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**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, 2020, 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**

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**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, 2020, 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, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 19, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Owen J. Flanagan & Co.*

December 21, 2020

BROOKLYN QUEENS CONSERVATORY OF MUSICSTATEMENT OF FINANCIAL POSITIONJUNE 30, 2020(WITH COMPARATIVE TOTALS FOR 2019)

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash	\$ 1,754,512	\$ 1,169,058
Unconditional promises to give	104,330	194,770
Tuition receivable, net of allowance for uncollectible amounts (\$65,068 in 2020 and 2019)	263,031	318,320
Prepaid expenses and other receivables	30,562	46,758
Investments	25,979	5,899
Property and equipment (net)	1,207,805	1,171,307
Security deposit	<u>3,798</u>	<u>3,798</u>
<u>Total Assets</u>	<u>\$ 3,390,017</u>	<u>\$ 2,909,910</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>		
Accounts payable and accrued expenses	\$ 191,512	\$ 212,771
Deferred tuition revenue	469,211	788,422
Deferred revenue	-	2,700
PPP loan	765,647	-
Loans payable	<u>300,098</u>	<u>311,171</u>
<u>Total Liabilities</u>	<u>1,726,468</u>	<u>1,315,064</u>
<u>Net Assets</u>		
Without donor restrictions		
Available for general use	268,791	272,090
Property and equipment	1,207,805	1,171,307
With donor restrictions		
Time or purpose restricted	138,504	103,000
Endowment fund	<u>48,449</u>	<u>48,449</u>
<u>Total Net Assets</u>	<u>1,663,549</u>	<u>1,594,846</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 3,390,017</u>	<u>\$ 2,909,910</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, 2020  
(WITH COMPARATIVE TOTALS FOR 2019)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u> Time or Purpose Restricted	<u>Endowment Fund</u>	<u>Total 2020</u>	<u>Total 2019</u>
<u>Revenue (Before Public Support)</u>					
Tuition, net of scholarships and discounts	\$ 2,243,252			\$ 2,243,252	2,101,072
Music Partners service fees	390,299			390,299	464,200
Music Therapy service fees	465,889			465,889	493,422
Box office income	37,516			37,516	43,565
Rental income	30,961			30,961	52,202
Other income	34,016			34,016	44,859
Net investment return	(56)	\$ -	\$ 140	84	(265)
	<u>3,201,877</u>	<u>-</u>	<u>140</u>	<u>3,202,017</u>	<u>3,199,055</u>
<u>Public Support</u>					
Government	361,690	9,990	-	371,680	306,350
Foundation	290,020	78,514	-	368,534	391,350
Corporate	32,075	-	-	32,075	24,895
Board and individual	375,688	50,000	-	425,688	184,316
In-Kind	-	-	-	-	28,836
Special events (net of expenses of \$44,145 and \$72,389 in 2020 and 2019, respectively) (See Note 7)	176,904	-	-	176,904	303,913
	<u>1,236,377</u>	<u>138,504</u>	<u>-</u>	<u>1,374,881</u>	<u>1,239,660</u>
	<u>4,438,254</u>	<u>138,504</u>	<u>140</u>	<u>4,576,898</u>	<u>4,438,715</u>
Net Assets Released From Restrictions	103,140	(103,000)	(140)	-	-
<u>Expenses</u>					
Program services	3,421,995			3,421,995	3,072,818
Management and general	746,061			746,061	666,656
Fundraising	340,139			340,139	298,570
	<u>4,508,195</u>			<u>4,508,195</u>	<u>4,038,044</u>
Change in Net Assets for Year	33,199	35,504	-	68,703	400,671
Net Assets, beginning of year	1,443,397	103,000	48,449	1,594,846	1,194,175
Net Assets, End of Year	<u>\$ 1,476,596</u>	<u>\$ 138,504</u>	<u>\$ 48,449</u>	<u>\$ 1,663,549</u>	<u>\$ 1,594,846</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, 2020(WITH COMPARATIVE TOTALS FOR 2019)

