

SAN FRANCISCO  
CONSERVATORY OF MUSIC

JUNE 30, 2018

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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

### **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, 2018, and the consolidated related statements of activities 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the SFCM as of June 30, 2018, and the consolidated changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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

We have previously audited SFCM's June 30, 2017 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the consolidated audited financial statements from which it has been derived.

*Hood & Strong LLP*

San Francisco, California  
November 16, 2018

# San Francisco Conservatory of Music

## Consolidated Statement of Financial Position (in thousands)

<i>June 30, 2018 (with comparative totals for 2017)</i>	2018	2017
<b>Assets</b>		
Cash	\$ 12,336	\$ 2,066
Restricted cash	37	85
Receivables:		
Accounts receivable (less allowance for doubtful accounts of \$23 for 2018 and \$18 for 2017)	1,913	1,739
Notes receivable (less allowance for doubtful accounts of \$98 for 2018 and \$105 for 2017)	828	774
Contributions and grants, net	42,984	43,080
Trusts	269	270
Investments	39,287	39,843
Other assets	896	845
Property, plant and equipment, net	91,017	87,251
<b>Total Assets</b>	<b>\$ 189,567</b>	<b>\$ 175,953</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and other liabilities	\$ 1,581	\$ 1,030
Deposits and deferred income	2,746	2,511
Line of credit	1,750	9,000
Loans, net of financing issuance costs	2,468	4,500
Accumulated postretirement benefit obligation	3,676	3,761
Government advances for loan program	689	683
Total liabilities	12,910	21,485
<b>Net Assets:</b>		
Unrestricted:		
Undesignated	7,919	7,912
Designated - Quasi endowment	93	95
Underwater endowment funds	(2,710)	(3,042)
Federal loan fund	185	176
Investment in plant	46,489	47,984
Total unrestricted net assets	51,976	53,125
Temporarily restricted:		
Purpose and time restrictions	79,193	57,136
Appreciation on endowments	1,218	897
Total temporarily restricted net assets	80,411	58,033
Permanently restricted:		
Permanent endowments	44,270	43,310
Total net assets	176,657	154,468
<b>Total Liabilities and Net Assets</b>	<b>\$ 189,567</b>	<b>\$ 175,953</b>

See accompanying notes to financial statement.

# San Francisco Conservatory of Music

## Consolidated Statement of Activities (in thousands)

Year Ended June 30, 2018 (with comparative totals for 2017)

	2018			2017 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<b>Operating Revenue and Support:</b>					
Tuition and fees	\$ 20,695			\$ 20,695	\$ 19,349
Less: Scholarships	(9,754)			(9,754)	(8,877)
Net tuition and fees	10,941			10,941	10,472
Private contributions and government grants	4,156	\$ 1,212		5,368	5,518
Other educational revenue	368			368	497
Fundraising events	1,096			1,096	681
Auxiliary services	3,059			3,059	3,132
Net investment and endowment income		2,511		2,511	2,273
Net assets released from restrictions	4,643	(4,643)		-	-
Total operating revenue and support	24,263	(920)		23,343	22,573
<b>Expenses:</b>					
Program services:					
Instruction	10,582			10,582	9,447
Student services	1,441			1,441	1,405
Academic support	793			793	796
Public programs	599			599	418
Auxiliary services	3,039			3,039	2,974
Total program services	16,454			16,454	15,040
Fund-raising:					
General fund-raising	658			658	706
Fund-raising events	350			350	233
Total fund-raising	1,008			1,008	939
General management and administration	4,113			4,113	4,209
Maintenance of plant	2,064			2,064	2,085
Depreciation	1,263			1,263	1,317
Interest expense	237			237	221
Total expenses	25,139			25,139	23,811
Change in net assets from operations	(876)	(920)		(1,796)	(1,238)
<b>Nonoperating Activities:</b>					
Endowment and capital campaign contributions		24,177	\$ 968	25,145	41,183
Independent operation revenues	324			324	328
Independent operation expenses, including depreciation	(1,304)			(1,304)	(1,251)
Capital Campaign fund-raising	(894)			(894)	(548)
Gain (loss) on sale of assets	(36)			(36)	5
Investment income (loss), net of fees	29	644		673	1,812
Change in value of trust receivable			(8)	(8)	29
Net assets released from restriction	1,192	(1,192)		-	-
Postretirement health plan obligation	85			85	345
Underwater endowment fund adjustment	331	(331)		-	-
Change in net assets from nonoperating activities	(273)	23,298	960	23,985	41,903
<b>Total Change in Net Assets</b>	(1,149)	22,378	960	22,189	40,665
<b>Net Assets, beginning of year</b>	53,125	58,033	43,310	154,468	113,803
<b>Net Assets, end of year</b>	\$ 51,976	\$ 80,411	\$ 44,270	\$ 176,657	\$ 154,468

