

COMMUNITY MUSIC SCHOOL, INC.

Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

COMMUNITY MUSIC SCHOOL, INC.

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BACHELOR, TILLERY & ROBERTS, LLP

**CERTIFIED PUBLIC ACCOUNTANTS
POST OFFICE BOX 18068
RALEIGH, NORTH CAROLINA 27619**

**RONALD A. BACHELOR
ANN H. TILLERY
FRANKLIN T. ROBERTS
WM. JAMES BLACK, JR.
SCOTT E. CABANISS
MICHELLE W. LEMANSKI
JARED L. PILAND
DAVID C. CORN, JR.**

**3605 GLENWOOD AVENUE, SUITE 350
RALEIGH, NORTH CAROLINA 27612
TELEPHONE (919) 787-8212
FACSIMILE (919) 783-6724**

Independent Auditors' Report

The Board of Directors
Community Music School, Inc.:

We have audited the accompanying financial statements of Community Music School, Inc. (the "School") (a not-for-profit organization), which comprise the statements of financial position as of June 30, 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.

Auditors' 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 auditors' 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 auditors consider 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 the School as of June 30, 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.

New Accounting Standard

As discussed in note 1 to the financial statements, the School adopted the Financial Accounting Standards Board's Accounting Standards Updates ("ASU") 2014-09, *Revenue From Contracts With Customers* and 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* as of and for the year ended June 30, 2020. The requirements of these ASU's have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Datchelor, Tilling & Roberts, LLP". The signature is written in a cursive, flowing style.

October 8, 2020

COMMUNITY MUSIC SCHOOL, INC.

Statements of Financial Position

June 30, 2020 and 2019

| <u>Assets</u> | <u>2020</u> | <u>2019</u> |
|---|-------------------|-----------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 255,652 | 146,711 |
| Accounts receivable | 49,549 | 14,839 |
| Sales tax receivable | 1,076 | - |
| Total current assets | <u>306,277</u> | <u>161,550</u> |
| Property and equipment: | | |
| Office equipment | 2,638 | 2,638 |
| Musical instruments | <u>126,870</u> | <u>72,788</u> |
| | 129,508 | 75,426 |
| Less accumulated depreciation | <u>(80,040)</u> | <u>(68,001)</u> |
| Property and equipment, net | <u>49,468</u> | <u>7,425</u> |
| Total assets | \$ <u>355,745</u> | <u>168,975</u> |
| <u>Liabilities and Net Assets</u> | | |
| Current liabilities: | | |
| Accounts payable | 1,579 | - |
| Accrued salaries | 12,843 | 9,708 |
| Refundable deposits | 1,675 | 1,775 |
| Payroll taxes withheld | 3,026 | 3,983 |
| Note payable - PPP loan | <u>29,600</u> | - |
| Total current liabilities | <u>48,723</u> | <u>15,466</u> |
| Net assets: | | |
| Without donor restrictions | 170,945 | 104,328 |
| Without donor restrictions - board designated | <u>42,604</u> | <u>31,004</u> |
| | 213,549 | 135,332 |
| With donor restrictions | <u>93,473</u> | <u>18,177</u> |
| Total net assets | <u>307,022</u> | <u>153,509</u> |
| Total liabilities and net assets | \$ <u>355,745</u> | <u>168,975</u> |

