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DONALD F. SCHERER

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors 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, 2018, 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.

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, 2018, 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, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Owen J. Flanagan & Co

October 25, 2018

BROOKLYN QUEENS CONSERVATORY OF MUSICSTATEMENT OF FINANCIAL POSITIONJUNE 30, 2018(WITH COMPARATIVE TOTALS FOR 2017)

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash	\$ 563,432	\$ 472,990
Unconditional promises to give	146,068	53,460
Tuition receivable, net of allowance for uncollectible amounts (\$52,582 and \$51,313 in 2018 and 2017, respectively)	829,559	610,256
Prepaid expenses and other receivables	17,040	29,095
Investments	6,455	6,307
Property and equipment (net)	1,230,781	1,290,660
Security deposit	3,798	3,798
	<u>\$ 2,797,133</u>	<u>\$ 2,466,566</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>		
Accounts payable and accrued expenses	\$ 135,253	\$ 113,179
Deferred tuition revenue	1,095,933	1,011,623
Deferred revenue	-	2,500
Loans payable	371,772	415,763
	<u>1,602,958</u>	<u>1,543,065</u>
<u>Net Assets</u>		
Unrestricted	1,080,767	852,331
Temporarily restricted	64,959	22,721
Permanently restricted	48,449	48,449
	<u>1,194,175</u>	<u>923,501</u>
	<u>\$ 2,797,133</u>	<u>\$ 2,466,566</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, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2018</u>	<u>Total 2017</u>
<u>Revenue (Before Public Support)</u>					
Tuition, net of scholarships and discounts	\$ 2,313,593			\$ 2,313,593	\$ 1,941,643
Music Partners service fees	433,009			433,009	525,249
Box office income	40,857			40,857	51,100
Rental income	36,825			36,825	38,199
Other income	51,507			51,507	39,472
Investment income (loss)	236	\$ 31	\$ -	267	285
<u>Total Revenue (Before Public Support)</u>	<u>2,876,027</u>	<u>31</u>	<u>-</u>	<u>2,876,058</u>	<u>2,595,948</u>
<u>Public Support</u>					
Government	231,200	-	-	231,200	194,360
Foundation	108,050	-	-	108,050	127,005
Corporate	34,700	-	-	34,700	41,280
Board and individual	103,702	88,143	-	191,845	275,501
In-Kind	111,996			111,996	95,496
Special events (net of expenses of \$46,077 and \$32,141 in 2018 and 2017, respectively)	253,433	-	-	253,433	65,878
<u>Total Public Support</u>	<u>843,081</u>	<u>88,143</u>	<u>-</u>	<u>931,224</u>	<u>799,520</u>
<u>Total Revenue and Public Support</u>	<u>3,719,108</u>	<u>88,174</u>	<u>-</u>	<u>3,807,282</u>	<u>3,395,468</u>
Net Assets Released From Restrictions	45,936	(45,936)	-	-	-
<u>Expenses</u>					
Program services	2,749,906			2,749,906	2,407,689
Supporting services					
Management and general	576,218			576,218	554,133
Fundraising	210,484			210,484	130,745
	786,702			786,702	684,878
<u>Total Expenses</u>	<u>3,536,608</u>			<u>3,536,608</u>	<u>3,092,567</u>
Change in Net Assets for Year	228,436	42,238	-	270,674	302,901
Net Assets, beginning of year	852,331	22,721	48,449	923,501	620,600
Net Assets, End of Year	<u>\$ 1,080,767</u>	<u>\$ 64,959</u>	<u>\$ 48,449</u>	<u>\$ 1,194,175</u>	<u>\$ 923,501</u>

