

WISCONSIN CONSERVATORY OF MUSIC, INC.

FINANCIAL STATEMENTS

August 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Wisconsin Conservatory of Music, Inc.
Milwaukee, Wisconsin

We have audited the accompanying financial statements of Wisconsin Conservatory of Music, Inc., which comprise the statements of financial position as of August 31, 2020 and 2019, and the related statements of activities, functional expenses, 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 audits. We conducted our audits 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.

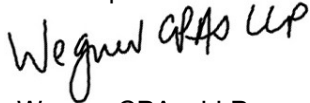
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wisconsin Conservatory of Music, Inc. as of August 31, 2020 and 2019, 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.

Adoption of New Accounting Guidance

As discussed in Note 1 to the financial statements, Wisconsin Conservatory of Music, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequently issued clarifying ASUs and ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, as of September 1, 2019. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Wegner CPAs LLP". The signature is written in a cursive, flowing style.

Wegner CPAs, LLP
Waukesha, Wisconsin
January 21, 2021

WISCONSIN CONSERVATORY OF MUSIC, INC.
STATEMENTS OF FINANCIAL POSITION
August 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|-----------------------------|----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 73,312 | \$ 103,084 |
| Accounts receivable | 45,718 | 122,755 |
| Current portion of unconditional promises to give | 168,590 | 198,803 |
| Employee advances | 2,840 | 5,687 |
| Prepaid expenses | <u>39,232</u> | <u>43,660</u> |
| Total current assets | 329,692 | 473,989 |
| PROPERTY AND EQUIPMENT | | |
| Land | 232,675 | 232,675 |
| Building and improvements | 3,902,293 | 3,829,278 |
| Furniture and equipment | 1,630,237 | 1,593,589 |
| Music library | <u>197,484</u> | <u>197,484</u> |
| Property and equipment | 5,962,689 | 5,853,026 |
| Less accumulated depreciation | <u>3,094,108</u> | <u>2,921,526</u> |
| Property and equipment, net | 2,868,581 | 2,931,500 |
| OTHER ASSETS | | |
| Unconditional promises to give less current portion, net | 134,581 | 137,093 |
| Investments | <u>7,077,508</u> | <u>6,444,501</u> |
| Total other assets | <u>7,212,089</u> | <u>6,581,594</u> |
| Total assets | <u><u>\$ 10,410,362</u></u> | <u><u>\$ 9,987,083</u></u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 63,323 | \$ 77,854 |
| Accrued payroll | 48,866 | 30,853 |
| Deferred revenue | <u>106,005</u> | <u>292,394</u> |
| Total liabilities | 218,194 | 401,101 |
| NET ASSETS | | |
| Without donor restrictions | 8,532,407 | 7,644,054 |
| With donor restrictions | <u>1,659,761</u> | <u>1,941,928</u> |
| Total net assets | <u>10,192,168</u> | <u>9,585,982</u> |
| Total liabilities and net assets | <u><u>\$ 10,410,362</u></u> | <u><u>\$ 9,987,083</u></u> |

See accompanying notes.

WISCONSIN CONSERVATORY OF MUSIC, INC.
STATEMENTS OF ACTIVITIES
Years Ended August 31, 2020 and 2019

