

THE BROOKLYN QUEENS
CONSERVATORY OF MUSIC

JUNE 30, 2019

OWEN J. FLANAGAN & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS
60 EAST 42ND STREET, SUITE 2810
NEW YORK, NEW YORK 10165

KEVIN C. SUNKEL, CPA
JOHN L. CORCORAN, CPA
MEREDITH A.F. KORN, CPA
LAUREN A. MARCIN, CPA

(212) 682-2783
FACSIMILE (212) 697-5843
WWW.OJFLANAGAN.COM

OWEN J. FLANAGAN, CPA
(1925-1996)

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

**To the Board of Trustees of
Brooklyn Queens Conservatory of Music**

We have audited the accompanying financial statements of Brooklyn Queens Conservatory of Music (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Independent Auditor's Report

Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Queens Conservatory of Music as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Brooklyn Queens Conservatory of Music's June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 25, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Change in Accounting Principle

As described in Note 2 to the financial statements, during the year ended June 30, 2019 the Conservatory adopted ASU 2016-14 which resulted in a change in the manner in which it presents its net assets and reports certain financial information within its financial statements. Our opinion is not modified with respect to this matter.

Quinn J. Flanagan & Co.

December 19, 2019

BROOKLYN QUEENS CONSERVATORY OF MUSICSTATEMENT OF FINANCIAL POSITIONJUNE 30, 2019(WITH COMPARATIVE TOTALS FOR 2018)

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash	\$ 1,169,058	\$ 563,432
Unconditional promises to give	194,770	146,068
Tuition receivable, net of allowance for uncollectible amounts (\$65,068 and \$52,582 in 2019 and 2018, respectively)	318,320	829,559
Prepaid expenses and other receivables	46,758	17,040
Investments	5,899	6,455
Property and equipment (net)	1,171,307	1,230,781
Security deposit	<u>3,798</u>	<u>3,798</u>
<u>Total Assets</u>	<u>\$ 2,909,910</u>	<u>\$ 2,797,133</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>		
Accounts payable and accrued expenses	\$ 212,771	\$ 135,253
Deferred tuition revenue	788,422	1,095,933
Deferred revenue	2,700	-
Loans payable	<u>311,171</u>	<u>371,772</u>
<u>Total Liabilities</u>	<u>1,315,064</u>	<u>1,602,958</u>
<u>Net Assets</u>		
Without donor restrictions		
Available for general use	272,090	(150,014)
Property and equipment	1,171,307	1,230,781
With donor restrictions		
Time or purpose restricted	103,000	64,959
Endowment fund	<u>48,449</u>	<u>48,449</u>
<u>Total Net Assets</u>	<u>1,594,846</u>	<u>1,194,175</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 2,909,910</u>	<u>\$ 2,797,133</u>

The accompanying notes are an integral part of these financial statements.

BROOKLYN QUEENS CONSERVATORY OF MUSIC
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	Without Donor Restrictions	With Donor Restrictions		Total 2019	Total 2018
		Time or Purpose Restricted	Endowment Fund		
<u>Revenue (Before Public Support)</u>					
Tuition, net of scholarships and discounts	\$ 2,101,072			\$ 2,101,072	\$ 1,821,194
Music Partners service fees	464,200			464,200	433,009
Music Therapy service fees	493,422			493,422	492,399
Box office income	43,565			43,565	40,857
Rental income	52,202			52,202	36,825
Other income	44,859			44,859	51,507
Net investment return	(348)	\$ -	\$ 83	(265)	267
<u>Total Revenue (Before Public Support)</u>	<u>3,198,972</u>	<u>-</u>	<u>83</u>	<u>3,199,055</u>	<u>2,876,058</u>
<u>Public Support</u>					
Government	306,350	-	-	306,350	231,200
Foundation	306,350	85,000	-	391,350	108,050
Corporate	24,895	-	-	24,895	34,700
Board and individual	184,316	-	-	184,316	191,845
In-Kind	28,836	-	-	28,836	111,996
Special events (net of expenses of \$72,389 and \$46,077 in 2019 and 2018, respectively)	<u>303,913</u>	<u>-</u>	<u>-</u>	<u>303,913</u>	<u>253,433</u>
<u>Total Public Support</u>	<u>1,154,660</u>	<u>85,000</u>	<u>-</u>	<u>1,239,660</u>	<u>931,224</u>
<u>Total Revenue and Public Support</u>	<u>4,353,632</u>	<u>85,000</u>	<u>83</u>	<u>4,438,715</u>	<u>3,807,282</u>
Net Assets Released From Restrictions	<u>47,042</u>	<u>(46,959)</u>	<u>(83)</u>	<u>-</u>	<u>-</u>
<u>Expenses</u>					
Program services	3,072,818			3,072,818	2,749,906
Management and general	666,656			666,656	576,218
Fundraising	<u>298,570</u>			<u>298,570</u>	<u>210,484</u>
<u>Total Expenses</u>	<u>4,038,044</u>			<u>4,038,044</u>	<u>3,536,608</u>
Change in Net Assets for Year	362,630	38,041	-	400,671	270,674
Net Assets, beginning of year	<u>1,080,767</u>	<u>64,959</u>	<u>48,449</u>	<u>1,194,175</u>	<u>923,501</u>
Net Assets, End of Year	<u>\$ 1,443,397</u>	<u>\$ 103,000</u>	<u>\$ 48,449</u>	<u>\$ 1,594,846</u>	<u>\$ 1,194,175</u>

