating lease liabilities		(28,253)
Net cash provided by operating activities		17,802
Cash flows from investing activities:		
Purchases of property and equipment		(40,656)
Purchase of investments		(46,611)
Net cash used by investing activities		(87,267)
Decrease in cash and cash equivalents		(69,465)
Cash and cash equivalents, beginning of year		2,403,502
Cash and cash equivalents, end of year	$	2,334,037

Supplemental disclosure of cash flow information

Cash paid during the year for interest	$	6,441
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	92,302

Supplemental disclosure of non-cash operating inforrmation

Forgiveness of notes payable and interest	$	612,100
Right-of-use assets obtained in exchange for lease obligations:		
Operating lease	$	2,567,658

The accompanying notes are an integral part of these financial statements

Note 1 - Organization:

Description of School

Community School of Music and Arts ("CSMA" or "the School", a California non-profit public benefit corporation), 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.

Description of Programs

Music School - The School offers private music lessons, classes, ensembles, workshops, camps, and master classes for nearly 1,900 students, taught by a distinguished international faculty of 71 on over 15 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 1,300 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 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-wining in-school programs, Art4Schools and Music4Schools, reaching nearly 22,000 students at 56 schools in San Mateo and Santa Clara Counties with a sequential, standards-based, and comprehensive curriculum. The School raises funds to subsidize programs at schools servicing 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.

Note 1 - Organization (continued):

Description of Programs (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 CSMA Merit Scholars, faculty, and professional musicians. Exhibitions in the Mohr Gallery showcase emerging and established visual artists with artist talks, reception, and hands-on workshops. In addition, CSMA participates in a number of community outreach events annually providing free hands-on arts activities, info booths, public performances, and exhibitions at local fairs and festivals and other public venues (e.g. hospitals, businesses, etc.).

Note 2 - Summary of significant accounting policies:

Basis of accounting - The financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of presentation - The School presents its financial statements in accordance with Generally Accepted Accounting Principles in the United States of America ("GAAP"), which requires the School to report information regarding its financial position and activities according to two classes of net assets:

- *Without donor restrictions* - net assets which are available to support all activities of the School without restrictions and include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation.

- *With donor restrictions* - net asset which are subject to donor-imposed restrictions that will be met rather by actions of the School or the passage of time. Also included in this category are net assets restricted by the donor for investment in perpetuity, such as endowments. The income from such invested assets is available to support the activities of the School.

Note 2 - Summary of significant accounting policies (continued):

Use of estimates - The preparation of financial statements 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 revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions.

Cash and cash equivalents - Cash and cash equivalents consist of cash and money market accounts. For the purpose of reporting cash flows, the School considers all highly liquid investments with a maturity date of three months or less at the date of purchase to be cash equivalents. The carrying amount in the statement of financial position approximates fair value.

Accounts receivable - Accounts receivable consists primarily of amounts due to the School in conjunction with the School's program operations and totaled approximately $59,000 and $237,000 as of June 30, 2023 and 2022, respectively. An allowance reserve for uncollectible accounts receivables, if any, is determined based on management's evaluation of each outstanding accounts receivable for collectability. Management has determined the outstanding accounts receivable to be fully collectible and therefore, no allowance has been recorded for the for the year ended June 30, 2023.

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. Contributions receivable totaled approximately $195,000 as of June 30, 2023. There were no conditional contributions for the year ended June 30, 2023. An allowance reserve for contributions receivable is determined based on management's evaluation of collectability. Annual fund contributions receivable are considered to be fully collectible, and as a result, no allowance has been recorded for the year ended June 30, 2023.

Investments - The School's investments are valued in accordance with GAAP, including Fair Value Measurements. The School invests in mutual funds. All debt securities and equity securities are carried at quoted market prices as of the last trading date of the School's fiscal year. Contributions of investments are recorded at quoted market prices at the date of donation. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur as part of net assets without donor restrictions or net assets with donor restrictions as appropriate. Realized gains or losses resulting form sales or maturities are the differences between the investment's cost basis and the sale or maturity of settlement of the investment. Dividend and interest income are accrued when earned.