See accompanying notes to financial statement.

# San Francisco Conservatory of Music

## Consolidated Statement of Cash Flows (in thousands)

<i>Year Ended June 30, 2018 (with comparative totals for 2017)</i>	2018	2017
<b>Operating Activities:</b>		
Change in net assets	\$ 22,189	\$ 40,665
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	1,625	1,679
Net realized and unrealized gain on investments	(2,363)	(3,736)
(Gain) loss on sale of assets	36	(5)
Contributions of equipment	(72)	(43)
Contributions received for long-term investment and acquisition of long lived assets	(25,810)	(9,737)
Changes in operating assets and liabilities:		
Receivables	(131)	(32,580)
Other assets	(51)	(198)
Accounts payable and accrued liabilities	466	(342)
Government advances for loan program	6	6
Deposits and deferred income	235	1,058
<b>Net cash used by operating activities</b>	<b>(3,870)</b>	<b>(3,233)</b>
<b>Investing Activities:</b>		
Property and equipment:		
Proceeds from sales		7
Purchases and capital expenditures	(5,356)	(2,455)
Investments:		
Proceeds from sales	44,418	20,044
Purchases	(41,498)	(19,874)
<b>Net cash used by investing activities</b>	<b>(2,436)</b>	<b>(2,278)</b>
<b>Financing Activities:</b>		
Contributions received for long-term investment and acquisition of long lived assets	25,810	9,737
Financing issuance costs	(1,657)	
Line of credit proceeds	5,750	2,100
Line of credit payments	(13,000)	(5,500)
Loan proceeds	4,125	
Loan payments	(4,500)	(375)
<b>Net cash provided by financing activities</b>	<b>16,528</b>	<b>5,962</b>
<b>Net Change in Cash and Equivalents and Restricted Cash</b>	<b>10,222</b>	<b>451</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>2,151</b>	<b>1,700</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 12,373</b>	<b>\$ 2,151</b>
<b>Supplemental Cash Flow Information:</b>		
Interest paid	\$ 536	\$ 579
<b>Components of Cash and Cash Equivalents:</b>		
Cash	\$ 12,336	\$ 2,066
Restricted Cash	\$ 37	\$ 85

See accompanying notes to financial statement.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### Note 1 - Organization and Operations:

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

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 unrestricted, temporarily restricted, and permanently restricted classifications for presentation.

*Unrestricted net assets* represent unrestricted resources that are not subject to donor-imposed restrictions and are available to support all activities of SFCM. Unrestricted net assets include Board designated net assets for endowment (see note 13).

*Temporarily restricted net assets* 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.

*Permanently restricted net assets* 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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### b. Revenue Recognition

Student tuition accounts receivable are recorded when students are billed. Tuition revenue is recorded as 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 temporarily or permanently restricted support 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying Statements 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 services are recorded as revenue and recognized when received if the services create or enhance nonfinancial assets, or if they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Corresponding amounts are also recorded as expenses.

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

### c. Cash Equivalents

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

### d. Restricted Cash

Restricted cash represents cash that is restricted for specific purposes, unlent cash in the SFCM's Perkins loan program, and cash held separately for projects and programs in accordance with donors' restrictions.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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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 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 a real estate interest, 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. In addition, SFCM reports certain investments using the Net Assets Value (NAV) per share as determined by investment managers under the so-called “practical expedient.” The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

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

g. Endowment Funds

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

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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

The Board of Trustees of SFCM has interpreted California's UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, SFCM classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by California's UPMIFA. In accordance with California's UPMIFA, SFCM considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of SFCM
- 7) The needs of SFCM and the fund to make distributions and to preserve capital
- 8) The expected tax consequences
- 9) The role that each investment or course of action plays within the overall Fund
- 10) The investment policies of SFCM

### *Investment Objectives and Spending Policy*

SFCM has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the performance of the endowment fund shall be measured by total return.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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SFCM's Endowment Investment 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 the Conservatory. 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 Conservatory 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, alternative investments and other investments which shall provide maximum flexibility and safety through diversification of investments.

