

SAN FRANCISCO  
CONSERVATORY OF MUSIC

JUNE 30, 2021

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INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

# San Francisco Conservatory of Music

## Independent Auditors' Report and Consolidated Financial Statements

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<b>Independent Auditors' Report</b>	1 - 2
<b>Consolidated Financial Statements</b>	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5 - 6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8 - 33



A Century Strong

## **Independent Auditors' Report**

THE BOARD OF TRUSTEES  
SAN FRANCISCO CONSERVATORY OF MUSIC  
San Francisco, California

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of **SAN FRANCISCO CONSERVATORY OF MUSIC (SFCM)** which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial position of SFCM as of June 30, 2021, and the consolidated 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.

### **Report on Summarized Comparative Information**

We have previously audited SFCM's June 30, 2020 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 10, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the consolidated audited financial statements from which it has been derived.

*Hood & Strong LLP*

San Francisco, California  
December 15, 2021

# San Francisco Conservatory of Music

## Consolidated Statement of Financial Position (in thousands)

<i>June 30, 2021 (with comparative totals for 2020)</i>	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 4,796	\$ 7,554
Restricted cash	156	113
Receivables:		
Accounts receivable (less allowance for doubtful accounts of \$307 for 2021 and \$16 for 2020)	2,406	2,307
Notes receivable (less allowance for doubtful accounts of \$70 for 2021 and \$94 for 2020)	1,109	1,161
Contributions and grants, net	25,160	31,925
Trusts	299	225
Investments	67,313	54,806
Other assets	1,137	1,195
Property, plant and equipment, net	238,953	213,693
Goodwill, net	2,820	-
<b>Total Assets</b>	<b>\$ 344,149</b>	<b>\$ 312,979</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 5,570	\$ 12,104
Accrued expenses and other liabilities	717	9,701
Deposits and deferred income	3,606	2,933
Line of credit	2,300	500
Loans, net of financing issuance costs	93,995	63,538
Paycheck Protection Program Loan	715	2,639
Accumulated postretirement medical benefit obligation	4,874	4,847
Redemption obligation-contingent consideration	901	-
Government advances for loan program	472	522
<b>Total liabilities</b>	<b>113,150</b>	<b>96,784</b>
<b>Net Assets:</b>		
Without donor restrictions:		
Undesignated	27,700	25,501
Designated - Quasi endowment	104	88
Federal loan fund	197	185
Investment in plant	145,575	45,201
<b>Total net assets without donor restrictions</b>	<b>173,576</b>	<b>70,975</b>
With donor restrictions:		
Purpose and time restrictions	1,665	101,810
Appreciation on endowment funds	5,644	376
Underwater endowment funds	(738)	(4,676)
Restricted in perpetuity - endowment funds	50,852	47,710
<b>Total net assets with donor restrictions</b>	<b>57,423</b>	<b>145,220</b>
<b>Total net assets</b>	<b>230,999</b>	<b>216,195</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 344,149</b>	<b>\$ 312,979</b>

See accompanying notes to financial statement.

# San Francisco Conservatory of Music

## Consolidated Statement of Activities (in thousands)

Year Ended June 30, 2021 (with comparative totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	Total	2020 Total
<b>Operating Revenue and Support:</b>				
Tuition and fees	\$ 22,787		\$ 22,787	\$ 24,172
Less Scholarships	(11,922)		(11,922)	(12,166)
Net tuition and fees	10,865		10,865	12,006
Private contributions	4,077	\$ 1,126	5,203	8,453
Government grants	969		969	786
Other educational revenue	132		132	250
Board approved release from fund for special purposes	800		800	1,400
Fundraising events	452		452	511
Auxiliary services	3,051		3,051	3,050
Paycheck Protection Program Loan Forgiveness	3,354		3,354	-
Net investment and endowment income	314	2,498	2,812	2,667
Net assets released from restrictions	6,104	(6,104)	-	-
<b>Total operating revenue and support</b>	<b>30,118</b>	<b>(2,480)</b>	<b>27,638</b>	<b>29,123</b>
<b>Expenses:</b>				
Program services:				
Instruction	14,775		14,775	14,488
Student services	1,737		1,737	1,848
Academic support	1,798		1,798	1,493
Public programs	372		372	370
Auxiliary services	6,133		6,133	3,280
<b>Total program services</b>	<b>24,815</b>		<b>24,815</b>	<b>21,479</b>
Fundraising:				
General fundraising	1,769		1,769	1,340
Fundraising events	117		117	156
<b>Total fundraising</b>	<b>1,886</b>		<b>1,886</b>	<b>1,496</b>
<b>General and administration</b>	<b>5,339</b>		<b>5,339</b>	<b>5,939</b>
<b>Total expenses (including depreciation of \$2,549 for 2021 and \$1,247 for 2020)</b>	<b>32,040</b>		<b>32,040</b>	<b>28,914</b>
<b>Change in net assets from operations</b>	<b>(1,922)</b>	<b>(2,480)</b>	<b>(4,402)</b>	<b>209</b>
<b>Non-operating Activities:</b>				
Endowment contributions		3,826	3,826	2,422
Unrestricted contributions designated by Board			-	20,000
Release from Board-designated fund	(800)		(800)	(1,400)
Capital Campaign contributions		8,334	8,334	8,244
Independent operation revenues	1,632		1,632	106
Independent operation expenses	(3,491)		(3,491)	(144)
Capital Campaign fundraising expenses	(94)		(94)	(940)
Other non-operating expense	(1,094)	540	(554)	(172)
Investment income (loss), net of fees	1,660	8,720	10,380	(2,151)
Net assets released from restriction	106,737	(106,737)	-	-
Postretirement medical benefit plan obligation	(27)		(27)	(404)
<b>Change in net assets from non-operating activities</b>	<b>104,523</b>	<b>(85,317)</b>	<b>19,206</b>	<b>25,561</b>
<b>Total Change in Net Assets</b>	<b>102,601</b>	<b>(87,797)</b>	<b>14,804</b>	<b>25,770</b>
<b>Net Assets, beginning of year</b>	<b>70,975</b>	<b>145,220</b>	<b>216,195</b>	<b>190,425</b>
<b>Net Assets, end of year</b>	<b>\$ 173,576</b>	<b>\$ 57,423</b>	<b>\$ 230,999</b>	<b>\$ 216,195</b>

See accompanying notes to financial statement.

