

**SAN FRANCISCO CONSERVATORY OF MUSIC**

**JUNE 30, 2023**

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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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A Century Strong

## Independent Auditors' Report

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

### Opinion

We have audited the consolidated financial statements of **SAN FRANCISCO CONSERVATORY OF MUSIC AND ITS SUBSIDIARIES (SFCM)**, which comprise the consolidated statement of financial position as of June 30, 2023, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of SFCM as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SFCM's ability to continue as a going concern for one year from the date of this report.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

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

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

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

We have previously audited SFCM's June 30, 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 9, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Hood & Strong LLP*

San Francisco, California  
December 18, 2023

# San Francisco Conservatory of Music

## Consolidated Statement of Financial Position (in thousands)

<i>June 30, 2023 (with comparative totals for 2022)</i>	2023	2022
<b>Assets</b>		
Cash and cash equivalents	\$ 6,530	\$ 3,349
Restricted cash	45	123
Receivables:		
Accounts receivable (less allowance for doubtful accounts of \$44 for 2023 and \$305 for 2022)	6,178	2,989
Notes receivable (less allowance for doubtful accounts of \$52 for 2023 and \$38 for 2022)	427	479
Contributions and grants receivable (less allowance for doubtful accounts receivable of \$193 for 2023 and \$841 for 2022)	6,603	21,055
Trusts receivable	139	132
Investments	126,816	58,534
Other assets	4,784	1,404
Property, plant and equipment, net	242,892	248,339
Goodwill, net	5,532	2,523
<b>Total Assets</b>	<b>\$ 399,946</b>	<b>\$ 338,927</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 2,597	\$ 1,030
Accrued expenses and other liabilities	10,263	1,616
Deposits and deferred income	2,392	3,154
Line of credit	2	2,750
Loans, net of financing issuance costs	81,704	95,644
Accumulated postretirement medical benefit obligation	3,124	3,283
Government advances for Perkins loan program	353	412
Total liabilities	100,435	107,889
<b>Net Assets:</b>		
Without donor restrictions	245,727	179,856
With donor restrictions	53,784	51,182
Total net assets	299,511	231,038
<b>Total Liabilities and Net Assets</b>	<b>\$ 399,946</b>	<b>\$ 338,927</b>

See accompanying notes to the consolidated financial statement.

# San Francisco Conservatory of Music

## Consolidated Statement of Activities (in thousands)

Year Ended June 30, 2023 (with comparative totals for 2022)

	Without Donor Restrictions SFCM	With Donor Restrictions	Total	2022 Total
<b>Operating Revenue and Support:</b>				
Tuition and fees	\$ 25,617		\$ 25,617	\$ 25,378
Less scholarships	(13,886)		(13,886)	(13,530)
Net tuition and fees	11,731		11,731	11,848
Private contributions	1,510	\$ 2,520	4,030	6,091
Government grants	1,108		1,108	5,561
Other educational revenue	56		56	459
Board approved release from fund for special purposes	9,679		9,679	3,000
Fundraising events	1,189		1,189	1,337
Auxiliary services	6,832		6,832	7,272
Net investment and endowment income	5	2,532	2,537	2,510
Net assets released from restrictions	4,567	(4,567)	-	-
Total operating revenue and support	36,677	485	37,162	38,078
<b>Expenses:</b>				
Program services:				
Instruction	18,099		18,099	17,521
Student services	2,317		2,317	2,401
Academic support	3,107		3,107	2,334
Public programs	628		628	511
Auxiliary services	10,323		10,323	10,167
Total program services	34,474	-	34,474	32,934
Fundraising	3,268		3,268	2,969
General and administration	9,010		9,010	7,470
Total expenses (including depreciation and amortization of \$6,120 for 2023 and \$5,268 for 2022)	46,752	-	46,752	43,373
Change in net assets from operations	(10,075)	485	(9,590)	(5,295)
<b>Non-operating Activities:</b>				
Endowment contributions		1,017	1,017	3,396
Other donations			-	951
Unrestricted contributions designated by Board	82,840		82,840	-
Release from Board-designated fund	(9,679)		(9,679)	(3,000)
Capital Campaign contributions		1,527	1,527	8,888
Independent operations revenues	14,037		14,037	12,833
Independent operation expenses, including depreciation and interest	(14,598)		(14,598)	(7,878)
Capital Campaign fundraising expenses			-	(60)
Gain (loss) on sale of assets	4		4	-
Other non-operating expense	91	5	96	(97)
Investment income (loss), net of fees	1,565	1,095	2,660	(11,290)
Net assets released from restriction	1,527	(1,527)	-	-
Postretirement medical benefit plan obligation	159		159	1,591
Change in net assets from non-operating activities	75,946	2,117	78,063	5,334
<b>Total Change in Net Assets</b>	<b>65,871</b>	<b>2,602</b>	<b>68,473</b>	<b>39</b>
<b>Net Assets, beginning of year</b>	<b>179,856</b>	<b>51,182</b>	<b>231,038</b>	<b>230,999</b>
<b>Net Assets, end of year</b>	<b>\$ 245,727</b>	<b>\$ 53,784</b>	<b>\$ 299,511</b>	<b>\$ 231,038</b>

See accompanying notes to the consolidated financial statement.