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or UPMIFA requires SFCM to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were approximately \$2,710,000 as of June 30, 2018. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for programs that were deemed prudent by the Board of Trustees.

### h. Accounts Receivable and Notes Receivable

Accounts receivable consist principally of student accounts receivable that are carried at the unpaid balance of the original amount billed to students. Notes receivable consist principally of 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.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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

i. Trusts Receivable

Trusts receivable are gifts and bequests held by SFCM or a trustee of which the income is paid to a beneficiary specified by the donor during the beneficiary's lifetime. Upon maturation, the principal becomes available for use by SFCM in accordance with the donor's specified purpose. Currently all recorded trusts contain provisions permanently restricting the corpus of the trust, at maturity. Trusts receivable include charitable remainder trusts, which are carried at the estimated net present value of SFCM's remainder interest in irrevocable trusts. The net present value was actuarially determined 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 acquisition, 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 depreciable assets. Included in property and plant assets are musical instruments SFCM maintains and records as a collection, and accordingly, no depreciation is recognized in operations.

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 as unrestricted or temporarily restricted support 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.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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m. Government Advances for Loan Program

SFCM records the portion of federally funded student loan payments received as refundable advances. The amount includes principle 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 in the year ended June 30, 2018 was \$118,000.

p. Functional Expense Allocations

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

q. Income Taxes

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

As of June 30, 2018, 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 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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s. Comparative Financial Statements

The 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 organization's financial statements for the year ended June 30, 2016, from which the information was derived.

t. Collective Bargaining Agreement

Approximately 3.7% of full-time staff and faculty are covered by a collective bargaining agreement as of June 30, 2018. The current bargaining agreement expires on August 31, 2023.

u. Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize, at commencement date, a lease liability representing the lessee's obligation to make payments arising from the lease and a right-of-use asset representing the lessee's right to use, or control the use of, a specified asset for the lease term. This guidance is effective for fiscal years beginning after December 15, 2019. SFCM is currently evaluating the impact the new standard will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources, and the changes in those resources, to the users of the financial statements. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. SFCM is currently evaluating the impact the new standard will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The standard is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. SFCM is currently evaluating the impact the new standard will have on its financial statements.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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v. Reclassifications

Certain accounts relating to the year ended June 30, 2017 have been reclassified to conform to the 2018 presentation. There is no impact on the change in net assets for that year.

w. Subsequent Events

SFCM evaluated subsequent events from June 30, 2018 through November 16, 2018, the date these financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements and no subsequent events have occurred, except as described in Notes 5 and 7, the nature of which would require disclosure.

**Note 3 - Notes Receivable:**

At June 30, 2018, notes receivable consisted of the following:

	Perkins Loans
Notes receivable	\$ 927,000
Less allowance for doubtful accounts:	
Beginning of year	(105,000)
Decrease	6,000
	<hr/>
End of year	(99,000)
	<hr/>
Notes receivable, net	\$ 828,000

The availability of funds for loans under the Perkins loan program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of \$661,000 at June 30, 2018 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.

The principal amount past due under the Perkins loan program was approximately \$190,000 at June 30, 2018.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### Note 4 - Contributions and Grants Receivable:

Contributions and grants receivable are as follows at June 30:

	2018	2017
Within one year	\$ 10,992,000	\$ 8,130,000
One to five years	34,981,000	37,540,000
	<hr/>	<hr/>
	45,973,000	45,670,000
Discount on multi-year contributions	(1,507,000)	(1,542,000)
Allowance for uncollectible contributions	(1,482,000)	(1,048,000)
	<hr/>	<hr/>
Contributions and grants receivable, net	\$ 42,984,000	\$ 43,080,000

Receivables include approximately \$40,564,000 for the capital campaign, net of allowance and discount at June 30, 2018. See Note 14 for related party contribution receivables.