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

BROOKLYN QUEENS CONSERVATORY OF MUSICSTATEMENT OF CASH FLOWSFOR THE YEAR ENDED JUNE 30, 2018(WITH COMPARATIVE TOTALS FOR 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets for Year	\$ 270,674	\$ 302,901
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	82,819	87,294
Net realized gain and change in unrealized appreciation on investments	(236)	(204)
(Increase) decrease in assets		
Unconditional promises to give	(92,608)	24,915
Tuition receivable	(219,303)	(300,296)
Prepaid expenses and other receivables	12,055	(3,759)
(Decrease) increase in liabilities		
Accounts payable and accrued expenses	22,074	(34,689)
Deferred tuition revenue	84,310	2,500
Deferred revenue	<u>(2,500)</u>	<u>187,398</u>
<u>Cash Provided by Operating Activities</u>	<u>157,285</u>	<u>266,060</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(22,940)	(12,065)
Purchase of investments	(31)	-
Proceeds from sale of investments	<u>119</u>	<u>44,303</u>
<u>Cash (Used in) Provided by Investing Activities</u>	<u>(22,852)</u>	<u>32,238</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loan	690,000	690,000
Repayment of loan	<u>(733,991)</u>	<u>(718,750)</u>
<u>Cash Used in Financing Activities</u>	<u>(43,991)</u>	<u>(28,750)</u>
<u>Net Increase in Cash for Year</u>	90,442	269,548
Cash, beginning of year	<u>472,990</u>	<u>203,442</u>
Cash, End of Year	<u>\$ 563,432</u>	<u>\$ 472,990</u>
Supplemental Information:		
Interest paid	<u>\$ 18,045</u>	<u>\$ 19,559</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, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2018</u>	<u>Total 2017</u>
Salaries and benefits	\$ 2,282,942	\$ 340,235	\$ 112,992	\$ 2,736,169	\$ 2,411,322
Artistic fees	40,403	-	4,586	44,989	41,337
Professional fees	32,424	43,041	22,848	98,313	92,943
Facility costs	54,951	7,736	2,769	65,456	60,285
Insurance	-	49,772	-	49,772	45,373
Supplies	60,758	2,010	2,384	65,152	102,310
Telephone	16,012	2,386	792	19,190	18,430
Postage and shipping	212	3,394	7,711	11,317	4,696
Maintenance and repairs	92,412	13,713	4,559	110,684	76,047
Conferences and meetings	14,895	565	2,155	17,615	7,504
Community engagement	40,524	-	19,500	60,024	-
Printing, advertising and promotions	41,097	3,045	20,226	64,368	42,950
Credit card and collection fees	741	58,530	4,960	64,231	53,331
Depreciation	69,099	10,300	3,420	82,819	87,294
Miscellaneous	3,436	41,491	1,582	46,509	48,745
<u>Total</u>	<u>\$ 2,749,906</u>	<u>\$ 576,218</u>	<u>\$ 210,484</u>	<u>\$ 3,536,608</u>	<u>\$ 3,092,567</u>
Comparative Totals - 2017	<u>\$ 2,407,689</u>	<u>\$ 554,133</u>	<u>\$ 130,745</u>		

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

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 Organization and Summary of Significant Accounting Policies

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 4,000 New Yorkers every year. The Music Therapy program serves approximately 1,500 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 100 public performances each year, featuring world-class artists, local musicians and student performers.

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 are recorded as either unrestricted, temporarily restricted or permanently restricted based on donor restrictions or lack thereof. Earnings on permanently restricted net assets are classified as temporarily restricted until appropriated.

Cash and Cash Equivalents

Cash and cash equivalents consist 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 unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 Organization and Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization is provided on a straight line basis over the estimated useful lives of the assets, or for leasehold improvements, over the shorter of the length of the lease or the estimated useful lives. 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.

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 receivables 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 permanently restricted gifts as well as provide a stable stream of income on unrestricted net assets.

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.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 Organization and Summary of Significant Accounting Policies (Continued)

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 unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income that is restricted by the donor is reported as an increase in temporarily restricted net assets 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.

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, 2018 through October 25, 2018, 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.

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, 2018

NOTE 1 Organization and Summary of Significant Accounting Policies (Continued)

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, 2017 from which the summarized information was derived.

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

NOTE 2 Unconditional Promises to Give

The Conservatory's unconditional promises to give are expected to be collected as follows:

2019	\$ 128,925
2020	<u>18,000</u>
	146,925
Less Discount	<u>857</u>
	<u>\$ 146,068</u>

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 its pledges are collectible.

NOTE 3 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, 2018 and 2017, net tuition was as follows:

	<u>2018</u>	<u>2017</u>
Tuition income	\$ 2,445,204	\$ 2,055,473
Less: Scholarships	(12,536)	(10,660)
Discounts	<u>(119,075)</u>	<u>(95,511)</u>
	2,313,593	1,949,302
Allowance for uncollectible tuition	<u>-</u>	<u>(7,659)</u>
	<u>\$ 2,313,593</u>	<u>\$ 1,941,643</u>

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 4 In-Kind Donation

During fiscal year 2018 and 2017, the Executive Director worked on a pro bono basis with the exception of a \$15,000 payment. An additional \$111,996 and \$95,496 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 5 Special Events

During fiscal year 2018, the Conservatory held numerous fundraising and cultivation events and concerts to generate contributions and awareness of the programs offered. The income derived from the major fundraising events is reported net on the Statement of Activities. The net income derived is detailed below.

	<u>2018</u>		
	<u>Income</u>	<u>Expense</u>	<u>Net</u>
House Party	\$ 158,595	\$ 24,821	\$ 133,774
Music Therapy Gala	<u>140,915</u>	<u>21,256</u>	<u>119,659</u>
	<u>\$ 299,510</u>	<u>\$ 46,077</u>	<u>\$ 253,433</u>

In fiscal year 2017, the Conservatory's fundraising events were smaller in nature and generated income of \$65,878, which was net of \$32,141 of expenses.