| | 2020 | | | 2019 | | |
|--|-------------------------------|----------------------------|----------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| SUPPORT AND REVENUE | | | | | | |
| Contributions | | | | | | |
| Foundations and individuals | \$ 629,491 | \$ 391,347 | \$ 1,020,838 | \$ 1,454,415 | \$ 529,215 | \$ 1,983,630 |
| Paycheck Protection Program assistance | 470,800 | - | 470,800 | - | - | - |
| Program service revenue | | | | | | |
| Tuition and fees, net | 1,201,333 | - | 1,201,333 | 1,189,847 | - | 1,189,847 |
| Contracts and program fees | 728,236 | - | 728,236 | 1,270,261 | - | 1,270,261 |
| Investment return, net | 520,166 | 121,039 | 641,205 | 157,885 | 22,409 | 180,294 |
| Other income | 8,580 | - | 8,580 | 7,695 | - | 7,695 |
| Total support and revenue | 3,558,606 | 512,386 | 4,070,992 | 4,080,103 | 551,624 | 4,631,727 |
| EXPENSES | | | | | | |
| Program services | | | | | | |
| Education | 1,907,351 | - | 1,907,351 | 2,092,898 | - | 2,092,898 |
| Conservatory Connections | 698,551 | - | 698,551 | 724,808 | - | 724,808 |
| Total program services | 2,605,902 | - | 2,605,902 | 2,817,706 | - | 2,817,706 |
| Supporting activities | | | | | | |
| Management and general | 485,317 | - | 485,317 | 384,007 | - | 384,007 |
| Fundraising | 373,587 | - | 373,587 | 564,319 | - | 564,319 |
| Total expenses | 3,464,806 | - | 3,464,806 | 3,766,032 | - | 3,766,032 |
| NET ASSETS RELEASED FROM RESTRICTIONS | | | | | | |
| Expiration of time restrictions | 39,000 | (39,000) | - | 5,600 | (5,600) | - |
| Satisfaction of purpose restrictions | 755,553 | (755,553) | - | 242,843 | (242,843) | - |
| Net assets released from restrictions | 794,553 | (794,553) | - | 248,443 | (248,443) | - |
| Change in net assets | 888,353 | (282,167) | 606,186 | 562,514 | 303,181 | 865,695 |
| Net assets at beginning of year | 7,644,054 | 1,941,928 | 9,585,982 | 7,081,540 | 1,638,747 | 8,720,287 |
| Net assets at end of year | \$ 8,532,407 | \$ 1,659,761 | \$ 10,192,168 | \$ 7,644,054 | \$ 1,941,928 | \$ 9,585,982 |

See accompanying notes.

WISCONSIN CONSERVATORY OF MUSIC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended August 31, 2020

| | <u>Program Services</u> | | <u>Supporting Activities</u> | | <u>Total Expenses</u> |
|---------------------------|----------------------------|---------------------------------|-------------------------------|--------------------------|----------------------------|
| | <u>Education</u> | <u>Conservatory Connections</u> | <u>Management and General</u> | <u>Fundraising</u> | |
| Personnel | \$ 1,469,518 | \$ 600,532 | \$ 223,802 | \$ 279,068 | \$ 2,572,920 |
| Professional fees | 48,084 | 5,586 | 117,143 | 41,845 | 212,658 |
| Facilities expense | 189,400 | 40,746 | 26,624 | 7,333 | 264,103 |
| Depreciation | 125,128 | 30,755 | 20,026 | 5,007 | 180,916 |
| Printing and postage | 25,324 | 2,910 | 4,870 | 10,042 | 43,146 |
| Event expenses | 2,825 | 160 | 6,663 | 15,089 | 24,737 |
| Promotion and advertising | - | - | 45,160 | 2,377 | 47,537 |
| Travel | 2,623 | 3,768 | 12,361 | 5,870 | 24,622 |
| Office expenses | 7,352 | 2,320 | 1,899 | 1,125 | 12,696 |
| Supplies | 4,589 | 3,280 | 12,021 | 1,130 | 21,020 |
| Interest and bank fees | 21,100 | - | 1,981 | - | 23,081 |
| Instrument expense | 8,248 | 8,494 | 1,902 | - | 18,644 |
| Bad debt | 1,372 | - | 5,176 | 413 | 6,961 |
| Dues and licenses | 1,788 | - | 5,689 | 2,988 | 10,465 |
| Miscellaneous | - | - | - | 1,300 | 1,300 |
| Total expenses | <u>\$ 1,907,351</u> | <u>\$ 698,551</u> | <u>\$ 485,317</u> | <u>\$ 373,587</u> | <u>\$ 3,464,806</u> |

See accompanying notes.

