

THE BROOKLYN QUEENS
CONSERVATORY OF MUSIC

JUNE 30, 2017

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DONALD F. SCHERER

Independent Auditor's Report

To the Board of Directors of
The Brooklyn Queens Conservatory of Music

We have audited the accompanying financial statements of The Brooklyn Queens Conservatory of Music (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017 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 of material misstatements.

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 The Brooklyn Queens Conservatory of Music as of June 30, 2017 and, the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Summarized Comparative Information

We have previously audited The Brooklyn Queens Conservatory of Music's June 30, 2016 financial statements, and we have expressed an unmodified opinion on those audited financial statements in our report dated February 16, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Owen J. Flanagan & Co.

October 19, 2017
New York, NY

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Cash	\$ 472,990	\$ 203,442
Unconditional promises to give	53,460	78,375
Tuition receivable, net of allowance for uncollectible amounts (\$51,313 and \$70,715 in 2017 and 2016, respectively)	610,256	309,960
Prepaid expenses and other receivables	29,095	25,336
Investments	6,307	50,406
Property and equipment (net)	1,290,660	1,365,889
Security deposits	<u>3,798</u>	<u>3,798</u>
<u>Total Assets</u>	<u>\$2,466,566</u>	<u>\$2,037,206</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 <u>Liabilities</u>		
Accounts payable and accrued expenses	\$ 113,179	\$ 147,868
Deferred tuition revenue	1,011,623	824,225
Deferred revenue	2,500	-
Loans payable	<u>415,763</u>	<u>444,513</u>
<u>Total Liabilities</u>	<u>1,543,065</u>	<u>1,416,606</u>
 <u>Net Assets</u>		
Unrestricted	852,331	509,884
Temporarily restricted	22,721	62,267
Permanently restricted	<u>48,449</u>	<u>48,449</u>
<u>Total Net Assets</u>	<u>923,501</u>	<u>620,600</u>
<u>Total Liabilities and Net Assets</u>	<u>\$2,466,566</u>	<u>\$2,037,206</u>

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

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
<u>Revenue (Before Public Support)</u>					
Tuition, net of scholarships and discounts	\$1,941,643			\$1,941,643	\$1,815,505
Music Partners service fees	525,249			525,249	454,511
Box office income	51,100			51,100	34,579
Rental income	38,199			38,199	20,845
Investment income (loss)	217	\$ 68	\$ -	285	(104)
Special events (net of expenses of \$32,141 and \$166,075 in 2017 and 2016)	65,878			65,878	134,144
Other income	39,472			39,472	25,065
<u>Total Revenue (Before Public Support)</u>	<u>2,661,758</u>	<u>68</u>	<u>-</u>	<u>2,661,826</u>	<u>2,484,545</u>
<u>Public Support</u>					
Government	174,360	20,000	-	194,360	168,000
Foundation	82,005	45,000	-	127,005	104,475
Corporate	41,280	-	-	41,280	6,000
Board and individual	275,501	-	-	275,501	94,068
In-kind	95,496	-	-	95,496	-
<u>Total Public Support</u>	<u>668,642</u>	<u>65,000</u>	<u>-</u>	<u>733,642</u>	<u>372,543</u>
<u>Total Revenue and Public Support</u>	<u>3,330,400</u>	<u>65,068</u>	<u>-</u>	<u>3,395,468</u>	<u>2,857,088</u>
<u>Net Assets Released From Restrictions</u>	<u>104,546</u>	<u>(104,546)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Expenses</u>					
Program services	2,407,689			2,407,689	2,256,807
Supporting services					
Management and general	554,133			554,133	607,671
Fundraising	130,745			130,745	155,929
	684,878			684,878	763,600
<u>Total Expenses</u>	<u>3,092,567</u>			<u>3,092,567</u>	<u>3,020,407</u>

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
Change in Net Assets for Year	342,447	(39,546)	-	302,901	(163,319)
Net Assets, beginning of year	<u>509,884</u>	<u>62,267</u>	<u>48,449</u>	<u>620,600</u>	<u>783,919</u>
Net Assets, end of Year	<u>\$ 852,331</u>	<u>\$ 22,721</u>	<u>\$ 48,449</u>	<u>\$ 923,501</u>	<u>\$ 620,600</u>