NOTE 6 Property and Equipment

At June 30, 2018 and 2017, property and equipment consist of:

	<u>2018</u>	<u>2017</u>
Land	\$ 15,000	\$ 15,000
Building and improvements	2,763,376	2,751,758
Computers and office equipment	64,740	57,631
Software	40,245	40,245
Library	1,782	1,782
Furniture and fixtures	168,326	165,283
Pianos and instruments	255,436	254,266
Website	<u>15,768</u>	<u>15,768</u>
	3,324,673	3,301,733
Less: Accumulated depreciation	<u>(2,093,892)</u>	<u>(2,011,073)</u>
	<u>\$ 1,230,781</u>	<u>\$ 1,290,660</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$82,819 and \$87,294, respectively.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 7 Loans Payable

As of June 30, 2018, the Conservatory has two loans payable. The first is a 4-month \$230,000 loan payable on October 5, 2018 with a one-time 1.5% finance fee. The second loan was a line of credit for which the bank instituted a repayment plan over six years during fiscal year 2015. In September 2016, the loan repayment terms were renegotiated with a 4.5% annual interest rate with repayment amounts to increase at specific dates. The expected repayment of these loans are as follows:

2019	\$ 279,559
2020	51,836
2021	<u>40,377</u>
	<u>\$ 371,772</u>

NOTE 8 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.

NOTE 9 Investments

At June 30, 2018 and 2017 investments consist of:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents held in money market accounts	\$ 4,436	\$ 4,436	\$ 4,525	\$ 4,525
Equities	<u>1,740</u>	<u>2,019</u>	<u>1,740</u>	<u>1,782</u>
	<u>\$ 6,176</u>	<u>\$ 6,455</u>	<u>\$ 6,265</u>	<u>\$ 6,307</u>

Equities held at June 30, 2018 and 2017 are considered level 1 investments under the fair value hierarchy.

Investment income during the years ended June 30, 2018 and 2017 is comprised of:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 31	\$ 81
Realized and unrealized gains (losses)	<u>236</u>	<u>204</u>
	<u>\$ 267</u>	<u>\$ 285</u>

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 10 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 permanently restricted net assets.

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

As of June 30, 2018 and 2017, the total endowment consisted of \$48,449 of permanently restricted net assets for a scholarship endowment. Earnings on the endowment are to be used for need and merit-based scholarships. During 2018 and 2017, \$31 and \$68, respectively, was earned and appropriated for scholarship support.

Permanently restricted net assets are reported in the following asset categories on the accompanying statement of financial position:

	<u>2018</u>	<u>2017</u>
Cash	\$44,013	\$43,924
Investment money markets	<u>4,436</u>	<u>4,525</u>
	<u>\$48,449</u>	<u>\$48,449</u>

NOTE 11 Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2018 and 2017 consists of:

	<u>2018</u>	<u>2017</u>
Time restricted	\$62,143	\$ -
Music Therapy	-	12,721
Music Partners	-	10,000
Orchestra	<u>2,816</u>	<u>-</u>
	<u>\$64,959</u>	<u>\$ 22,721</u>

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 Temporarily Restricted Net Assets (continued)

Net assets released from restriction during the years ended June 30, 2018 and 2017 consists of:

	<u>2018</u>	<u>2017</u>
Time restricted	\$ 21,000	\$ 30,000
Scholarships	31	68
Music Therapy	12,721	55,538
Music Partners	10,000	18,940
Orchestra	<u>2,184</u>	<u>-</u>
	<u>\$ 45,936</u>	<u>\$ 104,546</u>

NOTE 12 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.
- 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 two (2) years 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.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 Commitment and Contingency (Continued)

- 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 13 Management Plans

In fiscal year 2017, the Conservatory substantially overhauled its development strategy and committed to a series of fiscal action steps to strengthen the Conservatory's financial management, including a stronger focus on divisional program and site-based profitability.

Those initiatives produced immediate, positive results including a year-over-year increase in net income of \$466,000, an increase in total net assets of \$303,000 and a \$29,000 reduction in loans payable. The Conservatory overcame monthly cash flow shortfalls and built liquidity, ending the fiscal year with cash on hand of approximately \$473,000.

In fiscal year 2018, the Conservatory furthered its commitment to its revamped development strategy and disciplined financial management. The Conservatory again achieved strong results producing positive net income of approximately \$271,000 and reducing loans payable by \$44,000. The Conservatory continued to build liquidity, ending fiscal year 2018 with cash on hand of approximately \$563,000, a considerable increase over cash on hand of approximately \$203,000 at the end of the fiscal year 2016. The Conservatory also made substantial investments in its organizational capacity, facilities and operational infrastructure, including:

- The addition of two full-time staff to its marketing and development team to help manage an expanded number of fundraising and community events and a larger individual donor base.
- The acquisition, customization and implementation of two new software platforms, Salesforce and ASAP, which address donor management and on/off-site registration and billing, respectively.
- Critical enhancements to its facilities including the installation of automated doors in its garden lobby, a bathroom renovation, HVAC and elevator maintenance, and the repainting of all of its studios.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 Management Plans (continued)

In FY 19, the Board and Staff of the Conservatory will make further investment in the Conservatory's staff and capabilities while maintaining the rigorous focus on its financial management. Notably, in FY 19 the Executive Director will begin to draw a salary, after working for two years for the Conservatory largely on a pro bono basis.