WISCONSIN CONSERVATORY OF MUSIC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended August 31, 2019

| | <u>Program Services</u> | | <u>Supporting Activities</u> | | <u>Total Expenses</u> |
|---------------------------|-------------------------|---------------------------------|-------------------------------|--------------------|-----------------------|
| | <u>Education</u> | <u>Conservatory Connections</u> | <u>Management and General</u> | <u>Fundraising</u> | |
| Personnel | \$ 1,426,492 | \$ 710,129 | \$ 113,466 | \$ 378,305 | \$ 2,628,392 |
| Professional fees | 146,354 | 448 | 144,117 | 83,877 | 374,796 |
| Facilities expense | 244,393 | 1,169 | 30,778 | 10,903 | 287,243 |
| Depreciation | 161,336 | - | 7,015 | 7,015 | 175,366 |
| Printing and postage | 24,626 | - | 2,979 | 18,395 | 46,000 |
| Event expenses | 7,078 | 964 | 3,776 | 32,933 | 44,751 |
| Promotion and advertising | - | - | 33,839 | 2,140 | 35,979 |
| Travel | 13,086 | 2,177 | 8,375 | 5,815 | 29,453 |
| Office expenses | 18,980 | 1,604 | 4,436 | 1,992 | 27,012 |
| Supplies | 7,364 | 4,211 | 10,997 | 4,145 | 26,717 |
| Interest and bank fees | 22,006 | - | 2,095 | 138 | 24,239 |
| Instrument expense | 17,199 | 4,106 | - | 1,710 | 23,015 |
| Bad debt | - | - | 17,052 | 3,951 | 21,003 |
| Dues and licenses | 3,984 | - | 5,082 | 2,176 | 11,242 |
| Miscellaneous | - | - | - | 10,824 | 10,824 |
| Total expenses | <u>\$ 2,092,898</u> | <u>\$ 724,808</u> | <u>\$ 384,007</u> | <u>\$ 564,319</u> | <u>\$ 3,766,032</u> |

See accompanying notes.

WISCONSIN CONSERVATORY OF MUSIC, INC.
STATEMENTS OF CASH FLOWS
Years Ended August 31, 2020 and 2019

| | 2020 | 2019 |
|---|------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 606,186 | \$ 865,695 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | |
| Depreciation | 180,916 | 175,366 |
| Bad debt expense | 6,961 | 21,003 |
| Contributions restricted for long-term purposes | (12,915) | (92,491) |
| Investment income restricted for long-term purposes | (24,595) | - |
| Net realized and unrealized gain on investments | (467,898) | (18,030) |
| Change in fair value of unconditional promises to give | (2,178) | (2,325) |
| (Increase) decrease in assets | | |
| Accounts receivable | 77,037 | (99,039) |
| Unconditional promises to give | 27,942 | 1,590,567 |
| Employee advances | 2,847 | (938) |
| Prepaid expenses | 4,428 | (5,001) |
| Increase (decrease) in liabilities | | |
| Accounts payable | (14,531) | 53,838 |
| Accrued payroll | 18,013 | 14,430 |
| Deferred revenue | (186,389) | 39,003 |
| Net cash flows from operating activities | 215,824 | 2,542,078 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (117,997) | (89,378) |
| Purchases of investments and reinvested interest and dividends | (195,109) | (4,032,706) |
| Proceeds from sales of investments | 30,000 | 1,435,077 |
| Net cash flows from investing activities | (283,106) | (2,687,007) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayments on line of credit | (100,000) | (120,000) |
| Draws on line of credit | 100,000 | 120,000 |
| Investment income restricted for investment in endowment | 24,595 | - |
| Proceeds from contributions restricted for investment in endowment | 12,915 | 94,991 |
| Net cash flows from financing activities | 37,510 | 94,991 |
| Change in cash | (29,772) | (49,938) |
| Cash at beginning of year | 103,084 | 153,022 |
| Cash at end of year | \$ 73,312 | \$ 103,084 |
| SUPPLEMENTAL DISCLOSURES | | |
| Cash paid for interest | \$ 475 | \$ 829 |

See accompanying notes.