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

Year Ended June 30, 2023

	Operating							Non-Operating		
	Instruction	Student Services	Academic Support	Public Programs	Auxiliary Services	General and Administration	Fundraising	Total	Independent Operation	Total Expenses
Salaries and wages	\$ 11,482	\$ 1,208	\$ 1,935	\$ 154	\$ 113	\$ 4,441	\$ 1,379	\$ 20,712	\$ 7,419	\$ 28,131
Benefits	1,947	256	322	18	20	1,002	288	3,853	1,869	5,722
Purchased services	3	29	3		2,395	32	153	2,615	1,025	3,640
Professional and artistic fees	1,224	74	112	371	53	1,319	615	3,768	684	4,452
Repairs and maintenance	197	19	90	2	540	71	22	941	5	946
Supplies	135	29	69	1	153	36	21	444	53	497
Depreciation and amortization	1,481	161	249	19	2,673	600	184	5,367	753	6,120
Interest expense	668	73	112	9	2,886	271	83	4,102	32	4,134
Insurance	171	19	28	2	188	69	21	498	31	529
Utilities and telephone	262	33	44	3	925	115	37	1,419	84	1,503
Travel/mileage/meals	152	30	6	36	1	152	54	431	942	1,373
Software	130	129	60	1	45	90	84	539	229	768
Advertising	12	46				164	178	400	224	624
Facility rentals	58	5	2		308	192	47	612	837	1,449
Awards and contributions (non-tuition)	(9)	148						139		139
Other expenses	186	58	75	12	23	456	102	912	411	1,323
<b>Total Expenses</b>	<b>\$ 18,099</b>	<b>\$ 2,317</b>	<b>\$ 3,107</b>	<b>\$ 628</b>	<b>\$ 10,323</b>	<b>\$ 9,010</b>	<b>\$ 3,268</b>	<b>\$ 46,752</b>	<b>\$ 14,598</b>	<b>\$ 61,350</b>

See accompanying notes to the consolidated financial statement.



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

Year Ended June 30, 2022

	Operating								Non-operating		Total Expenses
	Instruction	Student Services	Academic Support	Public Programs	Auxiliary Services	General and Administration	Fundraising	Total	Independent Operation	Capital Campaign Fundraising	
Salaries and wages	\$ 10,844	\$ 1,312	\$ 1,389	\$ 150	\$ 141	\$ 3,315	\$ 1,408	\$ 18,559	\$ 5,318		\$ 23,877
Benefits	1,588	266	207	11	19	971	239	3,301	640		3,941
Purchased services	722	119	93	39	2,856	290	323	4,442			4,442
Professional and artistic fees	710	7	73	226	120	1,062	192	2,390	725	\$ 51	3,166
Repairs and maintenance	38	4	24		78	10	4	158			158
Supplies	164	34	102	1	198	56	17	572	19		591
Depreciation and amortization	1,348	171	173	17	2,598	465	179	4,951	317		5,268
Interest expense	749	95	96	10	2,627	258	99	3,934			3,934
Insurance	183	23	23	3	349	62	24	667	34		701
Utilities and telephone	309	41	40	4	810	115	44	1,363	52		1,415
Travel/mileage/meals	151	25	5	36	6	136	138	497	279		776
Software	139	121	52	1	47	55	81	496	178		674
Advertising	22	68				209	69	368	5		373
Facility rentals	54	4	1		300	150	2	511	216		727
Awards and contributions (non-tuition)	342	18		11				371			371
Other expenses	158	93	56	2	18	316	150	793	95	9	897
<b>Total Expenses</b>	<b>\$ 17,521</b>	<b>\$ 2,401</b>	<b>\$ 2,334</b>	<b>\$ 511</b>	<b>\$ 10,167</b>	<b>\$ 7,470</b>	<b>\$ 2,969</b>	<b>\$ 43,373</b>	<b>\$ 7,878</b>	<b>\$ 60</b>	<b>\$ 51,311</b>

See accompanying notes to the consolidated financial statement.