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets for Year	\$ 68,703	\$ 400,671
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	86,440	87,049
Net realized gain and change in unrealized appreciation on investments	56	348
(Increase) decrease in assets:		
Unconditional promises to give	90,440	(48,702)
Tuition receivable	55,289	511,239
Prepaid expenses and other receivables	16,196	(29,718)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(21,259)	77,518
Deferred tuition revenue	(319,211)	(307,511)
Deferred revenue	(2,700)	2,700
<u>Cash (Used in) Provided by Operating Activities</u>	<u>(26,046)</u>	<u>693,594</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(122,938)	(27,575)
Purchase of investments	(20,136)	(83)
Proceeds from sale of investments	-	291
<u>Cash Used in Investing Activities</u>	<u>(143,074)</u>	<u>(27,367)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from loans	1,365,647	571,772
Repayment of loans	(611,073)	(632,373)
<u>Cash Provided by (Used in) Financing Activities</u>	<u>754,574</u>	<u>(60,601)</u>
<u>Net Increase in Cash for Year</u>	<u>585,454</u>	<u>605,626</u>
Cash, beginning of year	<u>1,169,058</u>	<u>563,432</u>
Cash, End of Year	<u>\$ 1,754,512</u>	<u>\$ 1,169,058</u>
Supplemental Information:		
Interest paid	<u>\$ 16,431</u>	<u>\$ 10,560</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, 2020  
(WITH COMPARATIVE TOTALS FOR 2019)

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2020</u>	<u>Total 2019</u>
Salaries and benefits	\$ 2,961,029	\$ 393,188	\$ 193,924	\$ 3,548,141	\$ 3,018,742
Artistic fees	50,861	-	-	50,861	44,458
Professional fees	19,987	138,437	96,657	255,081	280,484
Facility costs	54,972	5,570	3,080	63,622	57,374
Insurance	49,804	5,859	2,930	58,593	57,935
Supplies	44,033	4,462	2,467	50,962	57,728
Telephone	8,938	906	501	10,345	11,457
Postage and shipping	31	6,385	-	6,416	8,982
Maintenance and repairs	88,606	8,978	4,965	102,549	116,292
Conferences and meetings	4,313	6,109	421	10,843	9,234
Community engagement	9,766	47,149	49,302	106,217	183,189
Printing, advertising and promotions	44,349	3,151	18,158	65,658	42,695
Credit card and collection fees	16	85,072	7,567	92,655	98,828
Depreciation	74,687	7,568	4,185	86,440	87,049
Miscellaneous	10,603	33,227	127	43,957	35,986
	<u>3,421,995</u>	<u>746,061</u>	<u>384,284</u>	<u>4,552,340</u>	<u>4,110,433</u>
Less: Direct fundraising event expenses	<u>-</u>	<u>-</u>	<u>44,145</u>	<u>44,145</u>	<u>72,389</u>
	<u>\$ 3,421,995</u>	<u>\$ 746,061</u>	<u>\$ 340,139</u>	<u>\$ 4,508,195</u>	<u>\$ 4,038,044</u>
Comparative Totals - 2019	<u>\$ 3,072,818</u>	<u>\$ 666,656</u>	<u>\$ 298,570</u>		

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

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

**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 and music therapy to approximately 1,000 students through its Community Music School, Suzuki and Music Therapy 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 offsite 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 150 public performances each year, featuring world-class artists, local musicians and student performers.

The Conservatory’s support comes primarily through tuition, service fees, special events and grants and contributions.

**NOTE 2 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.

**Change in Accounting Principle**

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or nonexchange transactions. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. The adoption of this ASU had an immaterial impact on the Conservatory’s financial statements.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

**NOTE 2 Summary of Significant Accounting Policies (Continued)**

**Cash**

Cash consists of cash in checking accounts.

**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.

**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.

**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.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

**NOTE 2 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.

**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.

**Subsequent Events**

The Conservatory has evaluated for subsequent events after the statement of financial position date of June 30, 2020 through December 21, 2020, the date the financial statements were available to be issued.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

**NOTE 2 Summary of Significant Accounting Policies (Continued)**

**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. The Conservatory is no longer subject to audits by the applicable taxing jurisdictions for the periods prior to June 30, 2017.

**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, 2019 from which the summarized information was derived.

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

**NOTE 3 Unconditional Promises to Give**

The Conservatory's unconditional promises to give are all expected to be collected during fiscal year ended June 30, 2021.