In addition to the pledge balances reflected in these financial statements, the Conservatory has a \$1,000,000 conditional pledge from a Foundation for the Capital Campaign. The pledge will be recognized when the donor specified conditions and milestone events have been met by the Conservatory.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

**Note 5 - Investments:**

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

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Cash and equivalents	\$ 451,000	\$ 451,000	\$ 367,000	\$ 367,000
Domestic equities and funds	16,505,000	16,041,000	11,704,000	10,725,000
International mutual and commingled trust funds	8,749,000	8,989,000	10,954,000	9,854,000
Domestic fixed income funds	9,389,000	9,551,000	5,809,000	5,761,000
International fixed income funds	1,755,000	1,747,000		
Multi-strategy alternative funds	368,000	344,000	750,000	775,000
Hedge funds	1,765,000	1,426,000	9,962,000	9,563,000
Partnerships	60,000	38,000	52,000	101,000
	39,042,000	38,587,000	39,598,000	37,146,000
Other investments:				
Real estate – interest	245,000	245,000	245,000	245,000
	\$ 39,287,000	\$ 38,832,000	\$ 39,843,000	\$ 37,391,000

Total investment return for the year ended June 30, 2018 is comprised of net realized and unrealized gain of \$2,363,000, dividends and interest income of \$963,000, and investment fees of \$172,000 which is reflected in operating and non-operating revenue in the statement of activities.

On July 6, 2018, the Conservatory invested in real estate. The transaction consists of two parts: 1) 30 year loan held by the Conservatory in the amount of \$607,500 and 2) joint ownership of the property which includes an equity participation agreement. The loan bears an interest rate of 4% and principal and interest is payable monthly to the Conservatory.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

### Note 6 - Fair Value Measurements:

The table below presents the assets and liabilities measured at fair value at June 30, 2018 on a recurring basis.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and equivalents	\$ 451,000			\$ 451,000
Domestic equities and funds	16,489,000	\$ 16,000		16,505,000
International and funds	8,749,000			8,749,000
Domestic fixed income funds	9,389,000			9,389,000
International fixed income funds	1,755,000			1,755,000
Net Asset Value Funds (a)				2,193,000
Other Assets:				
Trusts receivable		269,000		269,000
<hr/>				
Total assets measured at fair value	\$ 36,833,000	\$ 285,000		\$ 39,311,000
<hr/>				
Liabilities:				
Post-retirement medical benefit obligation (Note 11)			\$ 3,676,000	\$ 3,676,000
<hr/>				
Total liabilities measured at fair value			\$ 3,676,000	\$ 3,676,000

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

SFCM uses the Net Asset Value (NAV) 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, 2018:

Strategies	# of Funds	Valuation	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Hedge fund – multi-strategy (a)	1	\$ 1,055,000	None	Quarterly	95 days
Hedge fund - multi-strategy (b)	1	368,000	None	Semi-annual	95 days
Hedge fund – multi-strategy (c)	1	587,000	None	1 year lock up	65 days
Hedge fund – multi-strategy (d)	2	123,000	None	Quarterly	65 days
Venture capital fund (e)	1	55,000	None	None	
Real estate mortgage fund (f)	1	5,000	None	None	
<hr/>					
	7	\$ 2,193,000			

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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- (a) The fund is a single manager multi-strategy hedge fund registered under the Mutual Funds Law of the Cayman Islands. The Fund's investment objective is to deliver repeatable alpha-driven returns with minimal volatility and market correlation. The Fund has a one-year soft lock-up period. After one year, 25% of a participant's interests may be withdrawn quarterly and the entire balance may be withdrawn over 4 quarters with 95 days notice.
- (b) The fund is a registered multi-strategy fund of hedge funds. The fund's investment objective is capital appreciation with limited variability of returns. The Funds attempt to achieve this objective by allocating capital among a number of pooled entities that are generally organized in non-U.S. jurisdictions and classified as corporations for U.S. federal income tax purposes, each managed by an independent investment adviser who invest in a variety of historically uncorrelated and lower volatility strategies.
- (c) The fund is a registered multi-strategy hedge fund registered under the Mutual Funds Law of the Cayman Islands. The fund aims to deliver consistently positive risk-adjusted returns through a low-net/low-beta approach. Capital preservation is the priority.
- (d) The fund is an exempted company with limited liability incorporated under the laws of the Cayman Islands. The fund is a relative-value, absolute return strategy and allocates capital across four core investment strategies; global equities, fundamental long/short credit, global macro, and systematic & quantitative. The fund trades in equity, credit, fixed income, and currency markets as well as their related derivatives while having low correlation to other hedge funds.
- (e) 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.
- (f) 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.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### Note 7 - Property and Plant:

