

SAN FRANCISCO  
CONSERVATORY OF MUSIC

JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

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# San Francisco Conservatory of Music

## Independent Auditors' Report and Consolidated Financial Statements

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## **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, 2020, 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;

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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, 2020, 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.

# San Francisco Conservatory of Music

## Consolidated Statement of Financial Position (in thousands)

<i>June 30, 2020 (with comparative totals for 2019)</i>	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 7,554	\$ 2,149
Restricted cash	113	204
Receivables:		
Accounts receivable (less allowance for doubtful accounts of \$16 for 2020 and \$14 for 2019)	2,307	2,463
Notes receivable (less allowance for doubtful accounts of \$94 for 2020 and \$96 for 2019)	1,161	1,260
Accounts payable		\$ 12,100
Accrued expenses and other liabilities	9,701	2,887
Deposits and deferred income	2,933	2,727
Line of credit		
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Accumulated postretirement medical benefit obligation	4,847	4,441
Government advances for loan program	522	691
Total liabilities	96,784	23,101
<b>Net Assets:</b>		
Without donor restrictions:		
Undesignated	25,501	7,322
Designated - Quasi endowment	88	92
Federal loan fund	185	180
Investment in plant	45,201	45,067
Total net assets without donor restrictions	70,975	52,661
With donor restrictions:		
Purpose and time restrictions	101,810	94,579
Appreciation on endowment funds	376	921
Underwater endowment funds	(4,676)	(3,030)
Restricted in perpetuity - endowment funds	47,710	45,294
Total net assets with donor restrictions	145,220	137,764
Total net assets	216,195	190,425
<b>Total Liabilities and Net Assets</b>	<b>\$ 312,979</b>	<b>\$ 213,526</b>

See accompanying notes to financial statement.

# San Francisco Conservatory of Music

## Consolidated Statement of Activities (in thousands)

Year Ended June 30, 2020 (with comparative totals for 2019)

	2020		2019	
		Total	Total	Total
<b>Operating Revenue and Support:</b>				
Tuition and fees	\$ 24,172	\$ 24,172	\$ 22,999	
Less: Scholarships	(12,166)	(12,166)	(11,288)	
Net tuition and fees	12,006	12,006	11,711	
Private contributions and government grants	8,022	\$ 1,217	9,239	5,924
Other educational revenue	250	250	324	
Board release from fund for special purposes	1,400	1,400		
Fundraising events	511	511	601	
Auxiliary services	3,050	3,050	3,443	
Net investment and endowment income	154	2,513	2,667	2,579
Net assets released - endowment draw	2,513	(2,513)	-	-
Net assets released from restrictions	1,330	(1,330)	-	-
Total operating revenue and support	29,236	(113)	29,123	24,582
<b>Expenses:</b>				
Program services:				
Instruction	14,488	14,488	13,489	
Student services	1,848	1,848	1,591	
Academic support	1,493	1,493	1,306	
Public programs	370	370	484	
Auxiliary services	3,280	3,280	3,194	
Total program services	21,479	21,479	20,064	
Fundraising:				
General fundraising	1,340	1,340	867	
Fundraising events	156	156	218	
Total fundraising	1,496	1,496	1,085	
General and administration	5,939	5,939	4,880	
Total expenses (including depreciation of \$1,247)	28,914	28,914	26,029	
Change in net assets from operations	322	(113)	209	(1,447)
<b>Nonoperating Activities:</b>				
Endowment contributions	-	2,422	2,422	1,019
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Year Ended June 30, 2020

	Instruction		Public Programs		General and Administration		Fundraising Events		Fundraising		Total		Total Expenses
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>	

# San Francisco Conservatory of Music

## Consolidated Statement of Functional Expenses (in thousands)

Year Ended June 30, 2019 (presented for comparative purposes)