The accompanying notes are an integral part of these financial statements.

BROOKLYN QUEENS CONSERVATORY OF MUSIC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets for Year	\$ 400,671	\$ 270,674
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	87,049	82,819
Net realized gain and change in unrealized appreciation on investments	348	(236)
(Increase) decrease in assets		
Unconditional promises to give	(48,702)	(92,608)
Tuition receivable	511,239	(219,303)
Prepaid expenses and other receivables	(29,718)	12,055
(Decrease) increase in liabilities		
Accounts payable and accrued expenses	77,518	22,074
Deferred tuition revenue	(307,511)	84,310
Deferred revenue	<u>2,700</u>	<u>(2,500)</u>
<u>Cash Provided by Operating Activities</u>	<u>693,594</u>	<u>157,285</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(27,575)	(22,940)
Purchase of investments	(83)	(31)
Proceeds from sale of investments	<u>291</u>	<u>119</u>
<u>Cash Used in Investing Activities</u>	<u>(27,367)</u>	<u>(22,852)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans	571,772	690,000
Repayment of loans	<u>(632,373)</u>	<u>(733,991)</u>
<u>Cash Used in Financing Activities</u>	<u>(60,601)</u>	<u>(43,991)</u>
<u>Net Increase in Cash for Year</u>	605,626	90,442
Cash, beginning of year	<u>563,432</u>	<u>472,990</u>
Cash, End of Year	<u>\$ 1,169,058</u>	<u>\$ 563,432</u>
Supplemental Information:		
Interest paid	<u>\$ 10,560</u>	<u>\$ 18,045</u>

The accompanying notes are an integral part of these financial statements.

BROOKLYN QUEENS CONSERVATORY OF MUSIC
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2019</u>	<u>Total 2018</u>
Salaries and benefits	\$ 2,572,188	\$ 297,826	\$ 148,728	\$ 3,018,742	\$ 2,736,169
Artistic fees	44,458	-	-	44,458	44,989
Professional fees	23,077	166,078	91,329	280,484	98,313
Facility costs	50,019	3,996	3,359	57,374	65,456
Insurance	49,245	5,794	2,896	57,935	49,772
Supplies	50,327	4,021	3,380	57,728	65,152
Telephone	9,694	1,112	651	11,457	19,190
Postage and shipping	-	2,695	6,287	8,982	11,317
Maintenance and repairs	101,383	8,100	6,809	116,292	110,684
Conferences and meetings	4,840	2,572	1,822	9,234	17,815
Community engagement	60,507	42,781	79,901	183,189	106,101
Printing, advertising and promotions	27,911	1,069	13,715	42,695	64,368
Credit card and collection fees	1,378	91,657	5,793	98,828	82,715
Depreciation	75,889	6,063	5,097	87,049	82,819
Miscellaneous	1,902	32,892	1,192	35,986	27,825
	<u>3,072,818</u>	<u>666,656</u>	<u>370,959</u>	<u>4,110,433</u>	<u>3,582,685</u>
Less: Direct fundraising event expenses	<u>-</u>	<u>-</u>	<u>72,389</u>	<u>72,389</u>	<u>46,077</u>
	<u>\$ 3,072,818</u>	<u>\$ 666,656</u>	<u>\$ 298,570</u>	<u>\$ 4,038,044</u>	<u>\$ 3,536,608</u>
Comparative Totals - 2018	<u>\$ 2,749,906</u>	<u>\$ 576,218</u>	<u>\$ 210,484</u>		

