

COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2021 AND 2020

PALMER AND COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS  
40 SOUTH FOURTH STREET  
EASTON, PA 18042

COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)  
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JUNE 30, 2021 AND 2020

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PALMER AND COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

40 SOUTH FOURTH STREET  
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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Community Music School  
Allentown, Pennsylvania

We have audited the accompanying financial statements of Community Music School (a Not-for-Profit Corporation), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the 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.

**Auditor's 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 financial position of Community Music School as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Easton, PA  
August 30, 2021

*Rasmussen and Company*

COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2021 AND 2020

	2021	2020
<u>Assets:</u>		
Current Assets		
Cash and Cash Equivalents	\$ 413,311	\$ 202,807
Temporarily Restricted Cash	<u>259,811</u>	<u>344,595</u>
Total Cash and Cash Equivalents	\$ 673,122	\$ 547,402
Accounts Receivable (Less Allowance for Doubtful Accounts of \$100 and \$100 in 2019 and 2018, respectively)	2,251	276
Prepaid Expenses	5,305	1,617
Pledges Receivable (Note 2)	54,400	64,400
Investments at Market (Note 3)	171,759	151,028
Interest Receivable	-	75
Total Current Assets	<u>906,837</u>	<u>764,798</u>
Fixed Assets		
Equipment and Musical Instruments	251,691	240,992
Leasehold Improvements	<u>140,000</u>	<u>124,125</u>
	391,691	365,117
Less: Accumulated Depreciation	<u>(191,565)</u>	<u>(173,021)</u>
Net Fixed Assets	<u>200,126</u>	<u>192,096</u>
Other Assets		
Security Deposits	<u>4,500</u>	<u>4,500</u>
Total Other Assets	<u>4,500</u>	<u>4,500</u>
 Total Assets	 <u>\$ 1,111,463</u>	 <u>\$ 961,394</u>
 <u>Liabilities and Net Assets:</u>		
<u>Liabilities:</u>		
Accounts Payable	\$ 7,340	\$ 2,368
Accrued Expenses	11,330	9,030
Payroll Protection Loan	<u>82,181</u>	<u>79,400</u>
Total Liabilities	<u>100,851</u>	<u>90,798</u>
 <u>Net Assets: (Note 6)</u>		
Without Restriction	430,215	309,219
With Restriction	<u>580,397</u>	<u>561,377</u>
Total Net Assets	<u>1,010,612</u>	<u>870,596</u>
 Total Liabilities and Net Assets	 <u>\$ 1,111,463</u>	 <u>\$ 961,394</u>

**COMMUNITY MUSIC SCHOOL**  
**(A Not-for-Profit Corporation)**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	Year Ended June 30, 2021		Year Ended June 30, 2020	
	Without Restriction	With Restriction	Without Restriction	With Restriction
<b>Support and Revenue</b>				
Instruction and Registration Fees	\$ 258,988	\$ -	\$ 314,022	\$ -
Less: Financial Aid and Scholarships	(52,688)	-	(61,116)	-
Contributions and Grants	174,118	255,640	131,871	185,258
Special Outreach Programs	-	-	20,788	23,850
CD & Bank Interest Income	367	-	6,198	-
Investment Income	2,206	-	2,015	-
Fund Raising Events	\$ 28,848	-	\$ 29,457	-
Less: Direct Event Expenses	(6,938)	-	(1,260)	-
Rental Income	2,881	-	28,197	-
Other	6,282	-	3,083	-
Realized/Unrealized Investment Gain (Loss)	-	19,256	405	-
Net Assets Released from Restrictions (Note 6)	255,876	(255,876)	228,858	(228,858)
<b>Total Support and Revenue</b>	<b>669,940</b>	<b>19,020</b>	<b>674,321</b>	<b>(17,775)</b>
<b>Expenses</b>				
Program	318,813	-	341,485	-
Management and General	185,370	-	198,100	-
Development	44,761	-	46,799	-
<b>Total Expenses</b>	<b>548,944</b>	<b>-</b>	<b>586,384</b>	<b>-</b>
<b>Increase (Decrease) in Net Assets</b>	<b>120,996</b>	<b>19,020</b>	<b>87,937</b>	<b>(17,775)</b>
<b>Net Assets, Beginning of Year</b>	<b>309,219</b>	<b>561,377</b>	<b>221,282</b>	<b>579,152</b>
<b>Net Assets, End of Year</b>	<b>\$ 430,215</b>	<b>\$ 580,397</b>	<b>\$ 309,219</b>	<b>\$ 561,377</b>
				<b>\$ 870,596</b>

COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	Year Ended <u>June 30, 2021</u>	Year Ended <u>June 30, 2020</u>
<u>Cash Flows From Operating Activities:</u>		
<u>Change in Net Assets</u>	\$ 140,016	\$ 70,162
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	18,544	17,832
Decrease (Increase) in Accounts Receivable	(1,975)	7,286
Decrease (Increase) in Prepaid Expenses	(3,688)	825
Decrease (Increase) in Interest Receivable	75	(75)
Decrease (Increase) in Pledges Receivable	10,000	(9,770)
Increase (Decrease) Accounts Payable	4,972	36
Increase (Decrease) in Deferred Revenue	-	(18,802)
Increase (Decrease) in Accrued Expenses	2,300	2,405
Net Realized/Unrealized Loss (Gain) on Long-Term Investments	<u>(19,256)</u>	<u>(1,975)</u>
Net Cash Generated by Operating Activities	<u>150,988</u>	<u>67,924</u>
<u>Cash Flows from Investing Activities:</u>		
Computers & Equipment	(10,700)	(20,940)
Leasehold Improvements	(15,875)	(38,928)
Purchase of Investments	(20,459)	(19,574)
Proceeds from Sale of Investments	<u>18,985</u>	<u>17,553</u>
Net Cash Used by Investing Activities	<u>(28,049)</u>	<u>(61,889)</u>
<u>Cash Flows from Financing Activities:</u>		
Forgiveness Of PPP Loan	(79,400)	-
Proceeds From Loans	<u>82,181</u>	<u>79,400</u>
Net Cash Used by Investing Activities	<u>2,781</u>	<u>79,400</u>
Net Increase (Decrease) in Cash and Cash Equivalents	125,720	85,435
Cash and Cash Equivalents at Beginning of Year	<u>547,402</u>	<u>461,967</u>
Cash and Cash Equivalents at End of Year	<u>\$ 673,122</u>	<u>\$ 547,402</u>
Supplemental Disclosures		
Noncash Operating Transactions:		
In-kind Contributions	<u>\$ -</u>	<u>\$ 18,850</u>

COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Community Music School (the "School" or "Organization") is a not-for-profit corporation organized under the laws of the Commonwealth of Pennsylvania for the purpose of providing music instruction (including outreach programs in music therapy) to students of all ages, from preschool to adulthood, regardless of race, creed, national origin, emotional and physical challenge, or ability to pay. The School's support comes primarily from instruction and registration fees and charitable giving.

The organization is exempt from federal income tax under the provisions of Section 501 (c)(3) of the Internal Revenue Code.

Basis of Accounting

The School's financial statements are presented in accordance with accounting principles generally accepted in the United States of America on an accrual basis.

Basis of Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) No. 958-205 and No 2016-14 Amendment which provides guidance for the classification of net assets. The amounts for each of the two classes of net assets are based on the existence of absence of donor-imposed restrictions described as follows:

*Without Restriction Net Assets* - Net assets of the Organization whose use has not been restricted by an outside donor or by law. They are available for any use in carrying out the operations of the Organization.

*With Restriction Net Assets* - Net assets of the Organization whose use has been limited temporarily or permanently by donor-imposed stipulations that either expire with the passage of time, can be fulfilled and removed by actions of the Organization, or are permanently imposed. This includes contributions required to be invested in perpetuity, the income from which is available to support the operations of the Organization. If such stipulations end or are fulfilled, the restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.



COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in without restriction net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Equipment

Equipment is stated at cost. The Organization has a policy to capitalize equipment with a cost greater than \$1000. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life. Depreciation is computed by use of the straight-line method based on estimated useful lives, as follows:

	<u>Years</u>
Musical Instruments, Office and Computer Equipment	5 - 10

Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all highly liquid debt instruments purchased with a maturity of six months or less to be cash equivalents.

Concentration of Credit Risk

Cash, cash equivalents, and investments are exposed to interest rate, market, and credit risks. The Organization maintains its cash and cash equivalents in bank deposit accounts that, at times, may exceed federally insured limits. To minimize risk, the Organization's cash accounts are placed in high credit quality financial institutions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Scholarships and Financial Aid

Scholarships are earned by need and/or merit and financial aid is based on financial need.