# San Francisco Conservatory of Music

## Consolidated Statement of Cash Flows (in thousands)

<i>Year Ended June 30, 2023 (with comparative totals for 2022)</i>	2023	2022
<b>Operating Activities:</b>		
Change in net assets	\$ 68,473	\$ 39
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	6,120	5,268
Forgiveness of Paycheck Protection Program loan		(715)
Net realized and unrealized (gain) loss on investments	(2,185)	11,515
(Gain) loss on disposal of assets	(4)	97
Contributions of equipment	(128)	(122)
Contributions received for long-term investment and acquisition of long lived assets	(7,763)	(20,789)
Financing issuance costs amortization	52	136
Changes in operating assets and liabilities:		
Receivables	14,540	4,152
Other assets	(3,332)	(267)
Accounts payable	(484)	(4,540)
Accrued expenses, other liabilities and post-retirement obligation	4,076	(692)
Deposits and deferred income	(762)	(452)
Government advances for loan program	(59)	(60)
<b>Net cash provided (used) by operating activities</b>	<b>78,544</b>	<b>(6,430)</b>
<b>Investing Activities:</b>		
Acquisition of Askonas Holt	(1,958)	
Property and equipment:		
Proceeds	1,506	
Purchases and capital expenditures	(1,192)	(13,919)
Investments:		
Proceeds from sales	44,224	8,711
Purchases	(110,327)	(10,809)
<b>Net cash used by investing activities</b>	<b>(67,747)</b>	<b>(16,017)</b>
<b>Financing Activities:</b>		
Contributions received for long-term investment and acquisition of long lived assets	7,763	19,838
Cash from acquisition of Askonas Holt and donation of LLC	1,577	117
Line of credit proceeds	250	3,450
Line of credit payments	(2,998)	(3,000)
Loan proceeds		9,315
Loan payments	(14,286)	(8,753)
<b>Net cash (used) provided by financing activities</b>	<b>(7,694)</b>	<b>20,967</b>
<b>Net Change in Cash and Equivalents</b>	<b>3,103</b>	<b>(1,480)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>3,472</b>	<b>4,952</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 6,575</b>	<b>\$ 3,472</b>
<b>Supplemental Cash Flow Information:</b>		
Interest paid	\$ 4,050	\$ 3,798
Reconciliation of cash, cash equivalents to amounts shown on the statement of financial position:		
Cash and cash equivalents	\$ 6,530	\$ 3,349
Restricted cash	45	123
<b>Total cash, cash equivalents and restricted cash shown on the statement of financial position</b>	<b>\$ 6,575</b>	<b>\$ 3,472</b>

See accompanying notes to the consolidated financial statement.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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### Note 1 - Organization and Operations:

San Francisco Conservatory of Music (the Conservatory) is an independent college of music located in San Francisco, California. The Conservatory offers undergraduate and graduate degree programs, music instruction for adults and children and other public programs. The Conservatory is advancing a model of music education that sets students up for a rewarding career in music and a path of lifelong learning. The Conservatory experience consists of the Conservatory, artist management companies Opus 3 Artists and Askonas Holt, and recording label Pentatone. As of June 30, 2023, Conservatory owns Pentatone directly, and holds ownership of Opus 3 Artists and Askonas Holt under a wholly owned single member LLC, Opus 3 Mothership LLC (Mothership).

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

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

The Conservatory 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.

The results of operations of Mothership, Opus 3 Artists, Pentatone, and Askonas Holt are shown as independent operations in the consolidated statement of activities.

### 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 the Conservatory, Mothership, Opus 3 Artists, Pentatone, and Askonas Holt (collectively, "SFCM") after elimination of intercompany accounts and transactions.

SFCM's consolidated 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 (see Note 15).

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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*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.

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 consolidated statement of activities as net assets released from restrictions.

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 assets other than cash are recorded at their estimated fair value at the date of donation. Contributions and grants receivable represent amounts unconditionally 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.

Independent operations revenue is recognized when performance obligations identified under the terms of contracts with its customers are satisfied, which occurs upon the transfer of control in accordance with the contractual terms and conditions of the sale. Revenue is measured as the amount of consideration expected to be received in exchange for services provided.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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In the normal course of business, SFCM 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 (ASC) 606 paragraph 606-10-55-37 through 40, such transactions are recorded on a “gross” or “net” basis depending on whether SFCM is acting as the “principal” in the transaction or acting as the “agent” in the transaction. When acting as an agent, SFCM does not have control before the service is transferred to the customer, and, accordingly, revenues are recorded on a net basis.

c. Foreign Currency

The functional currencies of SFCM’s foreign subsidiaries are the respective local currencies. Translation adjustments arising from the use of differing exchange rates from period to period and foreign currency transaction gains and losses are included in Independent operations revenues in the consolidated statement of activities and change in net assets. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenue and expenses are translated at the average exchange rate during the period, and equity balances are translated using historical exchange rates.

d. 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 consolidated statement of cash flows, except for cash equivalents included in and managed with SFCM’s investments.

e. Restricted Cash

Restricted cash represents cash in the Perkins loan program.

f. 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 the Consolidated Financial Statements

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Dividend and interest income, net of fees, are accrued when earned.

g. 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.

h. 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.