# San Francisco Conservatory of Music

## Consolidated Statement of Functional Expenses (in thousands)

*Year Ended June 30, 2021*

	Operating							Non-operating		Total Expenses		
	Instruction	Student Services	Academic Support	Public Programs	Auxiliary Services	General and Administration	Fundraising Events	Fundraising	Total		Independent Operation	Capital Campaign Fundraising
Salaries and wages	\$ 9,912	\$ 947	\$ 1,005	\$ 128	\$ 109	\$ 2,823		\$ 1,095	\$ 16,019	\$ 1,472		\$ 17,491
Benefits	1,612	205	186	15	16	629		229	2,892	228		3,120
Purchased services	459	46	47	6	1,037	148	\$ 62	63	1,868	176		2,044
Professional and artistic fees	680	22	72	190	33	779	3	13	1,792	167	\$ 78	2,037
Repairs and maintenance	32	3	10		1	11		3	60			60
Supplies	145	25	250	1	39	25	1	12	498		3	501
Depreciation and amortization	797	80	82	10	1,242	237		91	2,539	158		2,697
Interest expense	147	15	15	2	2,500	44		17	2,740			2,740
Insurance	215	22	22	3	212	64		25	563			563
Utilities and telephone	262	28	27	3	351	88		33	792	20		812
Travel/mileage/meals	8	20	1	12	18	49	2	10	120	1	1	122
Software	143	158	28	1	3	45		70	448			448
Advertising	28	72				118	40		258			258
Facility rentals	64	2	1		566	166		20	819	427		1,246
Awards and contributions (non-tuition)	163	12							175			175
Other expenses	108	80	52	1	6	113	9	88	457	485	12	954
<b>Total Expenses</b>	<b>\$ 14,775</b>	<b>\$ 1,737</b>	<b>\$ 1,798</b>	<b>\$ 372</b>	<b>\$ 6,133</b>	<b>\$ 5,339</b>	<b>\$ 117</b>	<b>\$ 1,769</b>	<b>\$ 32,040</b>	<b>\$ 3,134</b>	<b>\$ 94</b>	<b>\$ 35,268</b>

See accompanying notes to financial statement.

**San Francisco Conservatory of Music**  
**Consolidated Statement of Functional Expenses**  
**(in thousands)**

*Year Ended June 30, 2020*

	Operating								Non-operating		Total Expenses	
	Instruction	Student Services	Academic Support	Public Programs	Auxiliary Services	General and Administration	Fundraising Events	Fundraising	Total	Independent Operation		Capital Campaign Fundraising
Salaries and wages	\$ 9,916	\$ 1,011	\$ 880	\$ 156	\$ 12	\$ 3,241	\$ 2	\$ 813	\$ 16,031		\$ 450	\$ 16,481
Benefits	1,547	200	174	15	1	656		110	2,703		165	2,868
Purchased services	379	66	35	6	5	148	48	58	745		7	752
Professional and artistic fees	550	67	88	144	19	647	1	12	1,528	\$ 11	122	1,661
Repairs and maintenance	142	11	22	2		17		8	202			202
Supplies	207	33	128	1	11	66	2	14	462		1	463
Depreciation	764	81	70	11	1	258		62	1,247			1,247
Interest expense	155	16	14	2		52		13	252			252
Insurance	147	16	14	2		50		12	241			241
Utilities and telephone	247	28	23	4	97	94		22	515		2	517
Travel/mileage/meals	143	83	3	26	6	83	87	26	457	2	29	488
Software	80	128	24			26		48	306			306
Advertising	6	63				149		30	248		7	255
Facility rentals	51	4	1		3,127	177		1	3,361	131	60	3,552
Awards and contributions (non tuition)	89	13				125			227			227
Other expenses	65	28	17	1	1	150	16	111	389		97	486
<b>Total Expenses</b>	<b>\$ 14,488</b>	<b>\$ 1,848</b>	<b>\$ 1,493</b>	<b>\$ 370</b>	<b>\$ 3,280</b>	<b>\$ 5,939</b>	<b>\$ 156</b>	<b>\$ 1,340</b>	<b>\$ 28,914</b>	<b>\$ 144</b>	<b>\$ 940</b>	<b>\$ 29,998</b>

See accompanying notes to financial statement.



# San Francisco Conservatory of Music

## Consolidated Statement of Cash Flows (in thousands)

<i>Year Ended June 30, 2021 (with comparative totals for 2020)</i>	2021	2020
<b>Operating Activities:</b>		
Change in net assets	\$ 14,804	\$ 25,770
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	2,697	1,247
Forgiveness of Paycheck Protection Program loan	(3,354)	
Net realized and unrealized (gain) loss on investments	(11,982)	1,167
Loss on sale of assets		166
Contributions of equipment	(173)	(1,755)
Contributions received for long-term investment and acquisition of long lived assets	(17,569)	(21,421)
Financing issuance costs amortization	136	136
Changes in operating assets and liabilities:		
Receivables	4,171	10,718
Other assets	119	(270)
Accounts payable	(5,377)	(5,900)
Accrued expenses, other liabilities and post-retirement obligation	(8,990)	7,220
Deposits and deferred income	1,056	206
Government advances for loan program	(50)	(169)
Net cash (used) provided by operating activities	(24,512)	17,115
<b>Investing Activities:</b>		
Property and equipment:		
Proceeds from sales	59	225
Purchases and capital expenditures	(27,634)	(80,126)
Investments:		
Proceeds from sales	21,493	6,758
Purchases	(22,018)	(20,849)
Net cash used by investing activities	(28,100)	(93,992)
<b>Financing Activities:</b>		
Contributions received for long-term investment and acquisition of long lived assets	17,569	21,421
Cash from acquisition Opus 3 Artists LLC	888	
Line of credit proceeds	1,800	1,500
Line of credit payments		(4,000)
Loan proceeds	28,925	63,270
PPP loan proceeds	715	
Net cash provided by financing activities	49,897	82,191
<b>Net Change in Cash and Equivalents and Restricted Cash</b>	<b>(2,715)</b>	<b>5,314</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>7,667</b>	<b>2,353</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 4,952</b>	<b>\$ 7,667</b>
<b>Supplemental Cash Flow Information:</b>		
Interest paid	\$ 1,848	\$ 1,455
Construction in progress costs included in accounts payable	\$ 4,898	\$ 11,420
Reconciliation of cash, cash equivalents and restricted cash to amounts shown on the statement of financial position:		
Cash and cash equivalents	\$ 4,796	\$ 7,554
Restricted cash	156	113
Total cash, cash equivalents and restricted cash shown on the statement of financial position	\$ 4,952	\$ 7,667

See accompanying notes to financial statement.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### Note 1 - Organization and Operations:

San Francisco Conservatory of Music (SFCM) is an independent college of music located in San Francisco, California. SFCM offers undergraduate and graduate degree programs, music instruction for adults and children and other public programs.