WISCONSIN CONSERVATORY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Wisconsin Conservatory of Music, Inc. (Conservatory) is a non-profit corporation that was organized to provide music education and performance opportunities for students of all ages and abilities through private and group instruction, community outreach programs, continuing professional education for performing and teaching musicians, and concert and recital performances for the general community.

Accounts Receivable

Accounts receivable primarily represent amounts due from schools for tuition related to classes provided by the Conservatory. Accounts receivable are stated at the amount management expects to be collected from outstanding balances. As of August 31, 2020 and 2019, management has determined, based on historical experience, that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

Pledges Receivable

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

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. All acquisitions of property and equipment and all expenditures for repairs, maintenance, and improvements that materially prolong the useful lives of assets are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

Investments

The Conservatory reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Contributions

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

WISCONSIN CONSERVATORY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Tuition and fees are recognized when classes are provided over the term of the school year, which is the same as the Conservatory's fiscal year. Tuition and fees include music programs, conservatory concert tickets, access to the Dorothea Meyer Music library, access to practice rooms, and performance opportunities. Tuition assistance, discounts, and financial aid are available to students. Tuition and fees are billed at the beginning of each semester and must be paid in full prior to the first class or lesson.

Contracts and program fees for curriculum-based music instruction is recognized as revenue over the term of the contract when the service is provided.

Tuition, fees, and contracts collected for future periods are deferred and will be recognized as revenue when the services are provided.

Adoption of New Accounting Guidance

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs supersedes the revenue recognition requirements and most industry-specific guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provide users of the financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Conservatory adopted the requirements of the new guidance as of September 1, 2019, using the modified retrospective method of transition. In applying the new guidance, the Conservatory elected to use the practical expedient that allows the guidance to be applied only to contracts that were not complete as of September 1, 2019.

The majority of the Conservatory's revenue is recognized at a point in time based on the transfer of control. Revenue recognized over time primarily consists of performance obligations that are satisfied within one year or less. In addition, the majority of the Conservatory's contracts do not contain variable consideration and contract modifications are generally minimal.

The adoption of the new guidance did not have a significant impact on the Conservatory's financial statements. The majority of the Conservatory's revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. Based on the Conservatory's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new guidance.

WISCONSIN CONSERVATORY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Also, on June 21, 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides a more robust framework for evaluating whether transactions such as grants and similar contracts with government agencies and others should be accounted for as exchange transactions (that is, revenue from contracts with customers) or contributions. The ASU also assists entities in determining whether a contribution is conditional. The Conservatory adopted the requirements of the ASU as of September 1, 2019. The changes in the ASU have been applied on a modified prospective basis, that is, the changes have been applied to agreements that are either not completed as of September 1, 2019, or entered into after that date. As a result, most government grants accounted for as exchange transactions under previous guidance are now accounted for as conditional contributions.

Donated Facilities, Goods, and Services

Donated facilities, goods, and services are recorded at fair market value at the date of donation. Donated services are recognized as contributions if the services create or enhance nonfinancial assets or they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Volunteers also provided various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Income Tax Status

The Conservatory is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Conservatory qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Expense Allocation

The financial statements report certain categories of expenses that are attributable to more than one program service or supporting activity. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel, facilities expenses, supplies, office expenses, travel, and event expenses, which are allocated on the basis of estimates of time and effort and depreciation, which is allocated on the basis of estimated square footage and use.

The following program services are included in the accompanying financial statements:

Education – individual lessons, group classes, camps and ensembles at one of our four locations.

Conservatory Connections – service contracts providing music education to schools and community centers.