Property and plant consist of the following at June 30:

	2018	2017
Land	\$ 23,253,000	\$ 23,253,000
Building and improvements	66,284,000	66,270,000
Books, furnishings and equipment	6,791,000	6,643,000
Musical instrument collection	4,379,000	4,329,000
	<hr/>	<hr/>
	100,707,000	100,495,000
Less accumulated depreciation and amortization	(19,152,000)	(17,582,000)
	<hr/>	<hr/>
	81,555,000	82,913,000
Construction in progress	9,462,000	4,338,000
	<hr/>	<hr/>
	\$ 91,017,000	\$ 87,251,000

Land and building are pledged as collateral for the credit agreement (see Note 8).

Depreciation expense were approximately \$1,625,000 and \$1,679,000 for the years ended June 30, 2018 and 2017, respectively.

The Conservatory purchased two buildings during fiscal year 2015. The Conservatory intends to utilize the buildings as a future residence hall (see Note 17) and educational space after reconstruction of each building. The purchase costs of the buildings are included in the land and building and improvements above. Construction in progress, above, represents architectural and design, legal, planning and other entitlement costs for the residence hall project. The buildings were rented to tenants through the majority of the year ended June 30, 2018. Demolition of the buildings was completed in August 2018. The purchase price allocated to the buildings was approximately \$1.5 million with approximately \$150,000 of net book value remaining at June 30, 2018.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### Note 8 - Credit Agreement:

On June 28, 2018, the Conservatory entered into loan agreements with First Republic Bank and the California Enterprise Development Authority (CEDA) which provide up to \$113 million of tax exempt and taxable financing. The proceeds of the loans will be used to finance the construction of the Conservatory's new student residence, educational and performance facility (See Note 17).

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%. It is interest only through June 1, 2021, payable monthly. Payments of principal and interest on the loan (payable monthly) begin July 1, 2021 through June 1, 2048. As of June 30, 2018, \$4,125,000 was outstanding on the loan.

Series B bears interest at LIBOR Index Rate plus 1.5% per annum with a minimum rate of 2.5%, payable monthly. It has a maturity date of June 1, 2024. As of June 30, 2018, \$0 was outstanding on the loan.

Series C is a \$10 million taxable bridge loan and bears an interest at the Western Edition of the Wall Street Journal U.S. Prime Rate plus minus 35 hundredths percent (-0.35%). It has a maturity date of Jun 28, 2021. As of June 30, 2018, \$0 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%). The maturity date is June 28, 2020. As of June 30, 2018, \$1,750,000 was outstanding on the loan.

Financing issuance costs totaled \$1,657,124 and are classified as a reduction to loans payable on the statement of financial position. The costs will be amortized over the term of the loans.

The 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.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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

Future minimum principal payments on the outstanding Series A loan as of June 30, 2018 are as follows:

Year ending June 30:		
2019	\$	-
2020		-
2021		-
2022		88,000
2023		91,000
Thereafter		3,946,000
		<hr/>
	\$	4,125,000

### Note 9 - Retirement Plans:

Employees of SFCM are covered under the Teachers Insurance and Annuity Association and College Retirement Equity Fund Retirement Plan, a defined-contribution plan. Contributions to the Plan are made by the employees and SFCM matches 5% of employees eligible earnings. SFCM contributed approximately \$272,000 for the year ended June 30, 2018.

SFCM implemented a 457(b) plan for certain management personnel. The employees may elect to defer a certain portion of their salary. SFCM contributed approximately \$18,000 during the fiscal year 2018.