Deferred Revenue

Deferred revenue consists of payments received from students in advance of lesson. Such amounts are recorded as revenues when the service is performed and the lesson is taken by the student.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Contributions and Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as asset, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with restriction net assets are reclassified to without restriction net assets and reported in the statement of activities as net assets released from restrictions.

COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Contributions and Promises to Give (Cont'd)

The Organization 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, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables and support in the year made.

In-Kind Contribution of Services

Donated services are recognized as revenues at their estimated fair value when they create or enhance non-financial assets or they require specialized skills which would need to be purchased if they were not donated. For the years ended June 30, 2021 and 2020, donated professional services consist of marketing services with an estimated fair value of \$ -0- and \$ -0-, respectively.

Allocation of Expenses by Function

As reported in Note 7, expenses of the School have been allocated to the following functional reporting classifications:

Program Services  
Management and General  
Development

Certain expenses are allocated among functions based on direct expenses incurred; others are allocated based on time in the activity and programs and supporting services benefited.

COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes

Community Music School is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the code.

The Organization evaluates uncertain tax positions in accordance with FASB 740-10.

The Organization believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements and accordingly, had no material unrecognized tax benefits or accrued interest or penalties.

The Organization has filed Form 990 income tax returns in the United States. The tax returns for the years ended June 30, 2019, 2020 and 2021 are subject to examination by taxing authorities, generally for three years after they were filed.

NOTE 2: PLEDGES RECEIVABLE

Pledges Receivable consists of the following:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Operating	<u>\$ 54,400</u>	<u>\$ 64,400</u>
	<u>54,400</u>	<u>64,400</u>
Amount due in:		
Less than one year	<u>\$ 54,400</u>	<u>\$ 64,400</u>
Total	<u>\$ 54,400</u>	<u>\$ 64,400</u>

COMMUNITY MUSIC SCHOOL  
 (A Not-for-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

NOTE 3: INVESTMENTS

Investments are carried at market value and realized and unrealized gains and losses are reflected in the statement of activities. The investments are permanently restricted for the School's endowment. Cost and market values of the investments are summarized below.

	June 30, 2021		June 30, 2020	
	Cost	Market	Cost	Market
Cash and Cash Equivalents	\$ 59,889	\$ 59,889	\$ 60,403	\$ 60,403
Wells Fargo-Mutual Funds	89,257	111,870	80,555	90,625
	\$ 149,146	\$ 171,759	\$ 140,958	\$ 151,028

The composition of investment return consist of:

Income, net	\$ 1,475	\$ 1,389
Realized Gain/ (Loss)	5,978	3,640
Change in Unrealized Gain or Loss	13,278	(1,665)
	\$ 20,731	\$ 3,364

Interest income is net of investment expenses of \$731 and \$626 for the years ended June 30, 2021 and June 30, 2020, respectively.

NOTE 4: EQUIPMENT

Equipment consists of the following:

	June 30,	
	2021	2020
Musical Instruments	\$ 178,547	\$ 178,548
Office and Computer Equipment	73,144	62,444
Leasehold Improvements	140,000	124,125
	391,691	365,117
Less: Accumulated Depreciation	(191,565)	(173,021)
	\$ 200,126	\$ 192,096

Depreciation charged to expense was \$18,544 and \$17,832 for the year ended June 30, 2021 and 2020, respectively.

COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

NOTE 5: LEASES

The Organization leases its classrooms, office, and auditorium space as well as long term operating leases for a copier and postage meter. Rental and lease expense charged to operations was \$51,900 and \$52,412 for the years ended June 30, 2021 and 2020, respectively.

Estimated rental lease payments are as follows:

Year Ending June 30,	2021	51,793
	2022	51,793
	2023	51,793
	Thereafter	-
Total Estimated Lease Payments		<u>\$ 155,379</u>

NOTE 6: NET ASSETS

Net assets consist of two categories with restriction and without restriction. With restriction net assets have been further categorized as temporarily restricted and permanently restricted.