The accompanying notes are an integral part of these financial statements.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 1 Organization

The Brooklyn Queens Conservatory of Music (the “Conservatory”) is a not-for-profit corporation founded in 1897 and incorporated under the laws of the State of New York and granted a charter by the New York State Board of Regents in 1909. The Conservatory promotes individual and community growth through music. By presenting free and subsidized music instruction, music therapy and concerts in its facilities and in the community, the Conservatory makes music accessible to people of all ages, backgrounds and skill levels.

The Conservatory provides music instruction to approximately 800 students through its Community Music School and Suzuki programs at its location in Park Slope, Brooklyn. Through its offsite Music Partners program, music instruction is provided in under-served New York City public schools, in pre-schools, and at senior centers. Music Partners reaches approximately 4,500 New Yorkers every year. The Music Therapy program serves approximately 1,600 New Yorkers of all ages, onsite and at partner locations throughout NYC. Together, the Music Partners and Music Therapy programs operate at more than 70 partner sites in all five boroughs of New York City. The Conservatory also presents over 150 public performances each year, featuring world-class artists, local musicians and student performers.

NOTE 2 New Accounting Pronouncement

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which became effective for organizations with fiscal years beginning after December 15, 2017. The Conservatory has adjusted the presentation of its financial statements accordingly, applying the changes to its beginning net assets balances. The new standard changes the following aspects of the Conservatory’s financial statements:

- The temporary restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions. The Conservatory has opted to further disaggregate these classes to show as “Time or purpose restricted” and “Endowment funds”.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 17).

The changes have the following effect on the net assets at June 30, 2018:

Net Asset Classifications	ASU 2016-14 Classifications			Total Net Assets
	Without Donor Restrictions	With Donor Restrictions		
		Time or Purpose Restricted	Endowment Fund	
As previously presented:				
Unrestricted net assets	\$ 1,080,767	\$ -	\$ -	\$ 1,080,767
Temporarily restricted net assets	-	64,959	-	64,959
Permanently restricted net assets	-	-	48,449	48,449
Total Net Assets	<u>\$ 1,080,767</u>	<u>\$ 64,959</u>	<u>\$ 48,449</u>	<u>\$ 1,194,175</u>

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 3 Summary of Significant Accounting Policies

Basis of Presentation

The Conservatory's financial statements have been prepared on the accrual basis of accounting. Revenue is recorded when earned, contributions are recorded when pledges are received and expenses are recorded when incurred.

Net Assets Without Donor Restrictions – Nets assets which have no donor-imposed stipulations and may be used for general operations.

Net Assets With Donor Restrictions – Nets assets from contributions which have donor-imposed stipulations that either expire due to the passage of time or actions of the Conservatory or require that they be held in perpetuity by the Conservatory. When the donor stipulations have been satisfied, the contribution is reclassified to net assets without donor restrictions. The donor-restricted endowment funds consist of \$48,449 of original gifts to be held in perpetuity. The investment return from these funds must be spent in accordance with donor stipulations.

Cash

Cash consists of cash in checking accounts.

Contributions and Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Conservatory that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions and released once the restriction has been satisfied.

The Conservatory uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are provided for on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of assets are 30 ½ - 40 years for capital building replacements, 5 to 10 years for furniture, equipment, software and instruments.

Advertising Costs

The Conservatory expenses advertising costs the first time the advertising occurs.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 3 Summary of Significant Accounting Policies (Continued)

Tuition Revenue

Tuition revenue is recognized when earned. An allowance for uncollectible receivables is provided based on management's evaluation of potential uncollectible receivables, using past experience and other known circumstances affecting a student's ability to meet their obligations. It is the Conservatory's policy to write off tuition receivable when management determines it is uncollectible.

Tuition income received, but not earned, is recorded as deferred tuition revenue.

Investment Policy

The Conservatory maintains a conservative investment policy, investing in short term money markets in order to preserve the original value of endowment funds as well as provide a stable stream of income on net assets with donor restrictions.