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Activities

Year ended June 30, 2020

| | <u>Without Donor</u> <u>Restrictions</u> | <u>With Donor</u> <u>Restrictions</u> | <u>Total</u> |
|--|---|--|----------------|
| Revenues and support: | | | |
| Tuition | \$ 5,986 | - | 5,986 |
| City of Raleigh Arts Commission | 41,360 | - | 41,360 |
| Other grants and gifts: | | | |
| Individuals | 96,582 | 965 | 97,547 |
| Fundraising events | 1,000 | 9,000 | 10,000 |
| Corporations | 40,156 | 6,000 | 46,156 |
| Foundation and other private support | 117,978 | 71,539 | 189,517 |
| In-kind donations | 52,250 | - | 52,250 |
| Other income | 1,348 | - | 1,348 |
| Gain on disposal of securities | 497 | - | 497 |
| Net assets released from restrictions- restrictions satisfied by costs incurred and expiration of time | <u>12,208</u> | <u>(12,208)</u> | <u>-</u> |
| Total revenue and support | <u>369,365</u> | <u>75,296</u> | <u>444,661</u> |
| Expenses: | | | |
| Program services | 205,038 | - | 205,038 |
| Fundraising | 63,373 | - | 63,373 |
| General and administrative | <u>22,737</u> | <u>-</u> | <u>22,737</u> |
| Total expenses | <u>291,148</u> | <u>-</u> | <u>291,148</u> |
| Change in net assets | 78,217 | 75,296 | 153,513 |
| Net assets, beginning of year | <u>135,332</u> | <u>18,177</u> | <u>153,509</u> |
| Net assets, end of year | \$ <u>213,549</u> | <u>93,473</u> | <u>307,022</u> |

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Activities

Year ended June 30, 2019

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|-----------------------|
| Revenues and support: | | | |
| Tuition | \$ 4,893 | - | 4,893 |
| City of Raleigh Arts Commission | 37,669 | - | 37,669 |
| Other grants and gifts: | | | |
| Individuals | 65,955 | 13,685 | 79,640 |
| Fundraising events | 31,860 | - | 31,860 |
| Corporations | 18,030 | 1,477 | 19,507 |
| Foundation and other private support | 97,025 | 19,200 | 116,225 |
| In-kind donations | 10,689 | - | 10,689 |
| Other income | 884 | - | 884 |
| Loss on disposal of assets | (3,823) | - | (3,823) |
| Net assets released from restrictions- restrictions satisfied by costs incurred and expiration of time | <u>28,191</u> | <u>(28,191)</u> | <u>-</u> |
| Total revenue and support | <u>291,373</u> | <u>6,171</u> | <u>297,544</u> |
| Expenses: | | | |
| Program services | 188,705 | - | 188,705 |
| Fundraising | 63,306 | - | 63,306 |
| General and administrative | <u>36,059</u> | <u>-</u> | <u>36,059</u> |
| Total expenses | <u>288,070</u> | <u>-</u> | <u>288,070</u> |
| Change in net assets | 3,303 | 6,171 | 9,474 |
| Net assets, beginning of year | <u>132,029</u> | <u>12,006</u> | <u>144,035</u> |
| Net assets, end of year | \$ <u><u>135,332</u></u> | <u><u>18,177</u></u> | <u><u>153,509</u></u> |

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Functional Expenses

Year ended June 30, 2020

| | Program Services | Supporting Services | | Total |
|---------------------------|---------------------|---------------------|-------------------------------|----------------|
| | | Fundraising | General and Administrative | |
| Wages | \$ 98,362 | 39,071 | 6,615 | 144,048 |
| Payroll taxes | 7,525 | 2,989 | 506 | 11,020 |
| Instructor fees | 42,533 | - | - | 42,533 |
| Accounting | - | - | 7,300 | 7,300 |
| Consultants | 15,936 | - | - | 15,936 |
| Facility rental | 18,004 | - | - | 18,004 |
| Instrument maintenance | 1,930 | - | - | 1,930 |
| Music and supplies | 6,702 | - | - | 6,702 |
| Marketing | - | 2,183 | - | 2,183 |
| Special events | - | 4,038 | - | 4,038 |
| Other fundraising expense | - | 10,691 | - | 10,691 |
| Permits and licenses | - | - | 205 | 205 |
| Travel | - | 165 | 303 | 468 |
| Sales tax | - | - | (38) | (38) |
| Bank fees | - | - | 451 | 451 |
| Miscellaneous | - | - | 70 | 70 |
| Telephone and internet | 659 | 124 | 40 | 823 |
| Office supplies | 1,348 | 253 | 84 | 1,685 |
| Postage | - | 469 | 468 | 937 |
| Printing and copying | - | 902 | 903 | 1,805 |
| Dues and subscriptions | - | 2,388 | 2,090 | 4,478 |
| Insurance | - | - | 3,740 | 3,740 |
| Staff development | - | 100 | - | 100 |
| Depreciation | 12,039 | - | - | 12,039 |
| | \$ <u>205,038</u> | <u>63,373</u> | <u>22,737</u> | <u>291,148</u> |