With respect to certain employees, SFCM contributes to a multiemployer pension plan for employees covered by a collective bargaining agreement. This plan is not administered by SFCM and contributions are determined in accordance with provisions of negotiated labor contracts. The Multiemployer Pension Plan Amendments Act of 1980 (The Act) significantly increased the pension responsibilities of participating employers. Under the provisions of The Act, if the plan terminates or SFCM withdraws, SFCM could be subject to a substantial "withdrawal liability." Management has no intention of undertaking any action which could subject SFCM to this obligation. The total pension expense related to these employees was approximately \$69,000 for the year ended June 30, 2018.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

### Note 10 - 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 3.6% of total full-time faculty and staff of SFCM at June 30, 2018. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

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

SFCM's participation in this plan for the annual period ended December 31, 2017, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number. The most recent Pension Protection Act (PPA) zone status available in 2018 and 2017 is for the plan years ending in 2017 and 2016, respectively. The zone status is based on information that SFCM received from the plan. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow and orange zones are less than 80% funded, and plans in the green zone are at least 80% funded. The Plan was not certified as endangered or critical status at the beginning of the year for the full plan year. The last column lists the expiration date of the collective-bargaining agreements to which the plans are subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status	The Conservatory Contributions		Expiration Date
		2017	2016	Pending or Implemented	2018	2017	Date of Collective Bargaining Agreement
Stationary Engineers Local 39 Trust Funds	94-6118939/001	Green	Green	N/A	\$ 69,000	\$ 67,000	8/31/23

There have been no other significant changes that affect the comparability of 2018 and 2017 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 2017 or 2016, the date of the plan's most recently available annual reports. Additionally, there were no surcharges in effect for any of the plan.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### Note 11 - 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	\$ 3,761,000
Service cost	184,000
Interest cost	144,000
Actuarial loss	(354,000)
Benefits paid	(59,000)
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Accumulated benefit obligation at end of year	\$ 3,676,000
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Unfunded status of the plan at end of year	\$ 3,676,000

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

Year Ended June 30,	
2019	\$ 60,000
2020	69,000
2021	79,000
2022	90,000
2023	101,000
Thereafter	717,000
Weighted average assumptions as of June 30, 2018:	
Discount Rate	4.12%

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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SFCM's projected medical cost trend rate related to its noncontributory postretirement health benefit plan in 2018 was 7.50% (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 2018

	<u>1% Increase</u>	<u>1% Decrease</u>
APBO as of June 30, 2018:	\$ 745,000/20.27%	\$ (585,000)/15.91%
Service and Interest Cost for fiscal 2018:	\$ 96,000/29.11%	\$ (70,000)/21.43%

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

### Note 12 - 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 32% of its contributions in the fiscal year ended June 30, 2018 from one donor.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

**Note 13 - Net Assets:**

Net assets consisted of the following at June 30:

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Endowment:</b>					
Quasi-endowment funds	\$ 93,000	\$	\$	\$ 93,000	\$ 95,000
True endowment funds:					
General purpose	(154,000)	99,000	7,794,000	7,739,000	\$ 7,726,000
Scholarship	(2,164,000)	677,000	27,160,000	25,673,000	24,222,000
Faculty support	(377,000)	366,000	8,160,000	8,149,000	8,025,000
Other program support	(15,000)	60,000	976,000	1,021,000	999,000
Retirement of indebtedness		16,000	180,000	196,000	193,000
True endowment funds	(2,710,000)	1,218,000	44,270,000	42,778,000	41,165,000
Total endowment funds	(2,617,000)	1,218,000	44,270,000	42,871,000	41,260,000
<b>Other:</b>	54,593,000	79,193,000		133,786,000	113,208,000
Total net assets	\$ 51,976,000	\$ 80,411,000	\$ 44,270,000	\$ 176,657,000	\$ 154,468,000

Temporarily restricted net assets for purpose and time at June 30, 2018 are as follows:

Capital Campaign (Note 17)	\$ 77,465,000
Other projects & programs	1,356,000
Time restriction	372,000
	\$ 79,193,000

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

Temporarily restricted net assets 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, 2018:

Utilized for scholarships	\$ 1,944,000
Utilized for faculty salaries	581,000
Utilized for capital expenditures	320,000
Utilized for Capital Campaign expenses	894,000
Utilized for other project and program purposes	1,707,000
<u>Expiration of time restrictions</u>	<u>389,000</u>
<u>Total released operating and non-operating</u>	<u>\$ 5,835,000</u>

Included in temporarily restricted net assets for programs is \$102,000 of funds restricted for the Collegiate Jack H. Lund Scholarship Program. During the year ended June 30, 2018, SFCM released \$315,000 funds for this program.