Fair Value Measurement of Investments

Investments are carried at fair value based on quoted market prices. The Conservatory follows Financial Accounting Standards Board (FASB) guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs related to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

FASB guidance provides for the use of the Net Asset Value ("NAV") as a "Practical Expedient" for estimating fair value of non-publicly traded investment funds. The Conservatory has adopted a policy to exclude investments valued at NAV from the fair value hierarchy in accordance with FASB guidance.

Investment Income Recognition

Investments are recorded at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities as increases and decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investment income that is restricted by the donor is reported as an increase in in the endowment fund until appropriated for expenditure.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 3 Summary of Significant Accounting Policies (Continued)

Tax Status

The Conservatory is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Subsequent Events

The Conservatory has evaluated for subsequent events after the statement of financial position date of June 30, 2019 through December 19, 2019, the date the financial statements were available to be issued.

Functional Allocation of Expenses

The cost of providing various programs and other activities has been summarized on a functional basis on the statement of activities and on the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Conservatory. Certain categories of expenses are attributable to more than one program or supporting service and are allocated on a reasonable basis which is consistently applied. The Conservatory allocates these expenses based on estimates of time and effort per employee and other Conservatory resources utilized on programmatic activities as compared to management of the Conservatory.

Accounting for Uncertainty in Income Taxes

The Conservatory recognizes the effect of income tax positions only if these positions are more likely than not to be sustained. Management has determined that the Conservatory has no uncertain tax positions that would require financial statement recognition and/or disclosure.

Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Conservatory's financial statements for the year ended June 30, 2018 from which the summarized information was derived.

Certain prior year numbers have been reclassified to conform to current year presentation.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 4 Unconditional Promises to Give

The Conservatory's unconditional promises to give are all expected to be collected during fiscal year ended June 30, 2020.

The Conservatory discounts its long-term pledges receivable at a rate of 5% per annum. There is no allowance for uncollectible pledges recorded, as the conservatory believes all of its pledges are collectible.

NOTE 5 Tuition and Scholarship

The Conservatory offers music instruction on various instruments at reasonable tuition rates throughout the year. Students may apply for need-based scholarships and can receive other discounts when certain qualifications are met. The Conservatory also records a reserve for uncollectible tuition receivable, which is netted against tuition income. For the years ended June 30, 2019 and 2018, net tuition was as follows:

	<u>2019</u>	<u>2018</u>
Tuition income	\$ 2,262,868	\$ 1,952,805
Less: Scholarships	(19,960)	(12,536)
Discounts	<u>(129,350)</u>	<u>(119,075)</u>
	2,113,558	1,821,194
Allowance for uncollectible tuition	<u>(12,486)</u>	-
	<u>\$ 2,101,072</u>	<u>\$ 1,821,194</u>

NOTE 6 In-Kind Donation

During fiscal year 2019, the Executive Director worked on a pro bono basis for part of the year before being added to payroll. During fiscal year 2018, the Executive Director worked on a pro bono basis for the full year with the exception of a \$15,000 payment. An additional \$28,836 and \$111,996 has been recorded each year, respectively, as an in-kind donation. The value of this service was estimated based on the salary of the previous Executive Director.

NOTE 7 Special Events

During fiscal years 2019 and 2018, the Conservatory held numerous fundraising, cultivation events and concerts to generate contributions and awareness of the programs offered. The special event revenue reported on the Statement of Activities is derived from the two major fundraising events held during the respective fiscal years.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 Public Support

The Conservatory's public support, including gross revenue from special events, is derived as follows:

	2019			2018		
	General	Special Events	Total	General	Special Events	Total
Government	\$ 306,350	\$ -	\$ 306,350	\$ 231,200	\$ -	\$ 231,200
Foundation	391,350	27,600	418,950	108,050	30,750	138,800
Corporate	24,895	75,460	100,355	34,700	7,500	42,200
Board and individual	184,316	273,242	457,558	191,845	261,260	453,105
In-Kind	28,836	-	28,836	111,996	-	111,996
	<u>\$ 935,747</u>	<u>\$ 376,302</u>	<u>\$ 1,312,049</u>	<u>\$ 677,791</u>	<u>\$ 299,510</u>	<u>\$ 977,301</u>