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Functional Expenses

Year ended June 30, 2019

| | Program Services | Supporting Services | | Total |
|---------------------------|---------------------|---------------------|-------------------------------|----------------|
| | | Fundraising | General and Administrative | |
| Wages | \$ 84,988 | 17,297 | 19,746 | 122,031 |
| Payroll taxes | 6,635 | 1,109 | 1,591 | 9,335 |
| Instructor fees | 45,273 | - | - | 45,273 |
| Accounting | 3,520 | 1,155 | 825 | 5,500 |
| Other contracted services | - | 28,067 | 4,953 | 33,020 |
| Facility rental | 18,247 | 2,246 | 2,246 | 22,739 |
| Instrument maintenance | 1,718 | - | - | 1,718 |
| Scholarships | 1,580 | - | - | 1,580 |
| Music and supplies | 1,185 | - | - | 1,185 |
| Marketing | - | 578 | 25 | 603 |
| Special events | - | 5,466 | - | 5,466 |
| Bad debts | - | - | 38 | 38 |
| Permits and licenses | - | 200 | 5 | 205 |
| Travel | 9 | 8 | 8 | 25 |
| Sales tax | 1 | 75 | 204 | 280 |
| Bank fees | 257 | 125 | (4) | 378 |
| Miscellaneous | 765 | 284 | 422 | 1,471 |
| Telephone and internet | 815 | 233 | 117 | 1,165 |
| Office supplies | 274 | 458 | 1,235 | 1,967 |
| Postage | 3 | 872 | 539 | 1,414 |
| Printing and copying | 152 | 1,846 | 13 | 2,011 |
| Dues and memberships | 1,655 | 1,263 | 1,959 | 4,877 |
| Insurance | 2,566 | 136 | 914 | 3,616 |
| Staff development | 657 | 638 | 639 | 1,934 |
| Donated instruments | 8,275 | - | - | 8,275 |
| Donated services | 1,164 | 1,250 | - | 2,414 |
| Depreciation | 8,966 | - | 584 | 9,550 |
| | \$ <u>188,705</u> | <u>63,306</u> | <u>36,059</u> | <u>288,070</u> |

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statements of Cash Flows

Years ended June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|--------------------------|-----------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 153,513 | 9,474 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Instrument donations | (52,250) | - |
| Loss (gain) on disposal of assets | - | 3,823 |
| Depreciation | 12,039 | 9,550 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (34,710) | (11,950) |
| Sales tax receivable | (1,076) | 146 |
| Security deposits | - | 21 |
| Accounts payable | 1,579 | (762) |
| Accrued salaries | 3,135 | 6,225 |
| Deposits | (100) | 425 |
| Payroll taxes withheld | (957) | 2,601 |
| Net cash provided by operating activities | <u>81,173</u> | <u>19,553</u> |
| Cash flows used in investing activities - | | |
| Purchases of property and equipment | (1,832) | (1,000) |
| Cash flows provided by financing activities - | | |
| Proceeds from PPP loan | <u>29,600</u> | <u>-</u> |
| Net increase in cash and cash equivalents | 108,941 | 18,553 |
| Cash and cash equivalents, beginning of year | <u>146,711</u> | <u>128,158</u> |
| Cash and cash equivalents, end of year | \$ <u><u>255,652</u></u> | <u><u>146,711</u></u> |

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements

June 30, 2020 and 2019

(1) Summary of Significant Accounting Policies

Nature of Organization

Community Music School, Inc. (the "School") is a not-for-profit organization incorporated in the State of North Carolina on February 1, 1994. The School's mission is to enrich and inspire all children through music education. The School carries out this purpose by providing regular, weekly music instruction at a nominal charge to eligible students, and by providing the students with musical instruments when necessary. The School's revenues are derived principally from grants and gifts from the City of Raleigh and from nonprofits, foundations, corporations, and the general public.