	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	\$ 8,939	\$ 834	\$ 794	\$ 202	\$ 12	\$ 2,291	\$ 2	\$ 517	\$ 13,591		\$ 560	\$ 14,151
Benefits	1,377	164	139	16	1	568		46	2,311		197	2,508
Purchased services	657	90	52	12	21	194	71	49	1,146			1,146
Professional and artistic fees	422	47	35	182	17	655	19	24	1,401	\$ 94	68	1,563
Repairs and maintenance	74	4	13	1	4	17		2	115	36		151
Supplies	247	39	46	2	7	106	2	9	458	21	6	485
Depreciation	811	78	73	17	1	224		44	1,248	158		1,406
Interest expense	139	13	13	3		39		8	215	2		217
Insurance	140	14	13	3		39		8	217			217
Utilities and telephone	216	23	19	5	80	93		14	450			450
Travel/mileage/meals	215	70	3	36	5	121	43	28	521		9	530
Software	139	110	30	1		39		40	359			359
Advertising	26	40	1			133		3	203		7	210
Facility rentals	7	5			3,045	148			3,205	181		3,386
Other expenses	80	60	75	4	1	213	81	75	589		23	612
<b>Total Expenses</b>	<b>\$ 13,489</b>	<b>\$ 1,591</b>	<b>\$ 1,306</b>	<b>\$ 484</b>	<b>\$ 3,194</b>	<b>\$ 4,880</b>	<b>\$ 218</b>	<b>\$ 867</b>	<b>\$ 26,029</b>	<b>\$ 492</b>	<b>\$ 870</b>	<b>\$ 27,391</b>

See accompanying notes to financial statement.



# San Francisco Conservatory of Music

## Consolidated Statement of Cash Flows (in thousands)

<i>Year Ended June 30, 2020 (with comparative totals for 2019)</i>	2020	2019
<b>Operating Activities:</b>		
Change in net assets	\$ 25,770	\$ 13,768
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,247	1,406
Net realized and unrealized loss on investments	1,167	314
Loss on disposal of assets	166	23
Contributions of equipment	(1,755)	(71)
Contributions received for long-term investment and acquisition of long lived assets	(21,421)	(18,165)
Financing issuance costs amortization	136	136
Changes in operating assets and liabilities:		
Receivables	10,718	(342)
Other assets	(270)	(29)
Accounts payable	(5,900)	(824)
Accrued expenses, other liabilities and postretirement obligation	7,220	3,290
Deposits and deferred income	206	(19)
Government advances for loan program	(169)	2
Net cash provided (used) by operating activities	17,115	(511)
<b>Investing Activities:</b>		
Property and equipment:		
Proceeds from sales	225	18
Purchases and capital expenditures	(80,126)	(26,199)
Investments:		
Proceeds from sales	6,758	4,510
Purchases	(20,849)	(7,420)
Net cash used by investing activities	(93,992)	(29,091)
<b>Financing Activities:</b>		
Contributions received for long-term investment and acquisition of long lived assets	21,421	18,165
Line of credit proceeds	1,500	3,500
Line of credit payments	(4,000)	(2,250)
Loan proceeds	63,270	167
Net cash provided by financing activities	82,191	19,582
<b>Net Change in Cash and Equivalents and Restricted Cash</b>	<b>5,314</b>	<b>(10,020)</b>
<b>Cash and Cash Equivalents and Restricted Cash, beginning of year</b>	<b>2,353</b>	<b>12,373</b>
<b>Cash and Cash Equivalents and Restricted Cash, 201F</b>	<b>Os</b>	

# 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.

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.

### 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.

*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.



# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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d. Restricted Cash

Restricted cash represents cash in the SFCM's 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.

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.

# **San Francisco Conservatory of Music**

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### *Investment Objectives and Spending Policy*

SFCM has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### 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 percent 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.

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 rate of 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, and 3-10 years for all other equipment.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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k. Collections

SFCM has capitalized its collection of musical instruments since its inception. 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.

l. 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.

m. 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.

n. Non-Operating Revenue and Gains

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

o. Advertising Expenses

SFCM's policy is to expense advertising costs as they are incurred. Advertising expense incurred, for the purpose of generating tuition revenue to

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# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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As of June 30, 2020, 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.

r. 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

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### *Pronouncements Effective in the Future*

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-

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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

SFCM's financial assets available within one year of the June 30, 2020 year end for general expenditures are as follows:

Financial assets at year-end:	
Cash and cash equivalents and restricted cash	\$ 7,667,000
Contributions receivable, net	31,925,000
Accounts receivable, net	2,307,000
Investments	54,806,000
Trusts receivable	225,000