Note 2 - Summary of significant accounting policies (continued):

Fair value of financial instruments - Unless otherwise indicated, the fair values of all reported assets and liabilities approximate the carrying values of such amounts.

Prepaid expenses - Prepaid expenses include payments of prepaid insurance and other program related activities.

Property, equipment, and depreciation - Purchased property and equipment used in the School's operations are stated at cost less accumulated depreciation. Significant donated property and equipment are recorded at their estimated fair value on the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to fifty-five years. The School capitalizes property and equipment with a value over $1,000. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Deferred revenue - Deferred revenue predominately consists of tuition dues and rental deposits that are deferred upon receipt and recognized as revenue once the conditions have been satisfied. The School will recognize these revenues when the service occurs and revenue have been earned.

Operating leases - The School is obligated under a non-cancelable operating lease, with remaining terms through 2055. Under Accounting Standards Codification ("ASC") 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract have changed. The operating lease is included as operating lease right-of-use ("ROU") assets and operating lease liability in the statement of financial position.

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The School's lease does not provide an implicit rate to determine the present value of lease payments The School has elected to use a risk-free rate as the lease discount rate for the lease as allowed by ASC 842-20-30-3.

Operating lease ROU assets also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The School's lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise the option.

Note 2 - Summary of significant accounting policies (continued):

Revenue recognition - The School recognizes revenue in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers, as amended. ASC 606 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

Tuition and fees - The School recognizes student tuition and fees in the amount that reflects the consideration expected for providing lessons and classes over time. The School establishes the transaction price per individual based on class or lesson the individual has registered for and reflects financial aid provided for tuition and fees as a reduction to the expected consideration. As tuition and fees are individually priced and are representative of one performance obligation, no allocation of transaction price is necessary. Included in tuition and fees are non-refundable deposits that are required to hold student's spots for the upcoming class or lesson. Deposits, tuition, and fees received in advance of services to be provided are recognized as deferred revenue and are subsequently recognized as income within the fiscal year in which services are provided. Any tuition and fee refunds are recognized as a refund liability.

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. For the year ended June 30, 2023, the School provided approximately $352,000 in tuition assistance.

Contributions received and receivable - Contributions received are reported as either with or without donor restrictions. Unconditional promises to give, 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..

In-kind contributions - The School records various types of in-kind support including professional services and tangible assets. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed in-kind legal services totaled approximately $103,000 and advertising services total approximately $47,000 for the year ended June 30, 2023. Contributions of tangible assets are recognized at fair value when received. Significant donated materials and equipment are recorded as contributions based on estimated of fair market value on the date of receipt and reported as expense when utilized. For the year ended June 30, 2023, the School recorded approximately $33,000 of contributed assets. All in-kind contributions for the year were estimated at the fair market value of the goods or services provided, there were no associated donor restrictions, and all amounts could be utilized for general and administrative activities.

Note 2 - Summary of significant accounting policies (continued):

Revenue recognition (continued) -

Special events - The School conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event - the exchange component, and a portion represents a contribution to the School. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the School. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The performance obligation is delivery of the event. The event fee is set by the School.

FASB ASC 606 requires allocation of the transaction price to the performance obligation(s). Accordingly, the School separately presents in its notes to financial statements, the exchange and contribution components of the gross proceeds from special events. For special event fees received before year-end for an event to occur after year-end, the School follows American Institute of Certified Public Accountants ("AICPA") guidance where the inherent contribution is conditioned on the event taking place and is therefore treated as a refundable advance along with the exchange component. Special event fees collected by the School in an advance period of its delivery are initially recognized as deferred revenue and recognized as special event revenue after delivery of the event.