NOTE 9 Property and Equipment

At June 30, 2019 and 2018, property and equipment consist of:

	2019	2018
Land	\$ 15,000	\$ 15,000
Building and improvements	2,778,047	2,763,376
Computers and office equipment	68,967	64,740
Software	40,245	40,245
Library	1,782	1,782
Furniture and fixtures	177,003	168,326
Pianos and instruments	255,436	255,436
Website	15,768	15,768
	<u>3,352,248</u>	<u>3,324,673</u>
Less: Accumulated depreciation	<u>(2,180,941)</u>	<u>(2,093,892)</u>
	<u>\$ 1,171,307</u>	<u>\$ 1,230,781</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$87,049 and \$82,817, respectively.

NOTE 10 Concentration of Credit Risk

The Conservatory maintains cash balances with banking institutions that at times during the year exceed the Federal Deposit Insurance Corporation's insurance limits. This potentially subjects the Conservatory to a concentration of credit risk. The Conservatory has not experienced any losses in such accounts.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 11 Loans Payable

As of June 30, 2019, the Conservatory has two loans payable.

Short Term Debt: The first is a quarterly balloon payment loan from the Fund for the City of New York with a principal balance of \$200,000. The Conservatory pays a 1.5% transaction fee each time it refinances the loan.

Long Term Debt: The Conservatory refinanced a term loan with a new 10-year loan which closed on February 1, 2019 with an original principal balance of \$113,829. The loan carries an interest rate of 5.5% and is fully payable over its 10-year term. The loan has the option to be pre-paid in full or part without penalty. This loan refinanced a previous loan the Conservatory held, that had a higher interest rate and more stringent repayment terms. As of June 30, 2019, the outstanding balance on this loan was \$111,171.

The expected repayment of the two loans are as follows:

2020	\$ 208,870
2021	9,368
2022	9,894
2023	10,450
2024	11,307
2025 to 2029	<u>61,282</u>
	<u>\$ 311,171</u>

NOTE 12 Investments

At June 30, 2019 and 2018 investments consist of:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents held in money market accounts	\$ 5,899	\$ 5,899	\$ 4,436	\$ 4,436
Equities	<u>-</u>	<u>-</u>	<u>1,740</u>	<u>2,019</u>
	<u>\$ 5,899</u>	<u>\$ 5,899</u>	<u>\$ 6,176</u>	<u>\$ 6,455</u>

Equities held at June 30, 2019 and 2018 are considered level 1 investments under the fair value hierarchy.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 12 Investments (continued)

Investment income during the years ended June 30, 2019 and 2018 is comprised of:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 83	\$ 31
Realized and unrealized gains (losses)	<u>(348)</u>	<u>236</u>
	<u>\$ (265)</u>	<u>\$ 267</u>

NOTE 13 Endowment Funds

The Conservatory's endowment consists of funds received from donors for which the earnings are restricted to provide scholarships. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Consistent with New York not-for-profit corporation law, the Conservatory classifies contributions received with the restrictions to hold funds in perpetuity as net assets with donor restrictions - endowment fund.

Under the Conservatory's spending policy, earnings on endowment funds up to 7% of principal may be appropriated and spent each year.

As of June 30, 2019 and 2018, the total endowment consisted of \$48,449 for a scholarship endowment. Earnings on the endowment are to be used for need and merit-based scholarships. During 2019 and 2018, \$83 and \$31, respectively, was earned and appropriated for scholarship support.

Endowment funds are reported in the following asset categories on the accompanying statement of financial position:

	<u>2019</u>	<u>2018</u>
Cash	\$42,550	\$44,013
Investment money markets	<u>5,899</u>	<u>4,436</u>
	<u>\$48,449</u>	<u>\$48,449</u>

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 14 Time or Purpose Restricted Net Assets

Time or purpose restricted net assets as of June 30, 2019 and 2018 consists of:

	<u>2019</u>	<u>2018</u>
Time restricted	\$ 18,000	\$ 62,143
Music Partners	75,000	-
Capital	10,000	-
Orchestra	-	<u>2,816</u>
	<u>\$ 103,000</u>	<u>\$ 64,959</u>

Net assets released from restriction during the years ended June 30, 2019 and 2018 consists of:

	<u>2019</u>	<u>2018</u>
Time restricted	\$ 44,143	\$ 21,000
Scholarships	83	31
Music Therapy	-	12,721
Music Partners	-	10,000
Orchestra	<u>2,816</u>	<u>2,184</u>
	<u>\$ 47,042</u>	<u>\$ 45,936</u>

NOTE 15 Commitment and Contingency

Commencing in early 1998, the Conservatory launched a \$2.5 million Centennial Campaign to restore and renovate its historic Brooklyn landmark building, built in 1881. Work included restoration of the building's exterior, including roofing, brownstone repair and replacement, repointing, window replacement, fencing and bluestone repair.