Effective January 1, 2021, SFCM acquired all the outstanding member interests of Opus 3 Artists LLC, through a newly created single member LLC (Mothership). This acquisition included assets of \$2,089,989, assumed liabilities of \$4,157,472, and contingent consideration of \$900,986. This results in \$2,968,469 of the acquisition value being allocated to goodwill. The contingent consideration begins to be paid upon the repayment of the loans made by Mothership, prior to the acquisition. All of the goodwill recorded as part of the transaction will be amortized for financial statement and tax purposes.

SFCM's operations are primarily funded through revenue generated by tuition and fees. Private contributions received from donors increase SFCM's ability to provide instruction.

SFCM assists students in the financing of their education through private and institutional scholarships as well as federally funded student aid programs.

SFCM is accredited by the Western Association of Schools and Colleges (WASC). Federally funded student aid programs require the accreditation to be maintained. This accreditation is subject to periodic review and renewal.

Opus 3 Artists LLC (the Company) is a booking agency for artists, composers, musical ensembles and theatrical troupes. The majority of the bookings arranged for its artists are for performances located in North America.

### Note 2 - Significant Accounting Policies:

SFCM's significant accounting policies include the following:

#### a. Basis of Presentation and Description of Net Assets

The accompanying consolidated financial statements include the accounts of SFCM and its single member LLCs (collectively, "SFCM") after elimination of intercompany accounts and transactions.

SFCM's financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for not-for-profit organizations which utilize classifications for presentation based on the existence or absence of donor-imposed restrictions.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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*Net assets without donor restrictions* represent unrestricted resources that are not subject to donor-imposed restrictions and are available to support all activities of SFCM. Net assets without donor restrictions include Board designated net assets for endowment (see Note 14).

*Net assets with donor restrictions* represent contributions that are limited in use by SFCM in accordance with donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by activities conducted by SFCM pursuant to those stipulations. Other donor-imposed restrictions represent contributions to be held as investments in perpetuity as directed by the original donor.

### b. Revenue Recognition

Student tuition receivables are recorded when students are billed. Tuition revenue is recorded as the performance obligation is met (earned) on a pro rata basis over the applicable teaching period. Payments received for tuition for future periods are reported as deferred revenue. Collection or development of payment plans for tuition is required prior to registration for the following term.

Independent operations revenue is comprised predominantly of income earned by the Company which is recognized at a point in time upon the occurrence of a performance, appearance or event, and based on fees received at contractual rates. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring services.

In the normal course of business, the Company acts as an intermediary or agent with respect to payments received from third parties. As required by Financial Accounting Standards Board ("FASB") Accounting Standards Codification 606 paragraph 606-10-55-37 through 40, such transactions are recorded on a "gross" or "net" basis depending on whether the Company is acting as the "principal" in the transaction or acting as the "agent" in the transaction. The Company does not have control before the service is transferred to the customer, therefore, the Company is considered an agent and, accordingly, revenues are recorded on a net basis.

All contributions and grants, whether or not restricted, are recognized as revenue when they are received by or unconditionally pledged to SFCM. SFCM classifies gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When such donor restrictions expire, that is, when stipulated time restrictions end or purpose restrictions are accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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SFCM reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, SFCM reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions of services are recorded as revenue and recognized when received if the services create or enhance nonfinancial assets, or if they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Corresponding amounts are also recorded as expenses.

Contributions of assets other than cash are recorded at their estimated fair value. Contributions and grants receivable represent amounts committed by donors that have not been received by SFCM. Contributions and grants expected to be received beyond one year, are discounted at an applicable rate at the time of contribution.

c. Cash Equivalents

SFCM considers all instruments with a maturity of three months or less at the time of purchase to be cash equivalents for the purposes of the statement of cash flows, except for cash equivalents included in and managed with SFCM's investments.

d. Restricted Cash

Restricted cash represents cash in the Perkins loan program.

e. Investments

Marketable securities are recorded at fair value based on quoted market prices. The fair value of alternative investments has been estimated using the net asset values (NAV) as reported by the fund managers. SFCM believes the carrying amount of these investments is a reasonable estimate of its fair value. The timing of the ultimate liquidation of this investment is restricted to certain time periods, and is limited to sale by the fund. Due to inherent uncertainty of valuation of such investment, the estimated value may differ significantly from the value that would have been used had a ready market for such funds existed.

Other investments, primarily real estate interests, are carried at cost basis. Investments received as gifts are recorded at estimated fair value at the date of the donation. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities are calculated on an adjusted cost basis. Adjusted cost is the estimated fair value of the security at the beginning of the year, or the cost if purchased during the year.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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Dividend and interest income are accrued when earned.

f. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFCM reports certain investments using the NAV per share as determined by investment managers under the so-called “practical expedient.” The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

SFCM classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in active markets. Level 3 values are based on significant unobservable inputs that reflect SFCM’s determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

g. Endowment Funds

SFCM’s endowments include donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### *Interpretation of Uniform Prudent Management of Funds Act (UPMIFA)*