The following supporting activities are included in the accompanying financial statements:

Management and general – includes accounting and production of financial reports, development and oversight of annual budget, supervision of all departments, maintenance of personnel records, and representation of the Conservatory within the community.

WISCONSIN CONSERVATORY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fundraising – includes cultivation of new donors, fundraising events, membership solicitations, planned giving activities, capital campaign activities, and media and public relations activities.

Advertising

The Conservatory uses advertising to promote its programs amount the audiences it serves. Advertising costs are expensed as they are incurred. Advertising expense for the years ended August 31, 2020 and 2019 was \$47,537 and \$35,979, respectively.

Estimates

The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Date of Management’s Review

Management has evaluated subsequent events through January 21, 2021, the date which the financial statements were available to be issued.

NOTE 2 – FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring are as follows:

| | Fair Value | Quoted Price in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--------------------------------|---------------------|---|---|--|
| Mutual funds | \$ 6,875,453 | \$ 6,875,453 | \$ - | \$ - |
| Unconditional promises to give | 303,171 | - | - | 303,171 |
| August 31, 2020 | <u>\$ 7,178,624</u> | <u>\$ 6,875,453</u> | <u>\$ -</u> | <u>\$ 303,171</u> |
| | | | | |
| | | | | |
| Mutual funds | \$ 5,452,103 | \$ 5,452,103 | \$ - | \$ - |
| Unconditional promises to give | 335,896 | - | - | 335,896 |
| August 31, 2019 | <u>\$ 5,787,999</u> | <u>\$ 5,452,103</u> | <u>\$ -</u> | <u>\$ 335,896</u> |

WISCONSIN CONSERVATORY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 2 – FAIR VALUE MEASUREMENTS (continued)

Fair values for unconditional promises to give are determined by calculating the present value of the future receipts expected to be received using the average industry borrowing rate and an allowance for uncollectible promises. Management believes that the use of fair value reduces the cost of measuring unconditional promises to give in periods subsequent to their receipt and provides equal or better information to users of its financial statements than if those promises were measured using present value techniques and historical discount rates. When estimating the fair value of unconditional promises to give, management considers the relationship with the donor, the donor's past history of making timely payments, and the donor's ability to fulfill the pledge. These considerations are incorporated into a fair value measurement computed using present value techniques. Unconditional promises to give are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Unconditional promises that are expected to be collected in more than one year are reported at fair value initially and in subsequent periods because the Conservatory elected that measure in accordance with *The Fair Value Option for Financial Assets and Financial Liabilities*.

At August 31, 2020 and 2019, assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) consisted of the following:

| | 2020 | 2019 |
|-------------------------------------|------------|--------------|
| Beginning balance | \$ 335,896 | \$ 1,945,141 |
| New promises received | 640,080 | 372,036 |
| Collections | (674,833) | (1,979,655) |
| Write-off of uncollectible promises | (150) | (3,951) |
| Change in fair value | 2,178 | 2,325 |
| Ending balance | \$ 303,171 | \$ 335,896 |

The change in fair value of unconditional promises to give is included in the change in net assets within contributions on the statements of activities.

NOTE 3 – PROMISES TO GIVE

Unconditional promises to give consist of the following:

| | 2020 | 2019 |
|--------------------------------------|------------|------------|
| Receivable in less than one year | \$ 168,590 | \$ 198,803 |
| Receivable in one to five years | 136,770 | 141,460 |
| Total unconditional promises to give | 305,360 | 340,263 |
| Less discount to present value | (2,189) | (4,367) |
| Unconditional promises to give, net | \$ 303,171 | \$ 335,896 |

Promises to give receivable in one to five years at August 31, 2020 and 2019 are discounted at rates ranging from 0.68% to 2%.