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 4 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, 2020

**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, 2020 and 2019, net tuition was as follows:

	<u>2020</u>	<u>2019</u>
Tuition income	\$ 2,427,595	\$ 2,262,868
Less: Scholarships	(30,049)	(19,960)
Discounts	<u>(154,294)</u>	<u>(129,350)</u>
	2,243,252	2,113,558
Allowance for uncollectible tuition	<u>-</u>	<u>(12,486)</u>
	<u>\$ 2,243,252</u>	<u>\$ 2,101,072</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. The total in-kind donation amount was \$28,836 during 2019. The value of this service was estimated based on the salary of the previous Executive Director.

**NOTE 7 Special Events**

During fiscal years 2020 and 2019, 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 2019 and one event during 2020. During 2020, the spring gala was cancelled due to COVID-19 and replaced by a series of smaller non ticketed fundraisers. These fundraisers generated gross revenue of approximately \$334,000. Donations from these fundraising campaigns are reflected within Public Support from the Board, individuals, foundations and corporations on the Statement of Activities. The direct costs for these fundraisers of approximately \$13,000 is reflected within the fundraising column on the Statement of Functional Expenses. Overall, the net fundraising income from these fundraisers was approximately \$321,000.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

**NOTE 8 Investments**

At June 30, 2020 and 2019 investments consist of:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents held in money market accounts	\$ 23,832	\$ 23,832	\$ 5,899	\$ 5,899
Equities	<u>2,147</u>	<u>2,147</u>	-	-
	<u>\$ 25,979</u>	<u>\$ 25,979</u>	<u>\$ 5,899</u>	<u>\$ 5,899</u>

Equities held at June 30, 2020 are considered level 1 investments under the fair value hierarchy.

Investment income during the years ended June 30, 2020 and 2019 is comprised of:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 140	\$ 83
Realized and unrealized losses	<u>(56)</u>	<u>(348)</u>
	<u>\$ 84</u>	<u>\$ (265)</u>

**NOTE 9 Public Support**

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

	<u>2020</u>			<u>2019</u>		
	<u>General</u>	<u>Special Events</u>	<u>Total</u>	<u>General</u>	<u>Special Events</u>	<u>Total</u>
Government	\$ 371,680	\$ -	\$ 371,680	\$ 306,350	\$ -	\$ 306,350
Foundation	368,534	25,000	393,534	391,350	27,600	418,950
Corporate	32,075	41,840	73,915	24,895	75,460	100,355
Board and individual	425,688	154,209	579,897	184,316	273,242	457,558
In-Kind	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,836</u>	<u>-</u>	<u>28,836</u>
	<u>\$ 1,197,977</u>	<u>\$ 221,049</u>	<u>\$ 1,419,026</u>	<u>\$ 935,747</u>	<u>\$ 376,302</u>	<u>\$ 1,312,049</u>

Per Note 7, revenues from the spring fundraisers are not classified as Special Events revenue, but instead categorized under the relevant donor category.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

**NOTE 10 The City of New York Support**

During fiscal year 2020, the Conservatory took possession of 19 new Steinway pianos funded by \$1,034,000 of capital allocated by the City of New York. 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 City of New York appropriated \$500,000 towards the Conservatory's acquisition of an adjacent, vacant parcel of land in its fiscal year 2021 budget. The appropriation of capital through the City's budget process is not a guarantee of funding.

**NOTE 11 Property and Equipment**

The Conservatory entered into an option agreement on Feb 27, 2020 providing it with an exclusive option to purchase a vacant parcel of land adjoining its garden for a purchase price of one million dollars (\$1,000,000). The option agreement established the purchase price and terms of the seller financing for a period of 12 months. Under the terms of the option agreement, the Conservatory placed \$100,000 in escrow. The escrow payment is reflected within property and equipment on the Statement of Financial Position and on the table below.

The City of New York appropriated \$500,000 towards the Conservatory's acquisition of land in its fiscal year 2021 budget. In July 2020, the Conservatory elected to exercise its option under the option agreement and proceed with the acquisition of the land. The land acquisition closed on October 1, 2020 for a total of \$1,057,000, including closing costs. The Conservatory funded the acquisition with a loan of \$1,000,000 provided by the seller. The \$57,000 in closing costs were funded with cash out of the escrow account. Of the remaining \$43,000 in the escrow account, \$17,600 was applied to future interest payments on the loan and \$25,400 was refunded to the Conservatory.