Functional expense allocations - The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated, principally on a direct cost basis, among the classifications. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are salaries and benefits, which are allocated on the basis of time studies conducted annually for each employee; occupancy costs which are allocated on a square footage basis; and expenses that are truly shared by all programs and supporting functions of the School, including depreciation, some office supplies, and some other expenses are allocated based on the weighted average of the full time equivalent of each position resulting in a general split for the School.

Revenue and receivable concentrations - Approximately 56% of outstanding receivables at June 30, 2023, was due from one donor. Approximately 59% of contribution revenue for the year ended June 30, 2023, was received from two donors.

Advertising - Advertising costs are expensed as incurred. Advertising and marketing expense for the year ended June 30, 2023 was approximately $120,000.

Note 2 - Summary of significant accounting policies (continued):

Endowment accounting and interpretation of relevant law - The School is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"), the provisions of which apply to its endowment funds. As required by UPMIFA and 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.

Tax-exempt status - The School is exempt from taxes on income under section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Franchise Tax Board code. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

Accounting for uncertainty in income taxes - The School evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2023, management did not identify any uncertain tax positions.

Recently adopted accounting guidance - In February 2016, the FASB issued 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for accounting for leases under *Topic 840, Leases*. The FASB also subsequently issued the following additional Accounting Standards Updates ("ASU"), which amend and clarify Topic 842: ASU 2018-11, *Leases (Topic 842): Targeted Improvements,* ASU 2018-20, *Narrow-scope Improvements for Lessors,* ASU 2019-01, *Leases (Topic 842): Codification Improvements*, and ASU 2023-01, *Common Control Arrangements (Topic 842)*. The most significant change in the new leasing guidance is the requirement to recognize ROU assets and lease liabilities for operating leases on the statement of financial position. The School elected to adopt this ASU effective July 1, 2022 and utilized all of the available practical expedients. See Note 8.

Recent accounting pronouncements - In June 2016, the FASB issued FASB ASU No. 2016-13 *Measurement of Credit Losses on Financial Instruments* to improve financial reporting related to anticipated credit losses. ASU 2016-13 involves several aspects of the accounting for credit losses related to certain financial instruments including assets measured at amortized cost, trade and other receivables, loans, and certain off-balance sheet commitments. ASU 2016-16, and subsequent updates, broadens the information that an entity must consider in developing its estimated credit losses expected to occur over the remaining life of assets measured either collectively or individually to include historical experience, current conditions and reasonable and supportable forecasts, replacing the existing incurred credit loss model and other models with the Current Expected Credit Losses model.

Note 2 - Summary of significant accounting policies (continued):

Recent accounting pronouncements (continued) - The ASU is effective for annual reporting periods beginning after December 31, 2022. Management has not determined the impact of this pronouncement.

Subsequent events - Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the financial statements were available to be issued and it has been determined that no material subsequent events require an estimate to be recorded as of June 30, 2023.

Note 3 - Liquidity and availability of financial assets:

The Schools financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position as of June 30, 2023 are as follows:

Financial assets at year end:	
Cash and cash equivalents	$ 2,334,037
Accounts receivable	59,148
Contributions receivable	195,390
Investments	1,806,681
Total financial assets	4,395,256
Less amounts unavailable for general expenditures within one year, due to:	
Investments - restricted for endowment, unappropriated earnings	(499,710)
Investments - restricted for endowment, net of current portion	(744,364)
Financial assets available to meet general expenditures within one year	$ 3,151,182

The School is substantially supported by program service fees as well as contributions. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due. Amounts not available for general operating use due to Board designations could be drawn upon with Board approval if needed.

Note 4 - Investments:

The School follows the provisions of the Fair Value Measurements and Disclosure topic of the FASB ASC. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The School uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the School measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

An investment's classification within a level in the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The School's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The categorization of the investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the School's perceived risk of that investment.