Changes in endowment net assets for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Net assets, beginning of year</u>	<u>\$ (2,947,000)</u>	<u>\$ 897,000</u>	<u>\$ 43,310,000</u>	<u>\$ 41,260,000</u>
Investment return:				
Investment income		823,000		823,000
Net realized and unrealized gain (loss) on investments, net of fees	5,000	2,334,000	(8,000)	2,331,000
<u>Underwater endowment funds adjustment</u>	<u>331,000</u>	<u>(331,000)</u>		
<u>Total investment return</u>	<u>336,000</u>	<u>2,826,000</u>	<u>(8,000)</u>	<u>3,154,000</u>
New gifts			968,000	968,000
<u>Appropriation of endowment</u>	<u>(6,000)</u>	<u>(2,505,000)</u>		<u>(2,511,000)</u>
<u>Net assets, end of year</u>	<u>\$ (2,617,000)</u>	<u>\$ 1,218,000</u>	<u>\$ 44,270,000</u>	<u>\$ 42,871,000</u>

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### Note 14 - Related Party Transactions:

SFCM received contributions from members of its board of trustees and related entities of approximately \$9,226,000 for the fiscal year ended June 30, 2018. Contributions receivable related to current and prior years' contributions from board members totaled approximately \$33,349,000 at June 30, 2018. 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. There were no significant transactions between SFCM and the Foundation during the fiscal year ending June 30, 2018.

### Note 15 - Allocation of Certain Shared Costs:

The following tables show the allocation of interest, operation and maintenance of plant, and depreciation expense to each function based on allocation methods and estimates made by SFCM's management.

	Expenses	Interest Expense	Operation and Maintenance of Plant	Depreciation	Total 2018
Instruction	\$ 10,582,000	\$ 129,000	\$ 1,124,000	\$ 686,000	\$ 12,522,000
Student service	1,441,000	18,000	153,000	94,000	1,706,000
Academic support	793,000	10,000	84,000	52,000	939,000
Public program	599,000	7,000	63,000	39,000	708,000
Fund-raising, including Capital Campaign	1,902,000	23,000	202,000	124,000	2,250,000
General management and administration	4,113,000	50,000	438,000	268,000	4,869,000
Independent operations	643,000	299,000		362,000	1,304,000
	<hr/>				
	\$ 20,073,000	\$ 536,000	\$ 2,064,000	\$ 1,625,000	\$ 24,298,000

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# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### Note 16 - Commitment and Contingencies:

#### a. Operating Leases

The 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, 2018, are as follows:

Year ending	
June 30:	
2019	\$ 2,793,000
2020	2,802,000
2021	574,000
2022	128,000
2023	128,000
Thereafter	533,000
<hr/>	
Total	\$ 6,958,000

In October 2015, SFCM entered into a sublease for certain summer months of the year for a period of five years. The sublease provides for a minimum rental income of \$200,000 the first two years of the lease and \$250,000 the remaining years. The maximum to be earned under the sublease is \$400,000 the first two years of the lease and \$500,000 the remaining years.

In August 2017, SFCM entered into a sublease for certain space beginning September 2017 on a month to month basis. The sublease provides for a minimum rental income of \$138,000 per year.

#### b. Other

Contingencies 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, 2018, the Conservatory was a party to a construction contract and commitments totaling approximately \$112,174,000 in connection with the new student resident hall.

# San Francisco Conservatory of Music

## Notes to Consolidated Financial Statements

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### **Note 17 - Capital Campaign:**

The Conservatory has embarked on a capital campaign for a new 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 4, 7, 8 and 16 for additional information on the campaign contributions, construction contracts and financing arrangements.