At June 30, 2020 and 2019, property and equipment consist of:

	2020	2019
Land	\$ 15,000	\$ 15,000
Building and improvements	2,780,822	2,778,045
Computers and office equipment	79,926	68,967
Software	40,245	40,245
Library	1,782	1,782
Furniture and fixtures	183,658	177,003
Pianos and instruments	257,985	255,436
Website	15,768	15,768
	3,375,186	3,352,246
Less: Accumulated depreciation	(2,267,381)	(2,180,941)
	1,107,805	1,171,305
Land acquisition in progress	100,000	-
	<b>\$ 1,207,805</b>	<b>\$ 1,171,305</b>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$86,440 and \$87,049, respectively.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

**NOTE 12 PPP Loan**

In April 2020, the Conservatory was granted a loan in the amount of \$765,647, pursuant to the Paycheck Protection Program (the “PPP”) under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The loan matures after two years and bears interest at a rate of 1% per annum, payable monthly after six months. Funds from the loan may be used for payroll costs, health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred after February 15, 2020. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The Conservatory intends to use the entire loan amount for qualifying expenses.

**NOTE 13 Loans Payable**

As of June 30, 2020, in addition to the PPP loan, the Conservatory had two additional 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, 2020, the outstanding balance on this loan was \$100,098.

The expected repayment of the two loans are as follows:

2021	\$ 209,368
2022	9,894
2023	10,450
2024	11,307
2025	11,656
2026 to 2029	<u>47,423</u>
	<u>\$ 300,098</u>

**NOTE 14 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.

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**NOTE 14 Endowment Funds** (Continued)

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, 2020 and 2019, 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 2020 and 2019, \$140 and \$83, respectively, was earned and appropriated for scholarship support.

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

	2020	2019
Cash	\$ 24,617	\$ 42,550
Investment money markets	23,832	5,899
	\$ 48,449	\$ 48,449

**NOTE 15 Time or Purpose Restricted Net Assets**

Time or purpose restricted net assets as of June 30, 2020 and 2019 consists of:

	2020	2019
Time restricted	\$ 59,990	\$ 18,000
Music Partners	75,000	75,000
Capital	-	10,000
Scholarships	3,514	-
	\$ 138,504	\$ 103,000

Net assets released from restriction during the years ended June 30, 2020 and 2019 consists of:

	2020	2019
Time restricted	\$ 18,000	\$ 44,143
Scholarships	140	83
Capital	10,000	-
Music Partners	75,000	-
Orchestra	-	2,816
	\$ 103,140	\$ 47,042

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**NOTE 16 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.

Prior to fiscal year 2020, the Conservatory was contingently liable to the State 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 BROOKLYN QUEENS CONSERVATORY OF MUSIC

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**NOTE 16 Commitment and Contingency (Continued)**

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 17 COVID-19**

In March 2020, the World Health Organization declared the incidence of COVID-19 to be a pandemic. The COVID-19 pandemic has resulted in substantial volatility in global financial markets. As the outbreak continues and should conditions worsen, the Conservatory may continue to experience a disruption in operations as well as a decline in contributions received or level of contributions and level of enrollment. Due to changing market conditions, an estimate of the total loss due to the outbreak, if any, cannot be determined as this time.

**NOTE 18 Liquidity and Availability of Financial Assets**

The following reflects the Conservatory’s financial assets as of June 30, 2020 and 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:

	<u>2020</u>	<u>2019</u>
Cash	\$ 1,754,512	\$ 1,169,058
Unconditional promises to give	104,330	194,770
Tuition receivable	263,031	318,320
Other receivables	3,538	19,476
Investments	<u>25,979</u>	<u>5,899</u>
	2,151,390	1,707,523
Contractual or donor-imposed restrictions		
Purpose restricted	(78,514)	(85,000)
Endowment funds	<u>(48,449)</u>	<u>(48,449)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 2,024,427</u>	<u>\$ 1,574,074</u>

The Conservatory continued to build liquidity, ending fiscal year 2020 with cash on hand of approximately \$1,755,000. Management is continuing 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.