VILLA MUSICA

FINANCIAL STATEMENTS

Years Ended June 30, 2021 and 2020

YSR CPA GROUP, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

AUDIT + TAX + ADVISORY

VILLA MUSICA
FINANCIAL STATEMENTS
Years Ended June 30, 2021 (Unaudited) and 2020 (Audited)

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Finance Committee and Board of Directors
of Villa Musica

We have reviewed the accompanying financial statements of Villa Musica (a California nonprofit organization), which comprise the statement of financial position as of June 30, 2021 , and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Villa Musica and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter – Change in Accounting Principle

For the year ended June 30, 2021 the Organization adopted Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) and ASU 2018-08, Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made as described in Note 1. The changes required by the update have been applied to all periods presented.

Report on 2020 Financial Statements

The 2020 financial statements were audited by us and we expressed an unmodified opinion on them in our report dated January 8, 2021. Our report stated that the information was fairly stated in all material respects. We have not performed any auditing procedures on the financial statements since January 8, 2021.

YSR CPA Group, P.C.

Encinitas, California
January 18, 2023

VILLA MUSICA
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 (Unaudited) and 2020 (Audited)

		6/30/21 (Unaudited)		6/30/20 (Audited)
ASSETS				
CURRENT ASSETS				
Cash	$	188,692	$	240,950
Accounts receivable		1,773		7,785
Grant receivable (Note 5)		30,001		-
Pledges receivable (Note 4)		-		4,000
Inventory		2,503		2,867
TOTAL CURRENT ASSETS		222,969		255,602
NONCURRENT ASSETS				
Property and equipment, net (Note 6)		77,409		43,891
Deposits		6,027		6,027
TOTAL NONCURRENT ASSETS		83,436		49,918
TOTAL ASSETS	$	306,405	$	305,520
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	$	9,199	$	3,248
Accrued expenses		33,504		31,130
Tuition refunds		6,217		11,922
Refundable advances (Note 8)		-		16,555
Other liabilities		340		60
TOTAL CURRENT LIABILITIES		49,260		62,915
NONCURRENT LIABILITIES				
SBA EIDL (Note 8)		-		10,000
TOTAL LIABILITIES		49,260		72,915
NET ASSETS				
Without donor restrictions		226,158		216,294
With donor restrictions (Note 11)		30,987		16,311
TOTAL NET ASSETS		257,145		232,605
TOTAL LIABILITIES AND NET ASSETS	$	306,405	$	305,520

See accompanying independent accountants' review report and notes to the financial statements

VILLA MUSICA

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2021 (Unaudited) and 2020 (Audited)

	6/30/21 (Unaudited)	6/30/20 (Audited)
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
SUPPORT AND REVENUE		
Program revenue	$ 681,959	$ 776,954
Contributions	97,611	162,320
Government grants and assistance	87,556	227,605
Special events	376	1,863
Less direct expenses	-	(2,776)
In-kind contributed services	50,215	46,914
Retail sales	222	562
Other revenue	4,223	6,123
Net assets release from restriction - program purpose	119,611	3,684
TOTAL SUPPORT AND REVENUE WITHOUT DONOR RESTRICTIONS	1,041,773	1,223,249
EXPENSES		
Program services:	653,030	824,587
Supporting services:		
Management & general	353,898	229,981
Fundraising	24,981	44,966
TOTAL EXPENSES	1,031,909	1,099,534
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	9,864	123,715
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	47,787	-
Government grants and assistance	86,500	-
Net assets released from restriction - program purpose	(119,611)	(3,684)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	14,676	(3,684)
CHANGE IN NET ASSETS	24,540	120,031
NET ASSETS, Beginning of Year	232,605	112,574
NET ASSETS, End of Year	$ 257,145	$ 232,605

See accompanying independent accountants' review report and notes to the financial statements

VILLA MUSICA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2021 (Unaudited)

		Supporting Services		
	Program Services	Management & General	Fundraising	Total
SALARIES AND RELATED EXPENSES				
Salaries and wages	$ 496,920	$ 206,419	$ 12,000	$ 715,339
Payroll taxes	40,637	16,881	981	58,499
Employee benefits	12,597	6,928	-	19,525
Total salaries and related expenses	550,154	230,228	12,981	793,363
OTHER EXPENSES				
Instructional services	6,075	-	-	6,075
Instruments and program materials	12,605	-	-	12,605
Professional fees	-	15,990	12,000	27,990
In-kind professional services	-	50,215	-	50,215
Advertising and promotion	6,251	-	-	6,251
Office expenses	-	33,662	-	33,662
Information technology	-	93	-	93
Occupancy	63,950	21,317	-	85,267
Conferences and meetings	-	2,393	-	2,393
Depreciation	7,158	-	-	7,158
Insurance	6,520	-	-	6,520
Miscellaneous	317	-	-	317
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	$ 653,030	$ 353,898	$ 24,981	$ 1,031,909