The following are major categories of investments measured at fair value on a recurring basis:

- Level 1: Quoted prices in active markets for identical assets
- Level 2: Significant other observable inputs
- Level 3: Significant unobservable inputs

At June 30, 2023, the School was invested in Level 1 investments and had no investment in Level 2 and Level 3 inputs. The School's investments were measured using quoted prices in active markets for identical assets (Level 1) at June 30, 2023 as follows:

		Level 1
Mutual funds	$	1,806,681

The following schedule summarizes total investment returns as of June 30, 2023:

Dividends and interest	$	46,611
Unrealized gains		108,787
Total investment income	$	155,398

Note 5 - Property and equipment:

Property and equipment consisted of the following as of June 30, 2023:

Building	$ 15,510,498
Equipment	607,564
Furniture and fixtures	224,538
Office equipment	55,824
Total property and equipment	16,398,424
Less: accumulated depreciation	(4,560,415)
Land	1,707,096
Total property and equipment, net	$ 13,545,105

Depreciation expense on property and equipment for the year ended June 30, 2023 was approximately $372,000.

Note 6 - Deferred revenue:

The activity and balances for deferred revenue from contracts with customers are shown in the following table for the year ended June 30, 2023:

	Beginning balance	Net payments received for future obligations	Revenue recognized	Ending balance
Classes and lessons	$ 1,164,700	$ 5,778,552	$ (5,798,532)	$ 1,144,720
Rentals	12,006	146,152	(129,600)	28,558
Special events	31,125	250,735	(255,360)	26,500
Total deferred revenue	$ 1,207,831	$ 6,175,439	$ (6,183,492)	$ 1,199,778

Note 7 - Lease arrangements:

The School is obligated under one non-cancelable ground operating lease at year-end with the City of Mountain View (the "City"), with a remaining term through 2055, which includes options to extend the lease until June 30, 2080. The City has the ability to increase rent based on the Consumer Price Index for urban consumers in the San Francisco, Oakland, and San Jose Metropolitan Statistical Area. However, management has not determined if additional renewal periods are reasonably certain to be exercised.

During the year ended June 30, 2023, the School recognized operating lease expense of approximately $131,000, which is allocated accordingly on the statement of functional expenses.

At June 30, 2023, the weighted-average remaining lease term for the operating leases was 32 years. At June 30, 2023, the weighted-average discount rate associated with the operating leases was 3.11%.

The maturities of lease liabilities as of June 30, 2023 were as follows:

Year Ending June 30,		Amount
2024	$	98,555
2025		101,532
2026		101,532
2027		101,532
2028		101,532
Thereafter		3,712,796
Total operating lease payments		4,217,479
Less: present value discount		(1,678,074)
Present value of operating lease liabilities		2,539,405
Less current portion operating leases		(98,555)
Long-term portion operating leases	$	2,440,850

Note 8 - Notes payable and line of credit:

On April 11, 2006, the School entered into a long-term promissory note payable to the family trust of a former board member. The note was amended on April 18, 2019, and has a maturity date of April 11, 2029. Under the terms of the agreement the School is required to pay annual interest only payments at a rate of 2.91% per annum of the outstanding principal balance, maturing April 11, 2029. The lender may provide forgiveness on the note payable by making written contributions for the note payable forgiveness. Forgiveness on the note payable is recorded by the School as a contribution. During the year ended June 30, 2023, the lender forgave $100,000 and the School recognized a contribution and reduction to the outstanding balance. As of June 30, 2023, the outstanding balance on the promissory note was $100,000.

On May 29, 2019, the School entered into a long-term loan agreement with a maturity date of May 29, 2029. The agreement provides for advances up to $500,000 with interest accrued on any unpaid outstanding principal at a rate of 2.91% compounded quarterly, 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 are due on the ten year anniversary of the last day of the 18 month draw period. The School received forgiveness of $500,000 and accrued interest of approximately $12,000. There was no balance due for the year ended June 30, 2023.