*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:

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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- 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.

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.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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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, 2023, SFCM had 129 funds with deficiencies totaling \$4,388,000 with fair market values of \$39,012,000 and original endowment gift amounts of \$43,400,000. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for programs that were deemed prudent by the Board of Trustees.

i. Accounts Receivable and Notes Receivable

Independent operations accounts receivable of approximately \$5,768,000 include routinely made advances for expenses incurred by artists as well as unpaid commissions from completed performances. The receivables are stated net of an allowance for doubtful accounts. On a periodic basis, management evaluates its accounts receivable and establishes an allowance for doubtful accounts based upon said review. In addition, student accounts receivable of approximately \$410,000 are carried at the unpaid balance of the original amount billed to students. Notes receivable include Federal Perkins student loans which bear interest of 3% to 5% annually. Receivables reflect an estimate made for doubtful accounts based on SFCM's past experience with the accounts. The allowance for doubtful accounts is 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.

j. 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 4.2%.



# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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k. 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, the shorter of lease term or 20-40 years for building improvements, 20 – 50 years for musical instruments, except string instruments, and 3-10 years for all other depreciable assets.

l. 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 consolidated statement of activities depending on donor restrictions, if any, placed on the item at the time of accession.

m. Goodwill

Goodwill is the result of the acquisitions of Opus 3 Artists on January 1, 2021, and of Askonas Holt on December 20, 2022. SFCM has elected the accounting alternative provided in 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 to amortize goodwill on a straight-line basis over a ten-year period. SFCM evaluates goodwill for impairment at the entity level annually.

n. Leases

SFCM determines whether an arrangement is or includes a lease and categorizes leases as either operating or finance leases at their commencement. SFCM does not have any finance leases. Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As SFCM's leases do not provide an implicit rate, SFCM uses a risk-free discount rate at the commencement date in determining the present value of future payments. The lease ROU asset also includes any lease payments made minus any lease incentives received and initial direct costs incurred. SFCM accounts for lease and non-lease components, to the extent they are fixed, as a single lease component. Additionally, the lease term may include options to extend or terminate the lease when it is reasonably certain SFCM will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

o. 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.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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p. 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.

q. Non-Operating Revenue and Gains

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

r. Advertising Expenses

SFCM's policy is to expense advertising costs as they are incurred.

s. Functional Allocation of Expenses

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.

t. Income Taxes

The Conservatory 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. The Conservatory has maintained its tax-exempt status, and accordingly, no provision for income taxes has been reflected in these consolidated financial statements.

Mothership is 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 its income tax provision. Management believes it has not taken any 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. Net deferred tax assets primarily related to available net operating loss carryforwards are offset with a valuation allowance at June 30, 2023. Net operating loss carryforwards of approximately \$1,800,000 are available to offset future taxable income and do not expire. Mothership is taxable in certain local tax jurisdictions.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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High Quality Music Publishing Company B.V. and its subsidiary Pentatone is taxed on its income as a corporation. As of January 1, 2023, these companies merged leaving Pentatone as the surviving entity. Deferred tax liabilities and assets are determined based upon the difference between the financial statement and tax basis of assets and liabilities using applicable tax rates. Deferred tax assets are only recorded if realization is likely. For income tax purposes, Pentatone's cumulative losses as of June 30, 2023 amounted to \$5,358,000 (EUR 4,915,000). Current legislation allows losses to be offset against income indefinitely, but there are limits to the offset amounts per year. Losses may be offset against profit up to an amount of \$1,090,000 (EUR 1 million), and losses above \$1,090,000 (EUR 1 million) may be offset against 50% of the remaining taxable profit of the tax year. No tax benefit from the losses has been recorded due to the uncertainty of future taxable profits.

As of June 30, 2023, management evaluated SFCM's tax positions and had taken no uncertain tax positions that require adjustment to the consolidated financial statements. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

u. 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.

v. 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 consolidated financial statements for the year ended June 30, 2022, from which the information was derived.

w. Collective Bargaining Agreement

Approximately 4% of full-time staff and faculty are covered by a collective bargaining agreement as of June 30, 2023 which expired August 31, 2023. A new contract was signed, effective for September 1, 2023 through August 31, 2029.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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### x. Recent Accounting Pronouncements

#### *Pronouncement Adopted*

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02 - *Leases (Topic 842)*. Under the ASU, a lessee is required to recognize right-to-use assets and liabilities on their balance sheet for all leases with lease terms of more than twelve months. SFCM adopted this standard on July 1, 2022 by establishing \$3,699,000 in right-of-use assets and corresponding \$3,699,000 lease liabilities. In addition, SFCM elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed SFCM to carry forward the historical lease classification, and under the transition guidance, SFCM did not restate the comparative 2022 period. SFCM also elected the practical expedient to not separate the lease and non-lease components. The adoption of this standard did not have a significant effect on the consolidated statements of activity or consolidated statement of cash flows.