VILLA MUSICA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020 (Audited)

	Program Services	Supporting Services: Management & General	Supporting Services: Fundraising	Total
SALARIES AND RELATED EXPENSES				
Salaries and wages	$ 644,658	$ 88,707	$ 20,000	$ 753,365
Payroll taxes	47,542	8,969	6,263	62,774
Employee benefits	12,813	6,750	1,089	20,652
Total salaries and related expenses	705,013	104,426	27,352	836,791
OTHER EXPENSES				
Instructional services	16,614	-	-	16,614
Instruments and program materials	7,692	-	-	7,692
Professional fees	2,400	16,224	12,000	30,624
In-kind contributed services	-	46,399	-	46,399
Advertising and promotion	16,395	-	-	16,395
Office expenses	-	35,000	5,614	40,614
Information technology	-	3,078	-	3,078
Occupancy	59,553	19,851	-	79,404
Travel	-	1,741	-	1,741
Conferences and meetings	2,791	2,062	-	4,853
Depreciation	7,106	-	-	7,106
Insurance	2,740	1,200	-	3,940
Miscellaneous	4,283	-	-	4,283
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	$ 824,587	$ 229,981	$ 44,966	$ 1,099,534

See accompanying independent accountants' review report and notes to the financial statements

VILLA MUSICA
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 (Unaudited) and 2020 (Audited)

	6/30/21 (Unaudited)	6/30/20 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 24,540	$ 120,031
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	7,158	7,106
Forgiveness of EIDL advance	(10,000)	-
(Increase) decrease in operating assets:		
Accounts receivable	6,012	1,972
Grant receivable	(30,001)	10,400
Pledges receivable	4,000	(4,000)
Other receivable	-	549
Inventory	364	(521)
Deposits	-	3,973
Increase (decrease) in operating liabilities:		
Accounts payable	5,951	(4,105)
Accrued expenses	2,374	(7,087)
Tuition refunds	(5,705)	7,832
Refundable advance	(16,555)	16,555
Other liabilities	280	(255)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(11,582)	152,450
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(40,676)	(3,082)
NET CASH USED BY INVESTING ACTIVITIES	(40,676)	(3,082)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from EIDL advance	-	10,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	-	10,000
NET INCREASE (DECREASE) IN CASH	(52,258)	159,368
CASH AT BEGINNING OF YEAR	240,950	81,582
CASH AT END OF YEAR	$ 188,692	$ 240,950

See accompanying independent accountants' review report and notes to the financial statements

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Villa Musica (the "Organization") is a California nonprofit organization incorporated in the State of California on November 15, 2005. The Organization's mission is to inspire people of all ages and backgrounds to explore the joy and lifelong value of music through education, performance, and community engagement. The Organization carries out its purpose by providing music instruction and by providing the students with musical instruments through its community partnership programs.

Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). ASC 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

- *Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

- *Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

  Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing services and interest earned. Nonoperating activities are limited to resources that generate return from other activities considered to be of a more unusual or nonrecurring nature.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 periods. Actual results could differ from those estimates.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Organization had no financial instruments as of June 30, 2021 and 2020, respectively.

New Accounting Pronouncements Recently Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and requires entities to recognize revenue when control of the promised goods or services are transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Organization adopted ASU 2014-09 as of July 1, 2020 using the modified retrospective transition method as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. There was no impact to the statements of financial position or activities upon adoption.

New Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which amends the existing guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and by disclosing key information about leasing arrangements. ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014.