Basis of Accounting and Revenue Recognition

The School's policy is to prepare its financial statements on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Donor-restricted support is reported as an increase in net assets without donor restrictions or with donor restrictions, depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributions with donor-imposed restrictions that expire in the same time period as received are reported as an increase in net assets without donor restrictions. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restrictions.

A portion of the School's revenue is derived from cost-reimbursable grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the performance obligation is satisfied, which is when the School has incurred expenditures in compliance with specific grant provisions.

Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, cash and cash equivalents include cash on hand and in banks, and all liquid investments with an original maturity of three months or less.

Functional Allocation of Expenses

Management estimates the costs of providing the various programs and other activities on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenditures not directly attributable to specific programs or supporting services are allocated to programs or supporting services by management based on what is considered to be the best available objective criteria, such as hours worked or relative benefit.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2020 and 2019

(1) Significant Accounting Policies, Continued

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates and assumptions are used for, but not limited to, uncollectible accounts receivable and contributions, depreciable lives of fixed assets, cost allocations among functional expenses, and value for in-kind donated equipment and services.

Fixed Assets

Fixed assets are recorded at cost or, if donated, at the approximate fair market value at the date of donation. Fixed assets are capitalized on the books if each individual item is \$800 or more in value. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The following are the estimated useful lives of the respective assets:

| | |
|-------------------------|---------|
| Furniture and fixtures | 5 years |
| Musical instruments | 4 years |
| Computers and equipment | 3 years |

Expenditures for repairs and maintenance to fixed assets are charged to expense as incurred. The cost of major renewals and betterments to fixed assets are capitalized and depreciated or amortized over their estimated useful lives. Upon disposition of fixed assets, the respective assets and accumulated depreciation and amortization are relieved, and any related gain or loss is reflected in the statements of activities.

Adoption of New Accounting Pronouncements

For the year ended June 30, 2020, the School adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09 – *Revenue From Contracts With Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The application of the provisions did not have a material effect on the amounts presented or disclosed.

Also for the year ended June 31, 2020, the School adopted the Financial Accounting Standards Board's ASU No. 2018-08 – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) with the scope of Topic 958, Not-for-Profit Entities, or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The application of the provisions did not have a material effect on the amounts presented or disclosed.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2020 and 2019

(1) Significant Accounting Policies, Continued

Income Taxes

The School is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state statutes. Accordingly, no provision for income taxes has been provided in the accompanying financial statements.

Donated Services and Goods

The School receives a significant amount of donated services from unpaid volunteers who assist in fund-raising, program activities, and special events. No amounts have been recognized in the statements of activities because the criteria for recognition, as defined below, have not been satisfied.

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations, are recorded at their fair values, as provided by the donor, in the period received.

Donated goods other than capitalized fixed assets are reflected as contributions in the accompanying statements at their estimated values with an offsetting charge to expense.

Selected Recent Accounting Pronouncements

The FASB has issued ASU 2016-02, *Leases*, which, among other things, requires the recognition of lease assets and lease liabilities by lessees, including for those leases classified as operating leases under previous GAAP, along with the disclosure of key information about leasing arrangements. ASU 2016-02 is effective for the School beginning July 1, 2022. Management is in the process of assessing the impact of this new accounting standard.