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Total financial assets	96,930,000
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Less amounts not available to be used within one year:	
Pledge receivables for capital campaign and projects	(27,166,000)
Pledge receivables for restricted projects	(271,000)
Pledge receivables for endowment	(277,000)
Accounts receivable for restricted purposes	(56,000)
Trusts receivable for restricted purposes	(225,000)
Cash held for restricted purposes	(882,000)
Cash held for endowment	(1,442,000)
Investments held for endowment	(40,126,000)
Investments in non-liquid assets	(163,000)
Restricted cash	(113,000)

Plus amounts available to be used within one year:

# 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, 2020, notes receivable consisted of the following:

	Real Estate Loan	Perkins Loans
Notes receivable	\$ 560,000	\$ 695,000
Less allowance for doubtful accounts:		
Beginning of year		(96,000)
Decrease		2,000
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End of year		(94,000)
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Notes receivable, net	\$ 560,000	\$ 601,000

Funds advanced for the Perkin Loan program, by the Federal government of \$522,000 at June 30, 2020 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 \$165,000 at June 30, 2020.

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:**

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

**Note 6 - Investments:**

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

	2020		2019	
	Fair Value	Cost	Fair Value	Cost
Cash and equivalents	\$ 14,735,000	\$ 14,735,000	\$ 405,000	\$ 405,000
Domestic equities and funds	17,585,000	17,268,000	18,401,000	17,574,000
International mutual and commingled trust funds	9,452,000	11,420,000	10,023,000	11,300,000
Domestic fixed income funds	10,058,000	9,400,000	10,152,000	9,899,000
International fixed income funds	1,893,000	1,883,000	1,909,000	1,843,000
Partnerships	163,000	36,000	72,000	72,000
	53,886,000	54,742,000	40,962,000	41,093,000
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
	\$ 54,806,000	\$ 55,662,000	\$ 41,882,000	\$ 42,013,000

Total investment return for the year ended June 30, 2010 is comprised of net realized and unrealized loss of \$1,167,000, dividends and interest income of \$1,795,000, and investment fees of \$163,000 which is reflected in operating and non-operating revenue in the statement of activities.

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# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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- (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. After the one-year lock-up period, limited partners may withdraw all or part of their capital accounts from the partnership in four quarterly installments beginning on the last day of the calendar quarter following the quarter in which the notice of withdrawal is given, subject to a 10% early withdrawal penalty. However, 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:

	2020	2019
Land	\$ 23,253,000	\$ 23,253,000
Building and improvements	66,315,000	0





# **San Francisco Conservatory of Music**

## **Notes to Consolidated Financial Statements**

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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.

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# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

There have been no other significant changes that affect the comparability of 2020 and 2019 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 did not provide more than 5% of the total contributions to the plan during 2019 or 2018, the date of the plan's most recently available annual reports. Additionally, there were no surcharges in effect for any of the plan.

### Note 12 - 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	\$ 4,441,000
Service cost	253,000
Interest cost	154,000
Actuarial loss	59,000
Benefits paid	(65,000)
Participant contribution	5,000
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Accumulated benefit obligation at end of year	\$ 4,847,000
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Unfunded status of the plan at end of year	\$ 4,847,000
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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,	
2021	\$ 71,000
2022	79,000
2023	90,000
2024	104,000
2025	114,000
Thereafter	774,000
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Total	\$ 1,232,000
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# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

Weighted average assumptions as of June 30, 2020:

Discount Rate 2.67%

SFCM's projected medical cost trend rate related to its noncontributory postretirement health benefit plan in 2020 was 7.5% (Hartford/Kaiser). The assumed medical cost trend rate is expected to gradually decrease in subsequent years to 4.5% in 2039 and thereafter.

### Health Care Trend Rate Sensitivity for Fiscal 2020

	<u>1% Increase</u>	<u>1% Decrease</u>
APBO as of June 30, 2020:	\$ 1,060,000 / 21.87%	\$ (820,000) / 16.92%
Service and Interest Cost for fiscal 2020:	\$ 141,000 / 41.59%	\$ (102,000) / 30.09%

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

### Note 13 - Concentrations of Risk:

The primary concentrations of market risk exist in the cash and investment areas.