WISCONSIN CONSERVATORY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 4 – INVESTMENTS

Investments consist of the following:

| | 2020 | 2019 |
|--------------------|--------------|--------------|
| Money market funds | \$ 202,055 | \$ 992,398 |
| Mutual funds | 6,875,453 | 5,452,103 |
| Investments | \$ 7,077,508 | \$ 6,444,501 |

NOTE 5 – NET ASSETS

Net assets with donor restrictions are available for the following purposes:

| | 2020 | 2019 |
|---|--------------|--------------|
| Subject to the passage of time: Subsequent years' operations | \$ 136,166 | \$ 120,462 |
| Subject to expenditure for specified purpose: | | |
| Conservatory Connections | 9,800 | 4,000 |
| Scholarships and financial aid | 198,971 | 64,600 |
| Velocity campaign | 27,645 | 38,948 |
| Performance underwriting | 57,663 | 65,363 |
| Jazz Institute | - | 105,250 |
| Capital projects | 67,342 | 508,418 |
| Subject to WCM's spending policy and appropriation: | | |
| General use | 44,366 | 3,078 |
| Endowment earnings, scholarship and financial aid | 97,096 | 48,607 |
| Endowments held in perpetuity: | | |
| Pieper endowment fund - general use | 445,643 | 421,048 |
| Scholarship, financial aid, and general use | 575,069 | 562,154 |
| Net assets with donor restrictions | \$ 1,659,761 | \$ 1,941,928 |

NOTE 6 – LINE OF CREDIT

The Conservatory has a line of credit with a bank wherein the lender will provide amounts up to \$750,000, maturing on February 15, 2021. Any unpaid principal balance bears interest at a variable rate equal to the British Bankers Association LIBOR rate plus 3.25% (4.75% at August 31, 2020). Interest expense for the years ended August 31, 2020 and 2019 was \$475 and \$829, respectively. The line of credit is collateralized by the Conservatory's building.

NOTE 7 – DONOR CONCENTRATION

During the year ended August 31, 2019, the Conservatory received approximately 16% of its support from one donor. The recognized contribution from that donor was part of a legacy gift.

WISCONSIN CONSERVATORY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 8 – ENDOWMENT

The Conservatory's endowment consists of the Pieper Endowment Fund held in money market and mutual funds and the Scholarship Fund, which consists of 19 individual funds held in money market and mutual funds and cash. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Conservatory has interpreted the Uniform Prudent Management of Institutional Funds Act (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, when reviewing its donor-restricted endowment funds, the Conservatory considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Conservatory has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. In accordance with UPMIFA, the Conservatory considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Conservatory, and (7) the Conservatory's investment policies.

Investment Return Objectives, Risk Parameters, and Strategies. The Conservatory has adopted investment policies for endowment assets that are directed toward long-term performance and total return, rather than specific income goals. Endowment assets include those assets of donor-restricted funds that the Conservatory must hold in perpetuity. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to provide for growth of capital and produce returns to fund operations, while assuming a moderate level of investment risk. To satisfy its long-term rate-of-return objectives, the Conservatory relies on a total return strategy in which investment returns are achieved through both realized and unrealized gains/loss and interest and dividends. The Conservatory targets a diversified asset allocation that places an emphasis on equity growth and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy. The Conservatory has a policy of allowing for appropriation for distribution each year an amount equal to 4.5% of the average of the previous three years' ending market value. Over time, the Conservatory expects its endowment assets to maintain sufficient cash reserves to provide liquidity and to meet needs without loss of capital value of assets. In the Pieper Endowment Fund, the Conservatory may draw up to half of the earnings and half of the appreciation in the prior year. Any undistributed income in excess of amounts required to satisfy the spending rule shall be accumulated and added to the principal. In establishing this policy, the Conservatory expects to achieve the objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Underwater Endowment Funds. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Conservatory to retain as a fund of perpetual donation.