The Board of Trustees of SFCM has interpreted California's 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, SFCM classifies as donor restricted net assets (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 that is not classified as net assets with donor restrictions in perpetuity is classified as donor restricted net assets of a time nature until those amounts are appropriated for expenditure by SFCM in a manner consistent with the standard of prudence prescribed by California's UPMIFA. In accordance with California's UPMIFA, SFCM 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 SFCM 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 SFCM
- 7) The needs of SFCM and the fund to make distributions and to preserve capital
- 8) The expected tax consequences
- 9) The role that each investment or course of action plays within the overall fund
- 10) The investment policies of SFCM

### *Investment Objectives and Spending Policy*

SFCM 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. Under this policy, as approved by the Board of Trustees, the performance of the endowment fund shall be measured by total return.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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SFCM's spending policy has a long-term spending goal of 4% of a 3-year average. However, the specific draw shall be determined by the Board on an annual basis considering the performance of the endowment and the needs of SFCM. A protective collar is utilized as an overlay to the spending policy. The protective collar calculations will be based on the value of the endowment at the end of each fiscal year. The application of the collar will mitigate the effects of extreme market outcomes and limit the amount of money that can be distributed from the endowment if there is a one year or a period of years of underperformance or negative performance. Under this collar, the SFCM takes into consideration the market value of the endowment at the most recent fiscal year-end. The collar states that the draw must fall within a range that is at least 4% and not more than 6% of the Endowment Market Value at year end, even if the amount that could be drawn is higher or lower under the 3-year moving average calculation. This is consistent with SFCM'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.

### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, SFCM 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). SFCM's endowment fund is invested in a portfolio of stocks, bonds and other investments which shall provide maximum flexibility and safety through diversification of investments.

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or UPMIFA requires SFCM to retain as a fund of perpetual duration, underwater endowments. At June 30, 2021, SFCM had 42 funds with deficiencies totaling \$738,000 with fair market values of \$12,213,000 and original endowment gift amounts of \$12,951,000. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for programs that were deemed prudent by the Board of Trustees.

### h. Accounts Receivable and Notes Receivable

Accounts receivable consist principally of student accounts receivable that are carried at the unpaid balance of the original amount billed to students. Notes receivable include Federal student loans which bear interest of 3% to 5% annually. Receivables are less an estimate made for doubtful accounts based on SFCM's past experience with the accounts. The allowance for doubtful accounts are disclosed in the statement of financial position.

Student accounts receivable are written off when deemed uncollectible and student loans receivable may be assigned to the U.S. Department of Education. Late fees are charged on student accounts receivable after the posted registration dates.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Late charges are charged if payments are not paid by the payment due date and are recognized as they are charged. Student loans receivable are considered to be past due if a payment is not made within 90 days of the payment due date. After receivables become past due, the accrual of late charges is suspended. Students may be granted a deferment, forbearance or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

i. Trusts Receivable

Trusts receivable are gifts and bequests held by SFCM or a trustee of which the income is paid to a beneficiary specified by the donor during the beneficiary's lifetime. Upon maturation, the principal becomes available for use by SFCM in accordance with the donor's specified purpose. Currently all recorded trusts contain provisions permanently restricting the corpus of the trust at maturity. Trusts receivable include charitable remainder trusts, which are carried at the estimated net present value of SFCM's remainder interest in irrevocable trusts. The net present value was actuarially determined using a discount rate of 1.2%.

j. Property, Plant and Equipment

Property, plant and equipment are stated at cost, if purchased, or fair market value at date of receipt, if donated. Depreciation is recorded using the straight-line method over estimated useful lives of 80 years for buildings, 20-40 years for building improvements, 20 – 50 years for musical instruments and 3-10 years for all other depreciable assets. Included in property and plant assets are musical instruments. In prior years, SFCM recorded all musical instruments as a collection, and accordingly, no depreciation was recognized in operations. In 2021, SFCM changed their collections policy and currently only recognize string instruments as collections.

k. Collections

SFCM has capitalized its collection of string instruments. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their fair value on the accession date. Gains or losses on the deaccession of collection items are classified on the statement of activities depending on donor restrictions, if any, placed on the item at the time of accession.



# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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l. Goodwill

Goodwill is the result of the acquisition of the Company on January 1, 2021. SFCM has elected the accounting alternative provided in FASB Accounting Standards Codification (FASB ASC) 805 whereby customer-related intangible assets not capable of being sold or licensed independently from other assets of a business and noncompetition agreements are no longer recognized separately from goodwill in a business combination. In conjunction with the election, SFCM also elected the accounting alternative provided in FASB ASC 350 related to accounting for goodwill, amortizing goodwill on a straight-line basis over a ten-year period. SFCM will evaluate goodwill for impairment at the entity level annually.

m. Deposits and Deferred Income

Deposits and deferred income represent tuition that has not been earned at year end and will be recognized in subsequent periods.

n. Government Advances for Loan Program

SFCM records the portion of federally funded student loan payments received as refundable advances. The amount includes principal and interest earned on the loans less certain allowable costs.

o. Non-Operating Revenue and Gains

Non-operating revenue and gains includes gifts and grants restricted or designated for endowment or plant, income and expenses from independent operations and investment income and net realized gains on investments in excess of the allocated income under the endowment spending policy.

p. Advertising Expenses

SFCM's policy is to expense advertising costs as they are incurred. Advertising expense incurred, for the purpose of generating tuition revenue, in the year ended June 30, 2021 was \$91,000.

q. Functional Expense Allocations

Certain expenses, such as depreciation and amortization expense, building services, and interest, are allocated among program services and supporting services based primarily on direct payroll charges and other direct expenses.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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r. Income Taxes

SFCM operates as a not-for-profit corporation and is exempt from income taxes on related income under provisions of the U.S. Internal Revenue Code, Section 501(c)(3) and the California Tax Code. Accordingly, no provision for income taxes has been reflected in these financial statements.

As of June 30, 2021, management evaluated SFCM's tax positions and concluded that SFCM had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

Mothership has applied to be taxed on its income and the income of its single member LLCs. Mothership would recognize accrued interest and penalties associated with uncertain tax positions, if any, as part of the income tax provision. Management believes there are no uncertain income tax positions. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of its assets and liabilities using enacted tax rates. Deferred assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred taxes are not material at June 30, 2021. Mothership is taxable in certain local tax jurisdictions.

s. Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

t. Comparative Financial Statements

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information and certain disclosures do not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the SFCM's financial statements for the year ended June 30, 2020, from which the information was derived.

u. Collective Bargaining Agreement

Approximately 4.2% of full-time staff and faculty are covered by a collective bargaining agreement as of June 30, 2021. The current bargaining agreement expires on August 31, 2023.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### v. Recent Accounting Pronouncements

#### *Pronouncement Adopted*

SFCM adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The implementation of the standard had no significant impact on the SFCM financial statements.