#### *Pronouncement Effective in the Future*

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets. The ASU requires loans and trade receivables measured at amortized cost to be presented at the net amount expected to ultimately be collected. The allowance for credit losses includes all losses that are expected to occur over the remaining life of the asset, rather than incurred losses through the date of the financial statements. Changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. Contribution pledges recorded as receivable are excluded from the new impairment standard. The ASU is effective for fiscal years beginning after December 15, 2022. SFCM is currently evaluating the impact the new standard has on its consolidated financial statements.

### y. Subsequent Events

SFCM evaluated subsequent events from June 30, 2023 through December 18, 2023, the date these consolidated financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements and no subsequent events have occurred the nature of which would require disclosure.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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

SFCM's financial assets available within one year of the June 30, 2023 year end for general expenditures were as follows:

Financial assets at year end:	
Cash and cash equivalents	\$ 6,530,000
Accounts receivable, net	6,178,000
Contributions receivable, net	6,603,000
Trusts receivable	139,000
Investments	126,816,000
<hr/>	
Total financial assets	146,266,000
<hr/>	
Less amounts not available to be used within one year:	
Pledge receivables for capital campaign and projects	(4,728,000)
Pledge receivables for restricted projects	(452,000)
Pledge receivables for endowment	(908,000)
Trusts receivable for restricted purposes	(139,000)
Cash held for donor restricted purposes	(1,798,000)
Cash held for endowment	(313,000)
Investments held for endowment (includes quasi-endowments)	(50,192,000)
Investments in non-liquid assets	(21,000)
Unrestricted gifts designated by the Board	(84,068,000)
Plus amounts available to be used within one year:	
Purpose restrictions to be met in one year	1,005,000
Payout on endowment and long-term investments	7,963,000
Pledge receivable for capital projects	4,322,000
Unrestricted gifts appropriated by the Board	4,878,000
<hr/>	
	(124,451,000)
<hr/>	
Financial assets available to meet general expenditures over the next twelve months	\$ 21,815,000
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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. At June 30, 2023, SFCM had approximately \$82,000 of board-designated endowments and board designated gifts of \$84,068,000 that, with the Board's approval, could be made available for operations.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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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.

### Note 4 - Notes Receivable:

Notes receivable consisted of the following at June 30, 2023:

	Perkins Loans
Notes receivable	\$ 479,000
Less allowance for doubtful accounts:	
Beginning of year	38,000
Increase	14,000
<hr/>	
End of year	52,000
<hr/>	
Notes receivable, net	\$ 427,000

Funds advanced for the Perkins Loan program by the Federal government of \$353,000 at June 30, 2023 are ultimately refundable to the government and are classified as liabilities in the consolidated 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 \$174,000 at June 30, 2023.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

**Note 5 - Contributions and Grants Receivable:**

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

	2023	2022
Within one year	\$ 5,127,000	\$ 11,371,000
One to five years	1,627,000	10,829,000
Six to eight years	170,000	15,000
	6,924,000	22,215,000
Discount on multi-year contributions	(128,000)	(319,000)
Allowance for uncollectible contributions	(193,000)	(841,000)
	\$ 6,603,000	\$ 21,055,000

Receivables include approximately \$4,728,000 for the capital campaign (Note 18), net of allowance and discount at June 30, 2023. See Note 16 for related party contributions receivable.

**Note 6 - Investments:**

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

	2023		2022	
	Fair Value	Cost	Fair Value	Cost
Cash and equivalents	\$ 9,554,000	\$ 9,554,000	\$ 940,000	\$ 940,000
Domestic equities and funds	47,439,000	42,555,000	27,103,000	24,726,000
International mutual and commingled trust funds	24,753,000	25,941,000	13,607,000	15,830,000
Domestic fixed income funds	40,040,000	42,872,000	13,913,000	15,907,000
International fixed income funds	4,764,000	5,121,000	2,696,000	2,987,000
Partnerships	21,000	11,000	30,000	11,000
	126,571,000	126,054,000	58,289,000	60,401,000
Other investments:				
Real estate – interest	245,000	245,000	245,000	245,000
	\$ 126,816,000	\$ 126,299,000	\$ 58,534,000	\$ 60,646,000

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

Total investment return for the year ended June 30, 2023 is comprised of net realized and unrealized gain of \$2,185,000, dividends and interest income of \$3,239,000, and investment fees of \$227,000 which is reflected in operating and non-operating revenue in the consolidated statement of activities.