As part of this project, the Conservatory obtained a Historic Preservation Grant ("Grant") from the New York State Office of Parks, Recreation and Historic Preservation (State). Funding received during the grant period February 25, 1998 to June 30, 2000 totaled \$294,958. The Grant Agreement requires the Conservatory to:

- a) Convey an easement or preservation restriction to the State and, such others as the State deems necessary.
- b) Not subordinate to any other security interest in the property including, but not limited to, purchase money mortgages.
- c) Not alter, demolish, sell, leave or otherwise convey the property, in whole or in part, unless it shall have first received the written approval of the State.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 15 Commitment and Contingency (Continued)

- d) Own or hold by lease and to maintain and operate the property for a period of twenty (20) years from the date of the final disbursement of State funds under the agreement.

Accordingly, as of the report date the Conservatory is contingently liable to the State for a period of one (1) year to comply with the aforementioned provisions. In the event of a violation of any provision, the State may, at its option, excise any or all of the following remedies:

- a) Declare the grant forfeited and demand the return of all funds disbursed under this agreement.
- b) Declare the grant forfeited and demand the return of all funds disbursed under this agreement plus a penalty equal to ½ of the amount of the grant.
- c) Enter the property, correct any violation of the terms of this agreement, restore the property to its prior condition, and hold the Conservatory or any successor in interest responsible for the cost thereof.
- d) Institute suit to enjoin such violations and, if appropriate, require the restoration of the property to its prior condition.

As part of the same project, the Conservatory entered into a contract with the City of New York for \$1,225,000 dated October 17, 1997. The contract requires the Conservatory, for a period of 30 years following “Substantial Completion” of the project, a milestone which was reached on June 30, 1999 to “continue to own and use the premises for a school for music and the arts or, subject to the prior written approval of a Deputy Major acting for the City, for such other purpose as may be determined by the City, in its sole discretion, to be in the public interest”.

The contract also states that, during the same 30-year term, the Conservatory cannot “sell, assign lease, license or otherwise, convey all or any portion of the premises except with the prior written consent of the City, although the Conservatory may permit portions of the space to be used for concerts, exhibitions and similar activities in keeping with its purposes”.

NOTE 16 Subsequent Events

In November and December of 2019, the Conservatory took possession of 19 new Steinway pianos funded by \$1,033,379 of capital allocated by the City of New York in the City’s FY17 and FY18 budgets. These pianos replace the Conservatory’s aging piano inventory. The City maintains ownership of the pianos. The Conservatory is responsible for insuring and maintaining the equipment.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 17 Liquidity and Availability of Financial Assets

The following reflects the Conservatory's financial assets as of June 30, 2019, reduced by amounts not available for general expenditures within one year of the statement of financial position date because of contractual or donor-imposed restrictions. Amounts available include donor-restricted amounts that are available for general expenditure in the following year:

Cash	\$ 1,169,058
Unconditional promises to give	194,770
Tuition receivable	318,320
Other receivables	19,476
Investments	<u>5,899</u>
	1,707,523
Contractual or donor-imposed restrictions	
Purpose restricted	(85,000)
Endowment funds	<u>(48,449)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,574,074</u>

The Conservatory continued to build liquidity, ending fiscal year 2019 with cash on hand of approximately \$1,169,000, a considerable increase over cash on hand of approximately \$563,000 at the end of the fiscal year 2018. This increase occurred while management continued to make substantial investments in its organizational capacity, facilities and operational infrastructure while also paying down its debt. The Conservatory monitors its cash flow regularly throughout the year, analyzing income expected based on music instruction registrations, planned events and expected giving. Spending is diligently monitored comparative to the budget, while also monitoring the needs of programs as they have continued to grow. Adjustments to spending are made as needed.