#### *Pronouncements Effective in the Future*

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The guidance in this ASU enhances the required presentation and disclosures for in-kind contributions. The new standard is effective for SFCM for the fiscal year beginning after June 15, 2021 with early application permitted. SFCM is currently assessing the impact the adoption of this ASU will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize, at commencement date, a lease liability representing the lessee's obligation to make payments arising from the lease and a right-of-use asset representing the lessee's right to use, or control the use of, a specified asset for the lease term. This guidance is effective for fiscal years beginning after December 15, 2021. SFCM is currently evaluating the impact the new standard will have on its financial statements.

### w. Subsequent Events

SFCM evaluated subsequent events from June 30, 2021 through December 15, 2021 the date these financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements and no subsequent events have occurred the nature of which would require disclosure except as described in Note 19.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

### Note 3 - Availability of Financial Assets and Liquidity:

SFCM's financial assets available within one year of the June 30, 2021 year end for general expenditures are as follows:

Financial assets at year-end:	
Cash and cash equivalents and restricted cash	\$ 4,952,000
Contributions receivable, net	25,160,000
Accounts receivable, net	2,406,000
Investments	67,313,000
Trusts receivable	299,000

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Total financial assets	100,130,000
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Less amounts not available to be used within one year:	
Pledge receivables for capital campaign and projects	(20,315,000)
Pledge receivables for restricted projects	(553,000)
Pledge receivables for endowment	(1,397,000)
Accounts receivable for restricted purposes	(59,000)
Trusts receivable for restricted purposes	(299,000)
Cash held for donor restricted purposes	(1,053,000)
Cash held for endowment	(966,000)
Investments held for endowment	(51,744,000)
Investments in non-liquid assets	(17,000)
Restricted cash	(156,000)

Plus amounts available to be used within one year:	
Purpose restrictions to be met in one year	845,000
Payout on endowment assets – spending draw	2,511,000

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(73,203,000)

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Financial assets available to meet general expenditures over the next twelve months	\$ 26,927,000
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SFCM regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. SFCM has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities and a line of credit. See Note 9 for information about SFCM's loan facilities that are intended for the construction of the new student residence hall and educational center. In addition, at June 30, 2021, SFCM had approximately \$104,000 of board-designated endowments that, with the Board's approval, could be made available for operations.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

For purposes of analyzing resources available to meet general expenditures over a 12-month period, SFCM considers all expenditures related to its ongoing mission related activities as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not considered to be available to meet general expenditures because principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

In addition to financial assets available to meet general expenditures over the next 12 months, SFCM operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of SFCM's cash.

### Note 4 - Notes Receivable:

At June 30, 2021, notes receivable consisted of the following:

	Real Estate Loan	Perkins Loans	Other Note Receivables
Notes receivable	\$ 547,000	\$ 590,000	\$ 42,000
Less allowance for doubtful accounts:			
Beginning of year		(94,000)	
Decrease		24,000	
End of year		(70,000)	
Notes receivable, net	\$ 547,000	\$ 520,000	\$ 42,000

Funds advanced for the Perkin Loan program, by the Federal government of \$472,000 at June 30, 2021 are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government. Loans are no longer allowed to be advanced to students under the program and collections on loans will be periodically remitted to the Federal government until the program is closed.

The principal amount past due under the Perkins loan program was approximately \$148,000 at June 30, 2021.

See Note 6 for information on the real estate loan made to a faculty member.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### Note 5 - Contributions and Grants Receivable:

Contributions and grants receivable are expected to be collected as follows at June 30:

	2021	2020
Within one year	\$ 10,415,000	\$ 13,758,000
One to five years	16,300,000	19,978,000
	<hr/>	<hr/>
	26,715,000	33,736,000
Discount on multi-year contributions	(516,000)	(708,000)
Allowance for uncollectible contributions	(1,039,000)	(1,103,000)
	<hr/>	<hr/>
Contributions and grants receivable, net	\$ 25,160,000	\$ 31,925,000

Receivables include approximately \$20,315,000 for the capital campaign (Note 18), net of allowance and discount at June 30, 2021. See Note 16 for related party contribution receivables.

In addition to the pledge balances reflected in these financial statements at June 30, 2021, SFCM has a \$333,000 conditional pledge from a Foundation for the Capital Campaign. The pledge will be recognized when the donor specified conditions and milestone events have been met by SFCM.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

**Note 6 - Investments:**

SFCM's investments consisted of the following at June 30:

	2021		2020	
	Fair Value	Cost	Fair Value	Cost
Cash and equivalents	\$ 327,000	\$ 327,000	\$ 14,735,000	\$ 14,735,000
Domestic equities and funds	35,271,000	27,533,000	17,585,000	17,268,000
International mutual and commingled trust funds	14,920,000	13,211,000	9,452,000	11,420,000
Domestic fixed income funds	13,047,000	13,031,000	10,058,000	9,400,000
International fixed income funds	2,811,000	2,797,000	1,893,000	1,883,000
Partnerships	17,000	10,000	163,000	36,000
	66,393,000	56,909,000	53,886,000	54,742,000
Other investments:				
Real estate – interest	245,000	245,000	245,000	245,000
Real estate – participation agreement	675,000	675,000	675,000	675,000
	\$ 67,313,000	\$ 57,829,000	\$ 54,806,000	\$ 55,662,000

Total investment return for the year ended June 30, 2021 is comprised of net realized and unrealized gain of \$11,505,000, dividends and interest income of \$1,884,000, and investment fees of \$197,000 which is reflected in operating and non-operating revenue in the statement of activities.