Additionally, in July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases, Targeted Improvements. The amendments in these updates provide additional clarification and implementation guidance on certain aspects of ASU 2016-02 and have the same effective and transition requirements as ASU 2016-02. Specifically, ASU 2018-11 creates an additional transition method option allowing entities to record a cumulative effect adjustment to opening net assets in the year of adoption. In December 2018, the FASB further issued ASU 2018-20, Leases (Topic 842) Narrow-Scope Improvements for Lessors. The amendments in this update permits lessors to make an accounting policy election to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs and instead account for the costs as if they were lessee costs. Additionally, the amendment requires lessors to exclude from variable payments, and therefore revenue, lessor costs paid by lessees directly to third parties. The amendments also require lessors to account for costs excluded from the consideration of a contract that are paid by the lessor and reimbursed by the lessee as variable payments.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements Not Yet Adopted (continued)

In March 2019, the FASB also issued ASU 2019-01, Leases (Topic 842) Codification Improvements, to further clarify certain identified issues regarding implementation of ASU 2016-02. Specifically, the amendments in ASU 2019-01 clarify the determination of fair value of underlying assets by lessors that are not manufacturers or dealers, the cash flow presentation of sales-type or direct financing leases, and transition disclosures for interim periods. Issued in November 2019, ASU 2019-10, “Financial Instruments-Credit Losses, Derivatives and Hedging, and Leases” alters the effective date of ASU 2016-02 for private companies. On June 3, 2020, the FASB issued ASU 2020-05, which deferred the effective dates of the Board’s standards on ASU 2016-02 to give immediate relief to certain entities as a result of the widespread adverse economic effects and business disruptions caused by the coronavirus disease 2019 (COVID-19) pandemic.

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This ASU is meant to improve generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP’s programs and other activities.

An NFP will be required to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. The amendments address presentation and disclosure of contributed nonfinancial assets. The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets.

An NFP will be required to disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets and additional information for each category of contributed nonfinancial assets. The amendments in this ASU are affective for annual periods beginning after June 15, 2021 and interim periods within annual periods beginning after June 15, 2022 and should be applied on a retrospective basis. Early adoption is permitted.

In October 2021, the FASB Issued ASU 2021-10 Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance, which aims to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements.

The disclosure requirements in ASC 832 only apply to transactions with a government that are accounted for by analogizing to either a grant model (for example, in International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance), or a contribution model (for example, in ASC 958-605, Not-for-Profit Entities – Revenue Recognition).

ASC 832 requires the following disclosures about government assistance transactions in the notes to the annual financial statements:

- Information about the nature of the transactions, including a general description and the form (cash or other assets, for example) in which the assistance has been received.
- The accounting policies used to account for the transactions.
- Line items on the balance sheet and income statement affected by the transactions and the amounts applicable to each financial statement line item in the current reporting period.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements Not Yet Adopted (continued)

Entities are required to provide the new disclosures prospectively for all transactions with a government entity that are accounted for under either a grant or a contribution accounting model and are reflected in the financial statements at the date of initially applying the new amendments, and to new transactions entered into after that date. Retrospective application of the guidance is permitted. The guidance in ASU 2021-10 is effective for financial statements of all entities, including private companies, for annual periods beginning after December 15, 2021, with early application permitted.

The amendments in this ASU are affective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022, and should be applied on a retrospective basis. Early adoption is permitted.

Accounts Receivable

The accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable at period end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts.

Bad debts are recognized on the allowance method based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. No allowance was considered necessary as of June 30, 2021 and 2020, respectively.

Grants Receivable

Grants receivable represent the balance of grant funds earned but not yet received in cash.

Unconditional Promises to Give

Unconditional promises to give consist of written pledges and grants to the Organization in the future are recorded as pledges or grants receivable and revenue in the year promised at the present value of expected cash flows. Unconditional promises to give extending beyond one year are discounted to recognize the present value of the future cash flows. In subsequent years, this discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. In addition, pledges are recorded net of an allowance. The allowance for uncollectible pledges is determined by management. There were no multi-year pledges or allowances for uncollectible pledges for the years ended June 30, 2021 and 2020.

Inventory

Inventory is valued at the lower of cost or net realizable value.

Property and Equipment

The Organization capitalizes expenditures for property and equipment at cost. Donations of property and equipment are recorded at their estimated fair values. Such donations are reported as without donor restriction unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as with donor restriction. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restriction to net assets without donor restriction at that time.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets of three to five years. Maintenance, repairs, and minor renewals are charged to operations as incurred. Upon sale or disposition of property, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale of any resultant gain or loss is credited or charged to earnings.

Revenue Recognition

Revenue with Contracts with Customers

The Organization adopted FASB ASU 2014-09, Revenue from Contracts with Customers (Topic 606) effective July 1, 2020. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

The Organization generally measures revenue based on the amount of consideration the Organization expects to be entitled for the transfer of goods to a customer, then recognizes this revenue when the Organization satisfies its performance obligations. The Organization evaluates its revenue contracts with customers based on the five-step model under Topic 606: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognize revenue when (or as) each performance obligation is satisfied.