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NOTE 8 – ENDOWMENT (continued)

Endowment net asset composition by type of fund as of August 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|--|--------------|--------------|
| Donor-restricted endowment funds: | | |
| Original donor-restricted gift amounts | \$ 1,020,712 | \$ 983,202 |
| Accumulated investment gains | 141,462 | 51,685 |
| Total endowment funds | \$ 1,162,174 | \$ 1,034,887 |

Changes in endowment net assets for the years ended August 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|--------------|--------------|
| Endowment net assets at beginning of the year | \$ 1,034,887 | \$ 947,708 |
| Contributions | 12,915 | 92,491 |
| Investment return, net | 114,372 | 17,444 |
| Amounts appropriate for expenditure | - | (22,756) |
| Endowment net assets at end of year | \$ 1,162,174 | \$ 1,034,887 |

NOTE 9 – OPERATING LEASES

The Conservatory leases studio space and office equipment under noncancelable lease agreements that expire in November 2021 and September 2022, requiring monthly payments of \$3,450 and \$494, respectively. The Conservatory also leases studio space under a month-to-month lease. Rent expense for the years ended August 31, 2020 and 2019 were \$102,461 and \$98,971, respectively.

Future minimum lease payments for the years ending August 31 are as follows:

| | |
|------|-----------|
| 2021 | \$ 48,883 |
| 2022 | 16,795 |
| 2023 | 494 |

NOTE 10 – PENSION PLAN

The Conservatory sponsors a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. All employees are eligible for the plan upon hire. The Conservatory will match employee contributions to the plan, up to 3%. Total pension plan contributions for the years ended August 31, 2020 and 2019 were \$41,271 and \$36,746, respectively.

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NOTE 11 – RISKS AND UNCERTAINTIES

In March 2020, the United States economy began suffering adverse effects from the COVID-19 virus global crisis. In response to the crisis, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 27, 2020. On April 17, 2020, the Conservatory received a \$470,800 loan under the Paycheck Protection Program. The conservatory accounts for the loan as a grant that is expected to be forgiven, conditioned upon the Organization incurring qualifying expenses under the PPP. By August 31, 2020, the Organization incurred qualifying expenses to recognize the grant. Subsequent to year-end, November 2, 2020, management received acknowledgment the loan was forgiven. Management is continuously monitoring the situation to appropriately address the impact on the business.

Investment securities are exposed to various risks such as interest rate, market and credit risks, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

NOTE 12 – LIQUIDITY AND AVAILABILITY

The following table reflects the Conservatory's financial assets as August 31, 2020 and 2019 reduced by amounts not available to meet cash needs for general expenditures within one year of the date of the statements of financial position:

| | 2020 | 2019 |
|--|--------------|--------------|
| Financial assets at year-end: | | |
| Cash | \$ 73,312 | \$ 103,084 |
| Accounts receivable | 45,718 | 122,755 |
| Unconditional promises to give | 303,171 | 335,896 |
| Employee advances | 2,840 | 5,687 |
| Investments | 7,077,508 | 6,444,501 |
| Total financial assets | 7,502,549 | 7,011,923 |
| Less those unavailable for general expenditures within one year due to: | | |
| Restricted by donors with time and purpose restrictions | (639,049) | (958,726) |
| Restricted by donors in perpetuity | (1,020,712) | (983,202) |
| Financial assets available to meet cash needs for general expenditures within one year | \$ 5,842,788 | \$ 5,069,995 |

As part of the Conservatory's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Conservatory has a line of credit that it can draw on when cash is needed to meet current obligations, up to \$750,000 at August 31, 2020.

WISCONSIN CONSERVATORY OF MUSIC, INC.
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NOTE 13 – TUITION AND FEES

The Conservatory provides opportunities for students to receive tuition assistance through financial aid, discounts, and scholarships to those who may need financial support. Tuition and fees as for the years ending August 31, 2020 and 2019 consist of:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Gross tuition and fees | \$ 1,385,959 | \$ 1,383,882 |
| Financial aid, discounts, and scholarships | <u>(184,626)</u> | <u>(194,035)</u> |
| Tuition and fees, net | <u>\$ 1,201,333</u> | <u>\$ 1,189,847</u> |