On July 6, 2018, SFCM invested in real estate for the benefit of a faculty member. The transaction consists of two parts: 1) 30-year loan held by SFCM in the amount of \$547,000 included in notes receivable and 2) joint ownership of the property which includes an equity participation agreement with a cost basis of \$675,000. The loan is collateralized by the property, bears an annual interest rate of 4%, and principal and interest are payable monthly to SFCM.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

### Note 7 - Fair Value Measurements:

The table below presents the assets and liabilities measured at fair value at June 30, 2021 on a recurring basis.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Assets:					
Investments:					
Cash and equivalents	\$ 327,000				\$ 327,000
Domestic equities and funds	35,245,000	\$ 26,000			35,271,000
International funds	14,920,000				14,920,000
Domestic fixed income funds	13,047,000				13,047,000
International fixed income funds	2,811,000				2,811,000
Net Asset Value Funds (a)				\$ 17,000	17,000
Other Assets:					
Trusts receivable		299,000			299,000
<b>Total assets measured at fair value</b>	<b>\$ 66,350,000</b>	<b>\$ 325,000</b>	<b>\$ -</b>	<b>\$ 17,000</b>	<b>\$ 66,692,000</b>
Liabilities:					
Post-retirement medical benefit obligation (Note 12)			\$ 4,874,000		\$ 4,878,000
<b>Total liabilities measured at fair value</b>			<b>\$ 4,874,000</b>		<b>\$ 4,874,000</b>

(a) In accordance with FASB ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

SFCM uses the net asset value to determine the fair value of all the underlying investments which do not have readily determinable fair value. The following table lists investments by major category as of June 30, 2021:

Strategies	# of Funds	Valuation	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Venture capital fund (a)	1	\$ 11,000	None	None	N/A
Real estate mortgage fund (b)	1	6,000	None	None	N/A
	2	\$ 17,000			



# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

- (a) The fund is a limited partnership that invests in a portfolio consisting primarily of securities of privately held technology companies. The term of the partnership was scheduled to terminate on December 31, 2014. Liquidity is expected in the form of distributions from the fund when the underlying assets are sold.
- (b) The fund is a limited partnership which makes loans secured primarily by first and second deeds of trust on California real property. The partnership is scheduled to terminate in 2032, unless sooner terminated, as provided in the partnership agreement. There are substantial restrictions on transferability of units and accordingly an investment in the partnership is non-liquid. In March 2009, due to the distress in the financial markets, the partnership suspended capital liquidations and is not accepting new liquidation requests until further notice.

### Note 8 - Property, Plant and Equipment:

Property, plant and equipment consist of the following at June 30:

	2021	2020
Land	\$ 23,253,000	\$ 23,253,000
Building and improvements	221,464,000	66,315,000
Books, furnishings and equipment	10,915,000	7,171,000
Musical instruments including collections	7,528,000	6,753,000
	263,160,000	103,492,000
Less accumulated depreciation and amortization	(25,446,000)	(21,784,000)
	237,714,000	81,708,000
Construction in progress	1,239,000	131,985,000
	\$ 238,953,000	\$ 213,693,000

Land and building are pledged as collateral for the credit agreement (see Note 10).

Depreciation expense was approximately \$2,549,000 and \$1,247,000 for the years ended June 30, 2021 and 2020, respectively.

Construction in progress, above, represents construction costs, architectural and design and other entitlement costs for certain public space remaining to be completed in the residence hall project (Note 18).

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

### Note 9 - Goodwill:

Goodwill, as of June 30, 2021, was comprised of the following:

		Estimated Useful Life
Goodwill	\$ 2,968,000	10 years
Accumulated amortization	(148,000)	
	<hr/>	
	\$ 2,820,000	

### Note 10 - Credit Agreement:

On June 28, 2018, SFCM entered into loan agreements with First Republic Bank (FRB) and the California Enterprise Development Authority (CEDA) which provide up to \$113 million of tax exempt and taxable financing. The proceeds of the loans will be used to finance the construction of SFCM's new student residence, educational and performance facility (See Note 18).

CEDA and First Republic Bank Tax Exempt Series A & B: The \$100 million tax exempt financing is comprised of a 30-year \$75 million permanent loan (Series A) and a 6-year \$25 million bridge loan (Series B).

Series A loan bears an interest rate of 3.9% per annum, with monthly interest-only payments due through June 1, 2021. Monthly payments of principal and interest on the loan begin July 1, 2021 and are due through June 1, 2048. As of June 30, 2021, \$76,217,000 was outstanding on the loan. On December 29, 2020, SFCM and FRB signed an amendment to the loan that deferred interest payments on the loan from January 1, 2021 through May 31, 2022. Principal payments were deferred from July 1, 2021 through January 31, 2022.

Series B bears interest at LIBOR Index Rate plus 1.5% per annum with a minimum rate of 2.5% (2.5% as of June 30, 2021), payable monthly. It has a maturity date of June 1, 2024. As of June 30, 2021, \$19,028,000 was outstanding on the loan. On December 29, 2020, SFCM and FRB signed an amendment to the loan that deferred interest payments on the loan from January 1, 2021 through May 31, 2022.

Series C is a \$10 million taxable bridge loan and bears an interest at the Western Edition of the Wall Street Journal U.S. Prime Rate plus negative 35 hundredths percent (-0.35%), (2.90% as of June 30, 2021). The loan is a non-revolving commitment that SFCM may draw upon until December 31, 2021 at which time it becomes a term loan which matures on June 30, 2025. As of June 30, 2021, there was no balance outstanding on the loan.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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The Line of Credit is a \$3 million revolving line of credit and is used for ongoing expenses and working capital needs. The line of credit bears interest at the Western Edition of the Wall Street Journal U.S. Prime Rate plus one-quarter of one percent (0.25%) with a minimum interest rate of 3.25%, (3.5% as of June 30, 2021). The maturity date is January 28, 2022. As of June 30, 2021, \$2,300,000 was outstanding on the loan.

Financing issuance costs are classified as a reduction to loans payable on the statement of financial position. The costs will be amortized over the term of the loans. The balance of financing issuance costs, net of amortization is \$1,250,000 at June 30, 2021.

The Series A, B, C and Line of Credit agreements contain certain restrictive covenants, including maintenance of certain financial ratios, restrictions on additional borrowings, level of lease commitments, sales of assets and certain asset levels. SFCM's property, land and unrestricted personal properties are pledged as collateral. The Line of Credit includes a clean down restriction. SFCM is required to reduce the outstanding principal balance of the Line of Credit to no greater than \$0 for thirty (30) consecutive days during each 12-month period.