The School had a line of credit that provided for a secured credit arrangement for advances up to $500,000 to support general operations which expired May 1, 2023. The School did not draw from the line of credit during the year ended June 30, 2023, and there was no amendment to extend past the date of maturity.

Note 9 - Board-designated net assets:

For the year ended June 30, 2023, the School's board designated net assets were approximately $282,000, to support the capital replacement fund, which will be used for future repairs of the Finn Center.

COMMUNITY SCHOOL OF MUSIC AND ARTS

Notes to Financial Statements

June 30, 2023

Note 10 - Net assets with donor restrictions:

Net assets with donor restrictions were available for the following purposes at June 30, 2023:

Subject to expenditure for passage of time:		
General operations and support	$	291,500
Subject to expenditure for a specific purpose		
Music and arts programs		14,751
Endowment:		
Held in perpetuity		744,364
Endowment accumulated earngings - unappropriated		499,710
Total net assets with donor restrictions	$	1,550,325

Note 11 - Net assets released from donor restrictions:

Net assets with donor restrictions were available for the following purposes at June 30, 2023:

Subject to expenditure for passage of time:		
General operations and support	$	229,617
Subject to expenditure for a specific purpose		
Music and arts programs		58,558
Total net assets released from restrictions	$	288,175

Note 12 - Endowment:

The School's endowment consists of funds established for a variety of purposes. Its endowments consist of donor restricted endowment funds. Net assets with donor restrictions represent the principal amounts of gifts accepted with donor stipulation that the principal be maintained intact in perpetuity and the income generated from the endowment investments which can be utilized for a variety of programs as directed by donors.

The Board of Directors of the School has interpreted the 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.

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 fund
(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

The Endowment fund contains restricted net assets held in perpetuity, which represent funds received from resources in which the principal must be maintained intact in perpetuity. Interest income, dividends and net realized and unrealized gains on the invested principal can be used in accordance with the endowment trust documents or donor restrictions.

		With Donor Restrictions		
	Without Donor Restrictions	Program service and general use	Permanetly restricted	Total
Donor restricted endowment funds	$ -	$ 499,710	$ 744,364	$ 1,244,074

Note 12 - Endowment (continued):

Endowment net asset and changes in endowment net assets consisted of the following at June 30, 2023:

	Without Donor Restrictions	With donor restriction: Program service and general use	With donor restriction: Perpetual in nature	Total
Endowment net assets June 30, 2022	$ -	$ 416,578	$ 744,364	$ 1,160,942
Investment return:				
Interest and dividend income	-	46,611	-	46,611
Unrealized gains	-	108,787	-	108,787
Total investment return	-	155,398	-	155,398
Appropriation of endowment net assets for expenditure	-	(72,266)	-	(72,266)
Endowment net assets June 30, 2023	$ -	$ 499,710	$ 744,364	$ 1,244,074

Underwater endowments: 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. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no deficiencies of this nature during June 30, 2023.

Return objectives and risk parameters: The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the School must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the School's Board of Directors, the endowment assets are invested in a manner that is intended to provide a moderate average annual real return in excess of inflation. Actual returns in any given year may vary from this amount.

Note 12 - Endowment (continued):

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

Spending policies and how the investment objectives relate to spending policy:

The School has an investment portfolio that is managed based on the School's investment policy, which attempts to maximize return while maintaining an appropriate level of risk. Exposure is limited by prudent diversification, guided by a strategic asset allocation model. Accordingly, over the long term, the School expects the current spending policy to allow its endowment to grow each fiscal year. This is consistent with the School's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The School's Board of Directors may authorize disbursement each year, for general budgetary purposes of the School, 4% of the fair market value of each fund.

Note 13 - Special events:

Special events revenues, contributions and expenses by event for the year ended June 30, 2023 are as follows:

	Gala event
Special event contributions	$ 147,560
Special event registration fees	107,800
Less special event expenses	(89,956)
	$ 165,404

Total fundraising expenses for the year ended June 30, 2023 was approximately $431,000.