### Note 7 - Fair Value Measurements:

The table below presents the assets and liabilities measured at fair value on a recurring basis at June 30, 2023.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Assets:					
Investments:					
Cash and equivalents	\$ 9,554,000				\$ 9,554,000
Domestic equities and funds	47,413,000	\$ 26,000			47,439,000
International funds	24,753,000				24,753,000
Domestic fixed income funds	40,040,000				40,040,000
International fixed income funds	4,764,000				4,764,000
Net Asset Value Funds (a)				\$ 21,000	21,000
Other Assets:					
Trusts receivable		139,000			139,000
<b>Total assets measured at fair value</b>	<b>\$ 126,524,000</b>	<b>\$ 165,000</b>	<b>\$ -</b>	<b>\$ 21,000</b>	<b>\$ 126,710,000</b>
Liabilities:					
Post-retirement medical benefit obligation (Note 13)			\$ 3,124,000		\$ 3,124,000
<b>Total liabilities measured at fair value</b>			<b>\$ 3,124,000</b>		<b>\$ 3,124,000</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.



# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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, 2023:

Strategies	# of Funds	Valuation	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Venture capital fund (a)	1	\$ 15,000	None	None	N/A
Real estate mortgage fund (b)	1	6,000	None	None	N/A
		\$ 21,000			

(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 consisted of the following at June 30:

	2023	2022
Land	\$ 23,253,000	\$ 23,253,000
Building and improvements	233,574,000	234,047,000
Books, furnishings and equipment	18,493,000	12,968,000
Musical instruments, including collections	8,538,000	8,154,000
	283,858,000	278,422,000
Less accumulated depreciation and amortization	(41,721,000)	(30,400,000)
	242,137,000	248,022,000
Construction in progress	755,000	317,000
	\$ 242,892,000	\$ 248,339,000

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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

Books, furnishings and equipment includes \$5,168,000 of Pentatone development and website intangible assets.

### Note 9 - Goodwill:

In 2022, \$2,968,000 was recorded with the acquisition of Opus 3 Artists, and in 2023, \$3,480,000 was recorded with the acquisition of Askonas Holt.

Goodwill, as of June 30, 2023, was comprised of the following:

		Estimated Useful Life
Goodwill	\$ 6,448,000	10 years
Accumulated amortization	(916,000)	
	<u>\$ 5,532,000</u>	

### 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 were 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 began July 1, 2021 and are due through June 1, 2048. As of June 30, 2023, \$72,496,000 was outstanding on the loan.

Series B bears interest at the Secured Overnight Financing Rate Index plus 1.5% per annum with a minimum rate of 2.5% (6.8% as of June 30, 2023), payable monthly. It has a maturity date of June 1, 2024. As of June 30, 2023, \$4,053,000 was outstanding on the loan.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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Series C is a \$10 million taxable bridge loan and bears interest at the Western Edition of the Wall Street Journal U.S. Prime Rate plus negative 35 hundredths percent (-0.35%), (7.9% as of June 30, 2023). 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, 2023, \$5,950,000 was outstanding on the loan.

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%, (8.5% as of June 30, 2023). The maturity date is April 28, 2024. As of June 30, 2023, no amounts were outstanding on the loan.

Financing issuance costs are classified as a reduction to loans payable on the consolidated 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 \$1,062,000 at June 30, 2023.

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.

Total interest expense incurred including amortization of cost of issuance for the fiscal year ending June 30, 2023 was approximately \$4,102,000.

Askonas Holt received a £400,000 loan from Lloyds Bank under the United Kingdom Coronavirus Business Interruption Loan (CBIL) program. The loan bears interest at a fixed rate of 2.51% plus a floating interest rate (7.51% as of June 30, 2023). Principal and interest payments of approximately \$8,000 are due monthly on the loan through May 2026. The balance as of June 30, 2023 is \$267,000.

Future minimum principal payments on the outstanding Series A loan as of June 30, 2023 are as follows:

Year Ending June 30:	
2024	\$ 1,586,000
2025	1,809,000
2026	3,063,000
2027	1,993,000
2028	2,067,000
Thereafter	61,978,000
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	\$ 72,496,000

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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Future minimum principal payments on the outstanding Series B loan as of June 30, 2023 are as follows:

Year ending June 30:	
2024	\$ 4,053,000
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	\$ 4,053,000

Future minimum principal payments on the outstanding Series C loan as of June 30, 2023 are as follows:

Year ending June 30:	
2024	\$ 1,950,000
2025	4,000,000
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	\$ 5,950,000

### Note 11 - Retirement Plans:

Employees of SFCM are covered under various defined-contribution plans. Contributions to the Plan are made by the employees and SFCM may offer a matching contribution up to 5% of employee's eligible earnings. Contributions to all plans of approximately \$874,000 were made by SFCM for the year ended June 30, 2023.