The initial proceeds of these loans along with capital campaign funds were used to pay off the balances of an existing line of credit and term loan with Union Bank.

Total interest expense incurred including amortization of cost of issuance for the fiscal year ending June 30, 2021 was approximately \$3,348,000 and of this approximately \$714,000 was capitalized to construction in progress.

Future minimum principal payments on the outstanding Series A loan as of June 30, 2021 (including deferred interest) are as follows:

Year ending June 30:	
2022	\$ 697,000
2023	1,699,000
2024	1,760,000
2025	1,839,000
2026	1,913,000
Thereafter	68,309,000
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	\$ 76,217,000

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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Future minimum principal payments on the outstanding Series B loan as of June 30, 2021 (including deferred interest) are as follows:

Year ending June 30:	
2022	\$ 5,028,000
2023	9,000,000
2024	5,000,000
	<hr/>
	\$ 19,028,000

SFCM, including the Company, received unsecured Paycheck Protection Loans totaling \$4,069,000. Loans totaling \$3,354,000 were fully forgiven prior to June 30, 2021. One loan for \$715,000 was received in March 2021 and remained outstanding awaiting approval for forgiveness as of June 30, 2021.

### Note 11 - Retirement Plans:

Employees of SFCM are covered under the Teachers Insurance and Annuity Association and College Retirement Equity Fund Retirement Plan, a defined-contribution plan. Contributions to the Plan are made by the employees and SFCM matches up to 5% of employee's eligible earnings. SFCM contributed approximately \$361,000 for the year ended June 30, 2021.

SFCM provides a 457(b) plan for certain management personnel. The employees may elect to defer a certain portion of their salary. SFCM contributed approximately \$40,000 during the fiscal year ended June 30, 2021.

With respect to certain employees, SFCM contributes to a multiemployer pension plan for employees covered by a collective bargaining agreement (Note 12). This plan is not administered by SFCM and contributions are determined in accordance with provisions of negotiated labor contracts. The Multiemployer Pension Plan Amendments Act of 1980 (The Act) significantly increased the pension responsibilities of participating employers. Under the provisions of The Act, if the plan terminates or SFCM withdraws, SFCM could be subject to a substantial "withdrawal liability." Management has no intention of undertaking any action which could subject SFCM to this obligation. The total pension expense related to these employees was approximately \$97,000 for the year ended June 30, 2021.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

### Note 12 - Multiemployer Pension Plan:

The multiemployer defined benefit pension plan is under the terms of collective-bargaining agreements that cover its union-represented employees which are approximating 4.2% of total full-time faculty and staff of SFCM at June 30, 2021. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

1. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If SFCM chooses to stop participating in some of its multiemployer plans, SFCM may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

SFCM's participation in this plan for the annual period ended December 31, 2020, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number. The most recent Pension Protection Act (PPA) zone status available in 2021 and 2020 is for the plan years ending in 2020 and 2019, respectively. The zone status is based on information that SFCM received from the plan. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow and orange zones are less than 80% funded, and plans in the green zone are at least 80% funded. The Plan was not certified as endangered or critical status at the beginning of the year for the full plan year. The last column lists the expiration date of the collective-bargaining agreements to which the plans are subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status	The SFCM Contributions		Expiration Date
		2020	2019	Pending or Implemented	2021	2020	Date of Collective Bargaining Agreement
Stationary Engineers Local 39 Trust Funds	94-6118939/001	Green	Green	N/A	\$ 97,000	\$ 78,000	8/31/23

There have been no other significant changes that affect the comparability of 2021 and 2020 contributions.

SFCM has not received information from the plans' administrators to determine its share of unfunded vested benefits. SFCM does not, however, anticipate withdrawal from the plan, nor is SFCM aware of any expected plan terminations.

SFCM provided less than 1% of the total contributions to the plan during 2021 or 2020, the date of the plan's most recently available annual reports. Additionally, there were no surcharges in effect for any portions of the plan.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

### Note 13 - Postretirement Health Benefit Plan:

SFCM adopted an unfunded noncontributory postretirement health benefit plan effective July 1, 1997. All qualifying employees will receive a fixed benefit of the cost of health insurance premiums for the individual at age 65 and beyond under the plan. Effective May 1, 2010, the Plan's service requirement for benefit eligibility was changed from 10 years to 20 years. The valuation of the accumulated benefit obligation and accrued benefit costs are as follows:

Accumulated benefit obligation at beginning of year	\$ 4,847,000
Service cost	300,000
Interest cost	128,000
Actuarial loss	(338,000)
Benefits paid	(68,000)
Participant contribution	5,000
<hr/>	
Accumulated benefit obligation at end of year	\$ 4,874,000
<hr/>	
Unfunded status of the plan at end of year	\$ 4,874,000

The benefits expected to be paid from SFCM's noncontributory postretirement health benefit plan in each of the next five years, and in aggregate for the five years thereafter are as follows:

Year Ended June 30,	
2022	\$ 72,000
2023	86,000
2024	97,000
2025	110,000
2026	124,000
Thereafter	838,000
<hr/>	
Total	\$ 1,327,000

Weighted average assumptions as of June 30, 2021:

Discount Rate	2.8%
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SFCM's projected medical cost trend rate related to its noncontributory postretirement health benefit plan in 2021 was 7.5% (Hartford/Kaiser). The assumed medical cost trend rate is expected to gradually decrease in subsequent years to 4.5% in 2042 and thereafter.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### Health Care Trend Rate Sensitivity for Fiscal 2021

	<u>1% Increase</u>	<u>1% Decrease</u>
APBO as of June 30, 2021:	\$ 1,027,000/21.1%	\$ (800,000)/16.4%
Service and Interest Cost for fiscal 2021:	\$ 113,000/34.2%	\$ (80,000)/24.2%

SFCM may decide at any future date to terminate the plan or amend the benefits offered.