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 54% of its contributions for the year ended June 30, 2020 and 4% of its pledges receivable as of June 30, 2020 from one donor.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

### Note 14 - Net Assets:

Net assets consisted of the following at June 30:

	2020				2019 Total
	Without Donor Restrictions	With Donor Restrictions		Total	
		Purpose & Time Restrictions	Restrictions in Perpetuity		
<b>Endowment:</b>					
Quasi-endowment funds	\$ 88,000			\$ 88,000	\$ 92,000
True endowment funds:					
General purpose		\$ (549,000)	\$ 8,203,000	7,654,000	7,910,000
Scholarship		(3,205,000)	29,737,000	26,532,000	25,905,000
Faculty support		(538,000)	8,613,000	8,075,000	8,038,000
Other program support		(12,000)	977,000	965,000	1,138,000
Retirement of indebtedness		4,000	180,000	184,000	194,000
True endowment funds		(4,300,000)	47,710,000	43,410,000	43,185,000
Total endowment funds	88,000	(4,300,000)	47,710,000	43,498,000	43,277,000
<b>Other</b>	70,887,000	101,810,000		172,697,000	147,148,000
Total net assets	\$ 70,975,000	\$ 97,510,000	\$ 47,710,000	\$ 216,195,000	\$ 190,425,000

Net assets with donor restrictions for purpose and time at June 30, 2020 are as follows:

Capital Campaign (Note 17)	\$ 100,319,000
Other projects & programs	475,000
Time restriction	1,016,000
	\$ 101,810,000

# 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, 2020:

Utilized for scholarships	\$ 1,635,000
Utilized for capital campaign	940,000
Utilized for faculty salaries	472,000
Utilized for capital expenditures	11,000
Utilized for other project and program purposes	1,461,000
<u>Expiration of time restrictions</u>	<u>264,000</u>
<u>Total released operating and non-operating</u>	<u>\$ 4,783,000</u>

Changes in endowment net assets for the year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose & Time Restrictions	Restrictions in Perpetuity	
Net assets, beginning of year	\$ 92,000	\$ (2,109,000)	\$ 45,294,000	\$ 43,277,000
Investment return:				
Investment income	5,000	1,632,000		1,637,000
Net realized and unrealized (loss) on investments and trusts	(3,000)	(1,316,000)	(6,000)	(1,325,000)
<u>Total investment return</u>	<u>2,000</u>	<u>316,000</u>	<u>(6,000)</u>	<u>312,000</u>
New gifts			2,422,000	2,422,000
<u>Appropriation of endowment</u>	<u>(6,000)</u>	<u>(2,507,000)</u>		<u>(2,513,000)</u>
<u>Net assets, end of year</u>	<u>\$ 88,000</u>	<u>\$ (4,300,000)</u>	<u>\$ 47,710,000</u>	<u>\$ 43,498,000</u>

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### Note 15 - Related Party Transactions:

SFCM received contributions from members of its Board of Trustees and related entities of approximately \$3,338,000 for the fiscal year ended June 30, 2020. Contributions receivable related to current and prior years' contributions from board members totaled approximately \$19,626,000 at June 30, 2020. These board members have no other relationship or business dealings with SFCM.

In April 2013, SFCM signed an agreement with the Harris Guitar Foundation (the Foundation). The Foundation is the supporting organization of SFCM and Bay Area OMNI Foundation for the Performing Arts Inc. On June 26, 2020, the Harris Guitar Foundation was dissolved. Upon its dissolution, the assets of the Foundation were transferred to SFCM. This included a guitar collection valued at \$571,000.

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

### Note 16 - Commitment and Contingencies:

#### a. Operating Leases

SFCM leases equipment, parking and student dormitory spaces 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, 2020, are as follows:

Year ending	
June 30:	
2021	\$ 583,000
2022	132,000
2023	132,000
2024	132,000
2025	132,000
Thereafter	286,000
<hr/>	
Total	\$ 1,397,000



# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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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, 2020, the SFCM was a party to a construction contract and remaining commitments totaling approximately \$8,900,000 in connection with the new student resident hall.

**Note 17 - Capital Campaign:**

SFCM has 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. See Notes 5, 8, 9 and 16 for additional information on the campaign contributions,