Tuition

The Organization records tuition as program service revenue in the period in which it is earned.

Contributions and Support

Contributed revenue is reported as increases in net assets without donor restriction unless the use of the related asset is limited by donor-imposed restrictions. Expirations of restrictions on net assets due to either the Organization fulfilling donor-imposed restrictions or the passage of time, are reported as net assets released from restrictions.

Contributed revenue may include gifts of cash or promises to give. Contributions, grants and government support, including unconditional promises to give, are recognized as revenues in the period received and recorded in the appropriate net asset category in accordance with donor-imposed restrictions. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions are substantially met. When considered material, contributions and grants to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Multi-year commitments are recorded during the year of the initial promise.

In accordance with Topic 958, Revenue Recognition, the Organization must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Services

Volunteer Services

The Organization utilizes the services of volunteers throughout the year. For donated services to be reported in financial statements, such services (i) must require specialized skills, (ii) must be provided by individuals possessing those skills, and (iii) would typically need to be purchased if not provided by donation. Any services donated to the Organization would be recorded at their estimated fair values at the dates of donation and would be subsequently reported as unrestricted support in the statements of activities. The donated services provided by volunteers for the years ended June 30, 2021 and 2020 did not meet the requirements above; therefore no amounts were recognized in the financial statements.

Donated Professional Services

For the years ended June 30, 2021 and 2020, the Organization received pro bono legal services of $50,215 and $46,399, respectively, which is reported as revenue in the statement of activities and expense in the statement of functional expenses.

Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Costs are directly applied to the related program or supporting service function when identifiable and possible. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, benefits, payroll taxes which are allocated based on estimates of time and effort, as well as occupancy, which is allocated on a square-footage basis.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Income generated from activities unrelated to the Organization’s exempt purpose is subject to tax under IRC Section 511. The Organization did not have any unrelated business income for the years ended June 30, 2021 and 2020, respectively.

The Organization follows the provision of uncertain tax positions as addressed in FASB Accounting Standards Codification. The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. The Organization believes that it has taken no significant uncertain tax positions for the years ended June 30, 2021 and 2020, respectively. Management believes the Organization is no longer subject to income tax examinations by applicable taxing jurisdictions for the years prior to June 30, 2017.

Advertising

The Organization expenses the cost of advertising as incurred. Advertising expense for the years June 30, 2021 and 2020 was $6,251 and $16,395, respectively.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued.

NOTE 2. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets as of June 30:

Financial assets at year-end:		6/30/21		6/30/20
Cash	$	188,692	$	240,950
Accounts receivable		1,773		7,785
Pledges receivable		-		4,000
Grants receivable		30,001		-
Total financial assets		220,466		252,735
Less amounts not available to used with one year:				
Restricted by donor with purpose restrictions		30,987		16,311
Financial assets available to meet general expenditures within one year before board designations:		189,479		236,424
Less Board designated reserves for operations		81,237		63,570
Financial assets available to meet cash needs for general expenditures within one year	$	108,242	$	172,854

The Organization frequently monitors liquidity and has a goal to establish and maintain financial assets, which consist of cash and cash equivalents, of at least 90 days of normal operating expenses, which are, on average approximately $247,000 and $272,000 for the years ended June 30, 2021 and 2020, respectively. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To ensure this target is met, the Organization reports its financial position on a monthly basis to its governing board and communicates reported and projected revenue or expenditure variances at the same frequency. The Organization maintains no non-liquid financial assets. A balanced budget is approved by the Organization's Board on an annual basis. The Organization focuses on attracting diverse earned revenue streams (tuition, studio rental, fee-for-service contracts with outside organizations) and seeks contributed revenue that supports programmatic and administrative functions.

Occasionally, the board designates a portion of any operating surplus to its operating reserves, which totaled $81,237 and $63,570 as of June 30, 2021 and 2020, respectively. The sub-total "Financial assets available to meet cash needs for general expenditures within one year before board designations" represents another liquidity total, as board-designated reserves can be reversed and made available for immediate use in the event of an urgent liquidity need.

NOTE 3. CONCENTRATIONS OF CREDIT RISK

Cash

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of cash. The Organization maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000 per depositor. As of June 30, 2021 and 2020, no balance exceeded FDIC limit of $250,000.