#### **Note 14 - Concentrations of Risk:**

Financial instruments, which potentially subject SFCM to credit risk, consist primarily of cash, cash equivalents, and investments. SFCM maintains cash and cash equivalents with major financial institutions. Cash equivalents include investments in money market funds and short-term commercial paper. At times, such amounts may exceed FDIC limits.

To address concentration of market risk in the investment area, SFCM maintains a formal investment policy which sets out performance criteria, investment guidelines and requires review of the investment manager's performance. Investments are managed by two investment managers, who have the responsibility for investing the funds in various investment alternatives, and are maintained by a bank trust department.

SFCM received 10% of its contributions for the year ended June 30, 2021 from one donor and the 46% of its pledges receivable as of June 30, 2021 from another donor.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

**Note 15 - Net Assets:**

Net assets consisted of the following at June 30:

	2021				2020 Total
	Without Donor Restrictions	With Donor Restrictions		Total	
		Purpose & Time Restrictions	Restrictions in Perpetuity		
<b>Endowment:</b>					
Quasi-endowment funds	\$ 104,000			\$ 104,000	\$ 88,000
True endowment funds:					
General purpose		\$ 1,033,000	\$ 8,917,000	9,950,000	7,654,000
Scholarship		2,509,000	32,167,000	34,676,000	26,532,000
Faculty support		1,135,000	8,611,000	9,746,000	8,075,000
Other program support		186,000	977,000	1,163,000	965,000
Retirement of indebtedness		43,000	180,000	223,000	184,000
True endowment funds		4,906,000	50,852,000	55,758,000	43,410,000
Total endowment funds	104,000	4,906,000	50,852,000	55,862,000	43,498,000
<b>Other</b>	173,472,000	1,665,000		175,137,000	172,697,000
Total net assets	\$ 173,576,000	\$ 6,571,000	\$ 50,852,000	\$ 230,999,000	\$ 216,195,000

Net assets with donor restrictions for purpose and time at June 30, 2021 are as follows:

Time restriction	\$ 1,016,000
Other projects & programs	649,000
	\$ 1,665,000



# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

Net assets with donor restrictions were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows for the year ended June 30, 2021:

Utilized for scholarships	\$ 1,685,000
Utilized for faculty salaries	450,000
Utilized for capital expenditures	108,762,000
Utilized for other project and program purposes	1,706,000
Expiration of time restrictions	238,000
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Total released operating and non-operating	\$ 112,841,000

Changes in endowment net assets for the year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose & Time Restrictions	Restrictions in Perpetuity	
Net assets, beginning of year	\$ 88,000	\$ (4,300,000)	\$ 47,710,000	\$ 43,498,000
Investment return:				
Investment income		1,313,000		1,313,000
Net realized and unrealized (loss) on investments and trusts	22,000	10,385,000	66,000	10,444,000
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Total investment return	22,000	11,698,000	66,000	11,757,000
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New gifts			3,826,000	3,855,000
Appropriation of endowment	(6,000)	(2,492,000)		(2,498,000)
Donor reclassification			(750,000)	(750,000)
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Net assets, end of year	\$ 104,000	\$ 4,906,000	\$ 50,852,000	\$ 55,862,000

### Note 16 - Related Party Transactions:

SFCM received contributions from members of its Board of Trustees and related entities of approximately \$4,717,000 for the fiscal year ended June 30, 2021. Contributions receivable related to current and prior years' contributions from board members totaled approximately \$13,159,000 at June 30, 2021. These board members have no other relationship or business dealings with SFCM.

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## Notes to Consolidated Financial Statements

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In July 2018, SFCM entered into a real estate transaction with a faculty member (see Note 6).

### Note 17 - Commitment and Contingencies:

#### a. Operating Leases

SFCM leases equipment, parking and other facilities under non-cancelable leases, which expire at various dates through 2028.

Future minimum lease payments for all operating leases in excess of one year as of June 30, 2021, are as follows:

Year ending		
June 30:		
2022	\$	281,000
2023		132,000
2024		132,000
2025		132,000
2026		132,000
Thereafter		154,000
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Total	\$	963,000

#### b. Other

SFCM receives funds from and administers various federal government funded programs which are subject to audit by the cognizant governmental agencies. SFCM management believes that the outcome of any such audits will not have a significant effect on the financial position or results of activities of SFCM.

As of June 30, 2021, the SFCM was a party to a construction contract which have remaining commitments totaling approximately \$1,495,000 in connection with the new student resident hall.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### **Note 18 - Capital Campaign:**

SFCM embarked on a capital campaign for a new student residence hall. The facility will provide the physical capacity necessary to sustain a world-class professional educational environment. The building will house the majority of students, furnish practice rooms and include social and study spaces. It will also feature a street-level café, recital halls, a recording studio, and housing for guest artists and scholars as well as 28 residential rental units. The building was substantially complete at June 30, 2021 and was occupied by students for the fall 2020 term while the performance and educational spaces were being completed. See Notes 5, 8, and 10 for additional information on the campaign contributions, construction contracts and financing arrangements.

### **Note 19 - COVID-19 Pandemic:**

On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic. States of emergency have been declared in many federal, state and local jurisdictions and shelter in place orders have been instituted in many cities and states, including California, which impacts general business operations in most industries and sectors.

SFCM delayed the start of fall 2020 classes and offered a hybrid learning model with both on-line and in-person instruction where possible. SFCM experienced an impact on its operations which included a lower Fall enrollment and student housing participation than expected. SFCM returned to all in person instruction in the Fall 2021. Enrollment and student housing participation significantly increased over the prior fiscal year.

SFCM applied for the Employee Retention Tax Credit for the period of January 1, 2020 – June 30, 2021 for a potential a refund of approximately \$3,194,000. No amounts were recorded in these financial statements for the Employee Retention Tax Credit, as the analysis and application was still in process as of year end and SFCM has not received any refunds to date. The Company applied for and recorded approximately \$360,000 in credits and received \$175,000 prior to June 30, 2021.

Subsequent to June 30, 2021, the Company received funding from the U.S. Small Business Administration Shuttered Venue Operators Grant ("SVOG") for approximately \$3,024,000. The SVOG will fund payroll, benefits and occupancy costs as permitted by the SBA guidelines for the period March 2020 through December 2021. The SVOG is expected to be fully expended within the grant guidelines by November 2021.