	June 30,	
	<u>2021</u>	<u>2020</u>
<b>Without Restriction</b>	<u>\$ 430,215</u>	<u>\$ 309,219</u>
Total Without Restriction Net Assets	<u>\$ 430,215</u>	<u>\$ 309,219</u>
<b>With Restriction</b>		
Temporarily Restricted Net Assets		
Scholarships/Financial Aid	\$ 298,667	\$ 294,849
General Operations	54,400	32,600
Adult Chamber	-	1,000
Leasehold Improvements	62,526	87,379
Endowment - Cumulative Market Value Adjustment	<u>62,423</u>	<u>43,167</u>
Total Temporarily Restricted Net Assets	<u>\$ 478,016</u>	<u>\$ 458,995</u>

COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

NOTE 6: NET ASSETS (Cont'd)

	June 30,	
	2021	2020
<b>With Restriction (Cont'd)</b>		
Permanently Restricted:		
Jerome Markowitz Memorial Fund (Scholarship)	\$ 14,475	\$ 14,475
Martin Spiro Fund (Scholarship)	5,996	5,996
Muriel I. Frank Fund (Scholarship)	32,617	32,617
Rabbi William Greenburg Fund (Scholarship)	2,053	2,053
Bates Concert Fund (Scholarship)	11,391	11,391
Joseph Maletz Fund (Scholarship)	5,000	5,000
Preston Schermerhorn Fund (Scholarship)	19,040	19,040
Gruenwald Fund (Scholarship)	125	125
Union Pacific Fund (Unrestricted)	1,000	1,000
General Endowment Fund (Unrestricted)	6,910	6,910
Harry Memorial Fund (Unrestricted)	3,775	3,775
 Total Permanently Restricted Net Assets	 \$ 102,382	 \$ 102,382

Net assets were released for the year ended June 30, 2021, from time or donor restrictions by incurring expenses satisfying the restricted purposes specified by donors.

	Purpose	Time	Total
Scholarships/Financial Aid	52,688	-	52,688
Leasehold Improvements	30,188	-	30,188
Operating	-	173,000	173,000
	\$ 82,876	\$ 173,000	\$ 255,876

Net assets were released for the year ended June 30, 2020, from time or donor restrictions by incurring expenses satisfying the restricted purposes specified by donors.

	Purpose	Time	Total
Scholarships/Financial Aid	61,450	-	61,450
Leasehold Improvements	38,928	-	38,928
Outreach Programs	23,850	-	23,850
Operating	-	104,630	104,630
	\$ 124,228	\$ 104,630	\$ 228,858

COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

NOTE 7: FUNCTIONAL EXPENSES

	Year ended June 30, 2021			Total	June 30, 2020 Totals
	Program	Management and General	Development		
Salaries and Wages	\$ 69,089	\$ 98,699	\$ 29,610	\$ 197,397	\$ 202,722
Instructional Fees	162,753	-	-	162,753	182,284
Employee Benefits	8,676	12,395	3,718	24,789	19,882
Payroll Taxes	11,374	16,249	4,875	32,497	35,518
Occupancy	29,194	14,597	4,866	48,657	54,823
Office Expense	636	5,725	-	6,361	13,181
Telephone and Internet	1,160	1,657	497	3,314	3,418
Postage	154	615	-	769	705
Insurance	810	7,294	-	8,104	6,833
Professional Fees	4,527	13,580	-	18,106	22,803
Dues and Meetings	-	625	-	625	790
Advertising	5,452	4,461	-	9,913	9,419
Fundraising Consulting	-	-	115	115	838
Instructional Materials	-	-	-	-	-
Equipment Rental	1,081	1,081	1,081	3,243	3,743
Instrument Maintenance	555	-	-	555	2,571
Depreciation	16,689	1,855	-	18,544	17,832
Service Charges	852	4,826	-	5,678	6,213
Repair & Maintenance	319	956	-	1,275	2,404
Supplies & Small Equipment	3,252	361	-	3,613	-
Miscellaneous	2,241	395	-	2,636	405
	<u>\$ 318,813</u>	<u>\$ 185,370</u>	<u>\$ 44,761</u>	<u>\$ 548,944</u>	<u>\$ 586,384</u>

NOTE 8: LINE OF CREDIT

The Organization has a \$50,000 line of credit. There was no outstanding balance at June 30, 2021 and 2020.

NOTE 9: IRA CONTRIBUTIONS

The school began a SIMPLE IRA for its employees on July 1, 2015. The School matches contributions up to 3% of eligible employee pre-tax contributions. Contributions to the plan were \$6,531 and \$5,920 for the year ended June 30, 2021 and 2020, respectively.



COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

NOTE 10: FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10 (formerly FASB Statement No. 157, *Fair Value Measurements and Disclosures*), establishes a framework for measuring value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

- Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.
- Level 2      Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3      Inputs to the valuation methodology are unobservable.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Investments classified within Level 3 whose fair value measurements consider several inputs may include Level 1 and/or Level 2 inputs as components of the overall fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

*Mutual funds:* Valued at the net asset value ("NAV") of shares held by the Organization at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

COMMUNITY MUSIC SCHOOL  
(A Not-for-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

NOTE 10: FAIR VALUE MEASUREMENTS (Cont'd)

The following table sets forth by level, within the fair value hierarchy, the School's assets at fair value as of June 30, 2021 and 2020:

	Assets at Fair Value as of June 30, 2021			
	Fair Value	Level I	Level II	Level III
Cash and cash equivalents	\$ 59,889	\$ 59,889	\$ -	\$ -
Investments	111,870	111,870	-	-
Total Assets at Fair Value	\$ 171,759	\$ 171,759	\$ -	\$ -

	Assets at Fair Value as of June 30, 2020			
	Fair Value	Level I	Level II	Level III
Cash and cash equivalents	\$ 60,403	\$ 60,403	\$ -	\$ -
Investments	90,625	90,625	-	-
Total Assets at Fair Value	\$ 151,028	\$ 151,028	\$ -	\$ -

There were no transfers between Level 1, Level 2 and Level 3 investments during the year ended June 30, 2021 and 2020.

NOTE 11: ENDOWMENT FUNDS

The School has interpreted the laws of the Commonwealth of Pennsylvania 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, the School classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. 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 School in a manner consistent with the laws of the Commonwealth of Pennsylvania.

The School has adopted endowment investment and spending policies which have been approved by the Board of Trustees. The goal of the endowment investment policy is to provide a total return that preserves the long-term purchasing power of the endowment's assets, while providing an income stream to support the activities and mission of the School through sufficient spending. To satisfy the total return objectives, the School relies on a strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The School targets a diversified asset allocation that places emphasis on equities-based securities and fixed income investments within prudent risk parameters.

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NOTE 11: ENDOWMENT FUNDS (cont'd)

The Board adopted endowment policy provides for the use of income at the Trustees established allowable range, based on a trailing three fiscal year average from the endowment funds for purposes specified by the donor.

	Year ended June 30, 2021		
	Without Restriction	With Restriction	Total
	Donor Restricted Endowment	<u>\$ 6,954</u>	<u>\$ 164,805</u>

	Year ended June 30, 2020		
	Without Restriction	With Restriction	Total
	Donor Restricted Endowment	<u>\$ 5,479</u>	<u>\$ 145,549</u>

The Board has not released any amounts to operations.

Changes in endowment net assets for the fiscal years ended June 30, 2021 and 2020 are as follows:

	Year ended June 30, 2021			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Balance at July 1, 2020	\$ 5,479	\$ 43,167	\$ 102,382
Gifts and Contributions	-	-	-	-
Investment Income	1,475	-	-	1,475
Net Appreciation	-	19,256	-	19,256
Amounts Released for Operations	-	-	-	-
Balance at June 30, 2021	<u>\$ 6,954</u>	<u>\$ 62,423</u>	<u>\$ 102,382</u>	<u>\$ 171,759</u>

  

	Year ended June 30, 2020			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Balance at July 1, 2019	\$ 3,458	\$ 41,192	\$ 102,382
Gifts and Contributions	632	-	-	632
Investment Income	1,389	-	-	1,389
Net Appreciation	-	1,975	-	1,975
Amounts Released for Operations	-	-	-	-
Balance at June 30, 2020	<u>\$ 5,479</u>	<u>\$ 43,167</u>	<u>\$ 102,382</u>	<u>\$ 151,028</u>

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NOTE 12: SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19, a global pandemic, and recommended containment and mitigation measures worldwide. In the following weeks, the state of Pennsylvania, under the recommendation of the Centers for Disease Control and Prevention, the Pennsylvania Department of Health issued a stay at home order requiring non-essential businesses to close or have their employees work remotely. The Organization has a business continuity and contingency plan in place and was able to have employees work remotely. While the Organization cannot reasonably estimate the duration or severity of the pandemic, the Organization does not expect it to have a material impact on the Company's business, results of operations, financial position, and liquidity.