The Conservatory provides a 457(b) plan for certain management personnel. Deferrals are made at the discretion of the participants, subject to certain limitations. Related assets and liabilities total approximately \$282,000 and are included in the consolidated financial statements at June 30, 2023.

With respect to certain employees, the Conservatory contributes to a multiemployer pension plan for employees covered by a collective bargaining agreement (Note 12). This plan is not administered by the Conservatory 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 the Conservatory withdraws, the Conservatory could be subject to a substantial "withdrawal liability." Management has no intention of undertaking any action which could subject the Conservatory to this obligation. The total pension expense related to these employees was approximately \$111,000 for the year ended June 30, 2023.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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### 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% of total full-time faculty and staff of the Conservatory at June 30, 2023. 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 the Conservatory chooses to stop participating in some of its multiemployer plans, the Conservatory may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Conservatory's participation in this plan for the annual period ended December 31, 2021, 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 2023 and 2022 is for the plan years ended in 2022 and 2021, respectively. The zone status is based on information that the Conservatory 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.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

<u>Pension Fund</u>	<u>EIN/Pension Plan Number</u>	<u>Pension Protection Act Zone Status</u>		<u>FIP/RP Status Pending or Implemented</u>	<u>The Conservatory Contributions</u>		<u>Expiration Date of Date of Collective Bargaining Agreement</u>
		<u>2022</u>	<u>2021</u>		<u>2023</u>	<u>2022</u>	
Stationary Engineers Local 39 Trust Funds	94-6118939/001	Green	Green	N/A	\$ 111,000	\$ 133,000	8/31/2023

There have been no other significant changes that affect the comparability of 2023 and 2022 contributions.

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

The Conservatory provided less than 1% of the total contributions to the plan during 2022, the date of the plan's most recently available annual reports. Additionally, there were no surcharges in effect for any portions of the plan.

### Note 13 - Postretirement Health Benefit Plan:

The Conservatory adopted an unfunded noncontributory postretirement health benefit plan (the 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	\$ 3,283,000
Service cost	156,000
Interest cost	144,000
Actuarial gain	(388,000)
Benefits paid	(77,000)
Participant contribution	6,000
<u>Accumulated benefit obligation at end of year</u>	<u>\$ 3,124,000</u>
<u>Unfunded status of the plan at end of year</u>	<u>\$ 3,124,000</u>

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

The benefits expected to be paid from the Conservatory'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 Ending June 30,	
2024	\$ 90,000
2025	101,000
2026	111,000
2027	124,000
2028	133,000
Thereafter	832,000
	<hr/>
	\$ 1,391,000

Weighted average rate assumptions as of June 30, 2023:

Discount Rate	4.91%
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The Conservatory's projected medical cost trend rate related to its noncontributory postretirement health benefit plan for 2024 is 7%. The higher medical cost trend rate reflects health plans' modeling for inflationary unit cost impacts with their contracted healthcare providers, as well as persistent double-digit pharmacy trends driven by specialty drugs and the increasing use of certain medications used to treat Type-2 Diabetes or weight loss.

### 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 92% of its contributions for the year ended June 30, 2023 from one donor, with the full amount received during the fiscal year, and 61% of its pledges receivable as of June 30, 2023 were from another donor.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

**Note 15 - Net Assets:**

Net assets consisted of the following at June 30:

	2023				2022 Total
	Without Donor Restrictions	With Donor Restrictions		Total	
		Purpose & Time Restrictions	Restrictions in Perpetuity		
<b>Endowment:</b>					
Quasi-endowment funds	\$ 82,000			\$ 82,000	\$ 97,000
True endowment funds:					
General purpose		\$ (396,000)	\$ 8,927,000	8,531,000	8,306,000
Scholarship		(3,034,000)	36,511,000	33,477,000	31,778,000
Faculty support		(284,000)	8,628,000	8,344,000	8,159,000
Other program support		14,000	978,000	992,000	970,000
Retirement of indebtedness		10,000	180,000	190,000	186,000
True endowment funds		(3,690,000)	55,224,000	51,534,000	49,400,000
Total endowment funds	82,000	(3,690,000)	55,224,000	51,616,000	49,497,000
<b>Other:</b>	245,645,000	2,250,000		247,895,000	176,170,000
Total net assets	\$ 245,727,000	\$(1,440,000)	\$ 55,224,000	\$ 299,511,000	\$ 231,038,000

At June 30, 2023, SFCM had Board-designated funds for special projects and other purposes of \$84,068,000.