NOTE 4. PLEDGES RECEIVABLE

There were no pledges as of June 30, 2021. Pledges receivable consisted of $4,000 from two donors, including $2,000 due from a board member, as of June 30, 2020.

NOTE 5. GRANTS RECEIVABLE

Grants receivable consist of the following as of June 30:

	6/30/21
Grants and contracts receivable	
City of San Diego	$ 20,001
National Endowment for the Arts	10,000
Total grants receivable	$ 30,001

There were no grants receivable for the year ended June 30, 2020.

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	6/30/21	6/30/20
Computers and office equipment	$ 14,340	$ 12,386
Furniture and fixtures	9,605	9,605
Musical instruments	105,879	105,878
Leasehold improvements	38,847	38,847
Vehicles	38,721	-
	207,392	166,716
Less accumulated depreciation	(129,983)	(122,825)
Total property and equipment, net	$ 77,409	$ 43,891

Depreciation expense for the years ended June 30, 2021 and 2020 was $7,158 and $7,106, respectively.

NOTE 7. COMPENSATED ABSENCES

Compensated absences for sick pay and personal time have not been accrued since they cannot be reasonably estimated. The Organization's policy is to recognize these costs when actually paid.

NOTE 8. CARES ACT LOANS

In April 2020, the Organization was granted a $10,000 Economic Injury Disaster Loan ("EIDL") administered by the Small Business Administration (SBA). In May 2020, the Organization was granted $154,360 under the Paycheck Protection Program ("PPP") administered by an SBA approved partner. The EIDL and PPP loans are uncollateralized and are fully guaranteed by the Federal government. The Organization initially recorded the EIDL loan as a loan advance and recorded the PPP loan as a refundable advance.

NOTE 8. CARES ACT LOANS (continued)

In November 2020, the PPP loan was forgiven less the EIDL loan advance. The Organization recognized grant revenue in accordance with guidance for conditional contributions as a refundable advance; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization has recognized $137,805 as grant revenue the year ended June 30, 2020 in the statement of activities and $16,555 as refundable advance on the statement of financial position as of June 30, 2020. The Organization recognized $16,555 as grant revenue and is included in the statement of activities for the year ended June 30, 2021 in accordance with guidance for conditional contributions as a refundable advance.

The Organization is required to repay the remaining EIDL advance of $10,000 that was not forgiven plus interest accrued at 1% per annum in monthly payments beginning on January 1, 2021. Principal and interest payments will be required through the maturity date. In February 2021, the EIDL advance was forgiven. The Organization recognized $10,000 as grant revenue and is included in the statement of activities for the year ended June 30, 2021 in accordance with guidance for conditional contributions as a refundable advance.

NOTE 9. STUDENT FINANCIAL ASSISTANCE

For the year ended June 30, 2021, the Organization had no financial assistance for scholarships. Scholarships of $38,200, representing the value of reductions in tuition costs, were given as financial assistance to students attending the Organization for the year ended June 30, 2020 and is included in program revenue in the statement of activities.

NOTE 10. OPERATING LEASES

The Organization leases office space in San Diego, California on a non-cancellable operating lease that expired July 31, 2020. Total rent expense including common area maintenance charges for this lease for the years ended June 30, 2021 and 2020 was $68,064 and $60,081, respectively. Effective July 6, 2020, the lease term was extended to July 31, 2025. The annual rent increases every August 1 by 3%.

Minimum future lease payments under these operating lease agreements as of June 30, 2021 are due as follows:

Year Ending June 30,	
2022	$ 73,654
2023	76,048
2024	78,519
2025	81,071
2026	6,774
	$ 316,066

NOTE 11. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions consist of the following as of June 30:

	6/30/21	6/30/20
Development manager salary	$ 15,900	$ 16,311
National Endowment for the Arts	10,000	-
Other	5,087	-
	$ 30,987	$ 16,311

Net assets released from net assets with donor restrictions consist of the following as of June 30:

	6/30/21	6/30/20
Satisfaction of program purpose restriction	$ 119,611	$ 3,684

NOTE 12. RELATED PARTY TRANSACTIONS

The Organization received contributions from members of its Board of Directors. For the years ended June 30, 2021 and 2020, members of the Board of the Directors contributed $18,990 and $27,815, respectively.

NOTE 13. RECLASSIFICATIONS

Certain items in the 2020 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

NOTE 14. SUBSEQUENT EVENTS

The Organization evaluated subsequent events through January 18, 2023, the date which the financial statements were available to be issued.