(2) Accounts Receivable

Accounts receivable include tuition and sales tax receivables and are stated at unpaid balances. The School provides for losses on receivables using the direct write-off method. It is the School's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

(3) Concentrations of Credit Risk Arising from Cash Deposits

The School maintains its cash and investments at financial institutions located in Raleigh, North Carolina. Aggregate balances up to \$250,000 are insured by the Federal Deposit Insurance Corporation. As of June 30, 2020 and 2019, the cash balances in these financial institutions did not exceed the insurance limit.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2020 and 2019

(4) Note Payable

In April 2020, the School received approval for a loan from the Small Business Administration under the Paycheck Protection Program, which authorizes forgivable loans to small businesses to pay their employees during the COVID-19 crisis (see note 9). This loan, in the amount of \$29,600, will be forgiven as long as the loan proceeds are used to cover payroll and certain other allowed costs over the 24-week period after the loan is made and certain other conditions are met. The loan accrues interest at 1% and is due two years from origination.

(5) Leases

On July 23, 2010, the School leased office and studio space for a twelve-month term at \$1,450 per month payable in advance on the fifth day of each month. At the end of twelve months, the School continued to rent this same space on a month-to-month basis until January 15, 2019, when a new twenty-one month lease for the same space was signed increasing the rent to \$2,370 per month.

The School moved to a new space on July 1, 2019, for which a lease has not yet been signed. Monthly rent is \$1,350 on a month-to-month basis.

On May 1, 2019, the School rented storage space for instruments at \$80 per month on a month-to-month basis.

Rental expense included in the statements of activities for 2020 and 2019 is \$18,004 and \$22,739, respectively.

(6) In-Kind Contributions

The School occasionally receives materials, services, office equipment, and musical instruments without charge. These items are used in the School's program activities and support services.

The fair market value of contributed materials, services, and equipment is reported as revenue and as property and equipment or expense in the period received. Contributed instruments recorded in the financial statements for 2020 and 2019 totaled \$52,250 (all of which were capitalized) and \$8,275 (none of which were capitalized), respectively. Other in-kind contributions received during 2020 and 2019 totaled \$0 and \$2,414, respectively.

(7) Concentrations

The City of Raleigh Arts Commission ("CORAC") comprises approximately 10% of the School's revenues (excluding in-kind contributions) in 2020 and 13% in 2019. Although there is no guarantee of continued funding, the School has historically been supported by CORAC. CORAC's funding policies are such that no applicant will be granted an amount in excess of 25% of its budgeted expenses, and grant recipients will be required to return CORAC funds received to the extent that they exceed 25% of the recipient's actual expenses at year-end. CORAC funds comprise approximately 14% of the School's actual expenses in 2020 and 13% in 2019.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2020 and 2019

(8) Information Regarding Liquidity and Availability

The School regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the School considers all expenditures related to its ongoing activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

The School's financial assets as of June 30, 2020 consist of cash and accounts receivable, resulting in net financial assets of \$211,728, all of which are available to meet general expenditures within one year of the financial statement date.

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-----------------|
| Financial assets at year end: | | |
| Cash and cash equivalents | \$ 255,652 | 146,711 |
| Accounts receivable | <u>49,549</u> | <u>14,839</u> |
| Total financial assets | 305,201 | 161,550 |
| Less donor restricted funds | <u>(93,473)</u> | <u>(18,177)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | \$ <u>211,728</u> | <u>143,373</u> |

In addition to financial assets available to meet general expenditures over the next 12 months, the School operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

(9) Impact of COVID-19

In March, 2020, the World Health Organization declared the global novel coronavirus disease 2019 (COVID-19) outbreak a pandemic. The extent of COVID-19's effect on the School's operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the School's operations. However, the pandemic could have a material adverse effect on the School's results of operations, financial condition and cash flows.

(10) Net Assets With Donor Restrictions

Net assets with donor restrictions reported in the statements of financial position as of June 30, 2020 and 2019, consist of funds available for the support of program activities for periods after June 30, 2020 and 2019.

(11) Subsequent Events

The date to which events occurring after June 30, 2020, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is October 8, 2020, the date the financial statements were available to be issued.