Net assets with donor restrictions for purpose and time at June 30, 2023 were as follows:

Time restriction	\$ 1,372,000
Other projects & programs	878,000
	\$ 2,250,000



# San Francisco Conservatory of Music

## Notes to the 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, 2023:

Utilized for scholarships	\$ 2,103,000
Utilized for faculty salaries	414,000
Utilized for capital projects and capital campaign	1,536,000
Utilized for other project and program purposes	1,657,000
Expiration of time restrictions	384,000
<hr/>	
Total released operating and non-operating	\$ 6,094,000

Changes in endowment net assets for the year ended June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose & Time Restrictions	Restrictions in Perpetuity	
Net assets, beginning of year	\$ 80,000	\$ (4,784,000)	\$ 54,201,000	\$ 49,497,000
Investment return:				
Investment income, net	4,000	1,868,000		1,872,000
Net realized and unrealized gain (loss) on investments and trusts	3,000	1,758,000	5,000	1,766,000
<hr/>				
Total investment return	7,000	3,626,000	5,000	3,638,000
<hr/>				
New gifts			1,018,000	1,018,000
Appropriation of endowment	(5,000)	(2,532,000)		(2,537,000)
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Net assets, end of year	\$ 82,000	\$ (3,690,000)	\$ 55,224,000	\$ 51,616,000

### Note 16 - Related Party Transactions:

SFCM received contributions from members of its Board of Trustees and related entities of approximately \$12,358,000 for the fiscal year ended June 30, 2023. Contributions receivable related to current and prior years' contributions from Board members totaled approximately \$325,000 at June 30, 2023. These Board members had no other relationship or business dealings with SFCM.

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

### Note 17 - Commitment and Contingencies:

#### a. Operating Leases

SFCM leases facilities, equipment, and parking under non-cancelable leases, which expire at various dates through 2030. Some leases have options to renew.

Lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of the remaining minimum lease payments over the lease term, with certain adjustments as described in Note 2. As SFCM's leases do not provide an implicit rate, and in accordance with the private company exemptions available under ASC 842, SFCM uses a risk-free interest rate based on the information available at commencement date in determining the present value of lease payments.

As of June 30, 2023, SFCM had right-of-use assets of \$3.3 million and lease liabilities related to its operating leases of \$3.3 million. Right-of-use assets are included within other assets and lease liabilities are included within accrued expenses and other liabilities in the consolidated statement of financial position. During the fiscal year ended June 30, 2023, SFCM paid approximately \$528,000 in cash related to its operating leases. As of June 30, 2023, the weighted-average remaining lease term was 5.7 years, and the weighted-average discount rate related to SFCM's operating leases was 3.7%.

Maturities of the operating lease liabilities are as follows:

Year Ending	
June 30:	
2024	\$ 660,684
2025	660,684
2026	660,684
2027	660,684
2028	550,774
Thereafter	413,652
<hr/>	
Total lease payments	3,607,162
Lease discount to present value	(354,968)
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Present value of lease liabilities	\$ 3,252,194

#### b. Other

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

# San Francisco Conservatory of Music

## Notes to the Consolidated Financial Statements

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

The Conservatory embarked on a capital campaign for a new student residence hall. The facility provides the physical capacity necessary to sustain a world-class professional educational environment. The building houses the majority of students, furnished practice rooms and includes social and study spaces. It also features 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. See Notes 5 and 10 for additional information on the campaign contributions, 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 were declared in many jurisdictions and shelter in place orders were instituted in many cities, states, and countries which impacted general business operations in most industries and sectors. SFCM has not yet returned to pre-pandemic levels of activity.

The Conservatory received unsecured Paycheck Protection Loans totaling \$4,069,000. Loans totaling \$3,354,000 were fully forgiven during the year ended June 30, 2021 and the remainder of \$715,000 was fully forgiven during the year ended June 30, 2022.

The Conservatory received federal funding from the Higher Education Emergency Relief Fund (HEERF) which was established for emergency aid grants to students for expenses related to the disruption of campus operations due to COVID-19 and direct aid to higher educational institutions to cover certain costs associated with the significant changes to the delivery of instruction due to COVID-19. During fiscal year 2022, SFCM was awarded approximately \$755,000 of HEERF funds, of which the Conservatory spent and recognized approximately \$427,000 to cover the lost revenue from the return of 50% of housing, meal plan and parking fees to students, and approximately \$328,000 to provide emergency financial aid grants directly to students during fiscal year 2022.

SFCM applied for Employee Retention Tax Credits and recorded approximately \$4,806,000 and received \$1,381,000 prior to June 30, 2022. The credits were recorded in government grants on the consolidated statement of activities in fiscal year 2022. In fiscal year 2023, the remainder of \$3,425,000 was received, plus an additional \$1,285,000 that had not previously been recorded.

Askonas Holt received £400,000 of loans under the Coronavirus Business Interruption Loan of which \$267,000 is still outstanding as of June 30, 2023. See Note 10 for additional information.