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

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets for Year	\$ 302,901	\$(163,319)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	87,294	89,858
Unrealized appreciation and realized loss on investments	(204)	202
Decrease (increase) in assets		
Unconditional promises to give	24,915	65,535
Tuition receivable	(300,296)	108,035
Prepaid expenses	(3,759)	13,151
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(34,689)	(70,000)
Deferred revenue	2,500	-
Deferred tuition	187,398	(14,249)
<u>Net Cash Provided by Operating Activities</u>	<u>266,060</u>	<u>29,213</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(12,065)	(37,249)
Purchases of investments	-	(44,491)
Proceeds from sale of investments	44,303	42,317
<u>Net Cash Provided by (Used in) Investing Activities</u>	<u>32,238</u>	<u>(39,423)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loan	690,000	292,011
Repayment of loan	(718,750)	(291,168)
<u>Net Cash (Used in) Provided by Financing Activities</u>	<u>(28,750)</u>	<u>843</u>
Net Increase (Decrease) in Cash for Year	269,548	(9,367)
Cash, beginning of year	203,442	212,809
Cash, End of Year	<u>\$ 472,990</u>	<u>\$ 203,442</u>
Supplemental Information:		
Interest expense	<u>\$ 19,559</u>	<u>\$ 20,202</u>

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

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2017</u>	<u>Total 2016</u>
Salaries and benefits	\$316,073	\$ 74,408	\$2,411,322	\$2,406,403
Artistic fees	-	-	41,337	29,135
Professional fees	38,892	42,398	92,943	101,368
Facility costs	7,902	1,860	60,285	37,788
Insurance	45,373	-	45,373	40,554
Supplies	13,411	3,157	102,310	61,625
Telephone	2,416	569	18,430	12,851
Postage and shipping	3,173	1,077	4,696	3,996
Maintenance and repairs	9,968	2,347	76,047	67,420
Conferences and meetings	984	232	7,504	14,995
Printing, advertising and promotions	5,630	1,325	42,950	52,130
Credit card and collection fees	53,331	-	53,331	49,784
Depreciation	11,442	2,694	87,294	89,858
Miscellaneous	<u>45,538</u>	<u>678</u>	<u>48,745</u>	<u>52,500</u>
<u>Total</u>	<u>\$554,133</u>	<u>\$130,745</u>	<u>\$3,092,567</u>	<u>\$3,020,407</u>
<u>Comparative Totals - 2016</u>	<u>\$607,671</u>	<u>\$155,929</u>		

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

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 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 at its location in Park Slope, Brooklyn. Through its Music Partners program, music instruction is provided to school children in the New York City public schools. The Music Therapy program also serves thousands of children and adults both onsite and offsite. 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.

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.

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.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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.

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.

Investment Income Recognition

The Conservatory reflects investments 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.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 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.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash in checking accounts.

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, 2017 through October 19, 2017, 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, 2017

NOTE 2 Unconditional Promises to Give

The Conservatory's unconditional promises to give are expected to be collected during its 2018 fiscal year.

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 Investments

At June 30, 2017 and 2016 investments, all of which are Level 1 within the fair value hierarchy, consists of:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents held in money market accounts	\$4,525	\$4,525	\$48,153	\$48,153
Equities	<u>1,740</u>	<u>1,782</u>	<u>2,249</u>	<u>2,253</u>
	<u>\$6,265</u>	<u>\$6,307</u>	<u>\$50,402</u>	<u>\$50,406</u>

Investment income during the years ended June 30, 2017 and 2016 is comprised of:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 81	\$ 96
Realized and unrealized gains (losses)	<u>204</u>	<u>(202)</u>
	<u>\$285</u>	<u>\$(104)</u>

NOTE 4 Property and Equipment

At June 30, 2017 and 2016, property and equipment consist of:

	<u>2017</u>	<u>2016</u>
Land	\$ 15,000	\$ 15,000
Building and improvements	2,751,758	2,746,957
Computer and office equipment	57,631	53,876
Software	40,245	40,245
Library	1,782	1,782
Furniture and fixtures	165,283	164,670
Piano and instruments	254,266	251,370
Website	<u>15,768</u>	<u>15,768</u>
	3,301,733	3,289,668
Less: Accumulated depreciation	<u>(2,011,073)</u>	<u>(1,923,779)</u>
	<u>\$1,290,660</u>	<u>\$1,365,889</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$87,294 and \$89,858, respectively.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 Loans Payable

As of June 30, 2017, the Conservatory has two loans payable. The first is a 4 month \$230,000 loan payable on September 15, 2017 with a one time 1.5% finance fee. The second loan was a line of credit for which the bank has instituted a repayment plan over six years. The original loan accrued interest at the prime rate plus 1% per annum. In September 2016, the loan repayment terms were renegotiated. The expected repayment of these loans are as follows:

2018	\$274,178
2019	49,559
2020	51,836
2021	<u>40,190</u>
	<u>\$415,763</u>

NOTE 6 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, 2017 and 2016, 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 2017 and 2016, \$68 and \$95, 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>2017</u>	<u>2016</u>
Cash	\$43,924	\$ 296
Investments	<u>4,525</u>	<u>48,153</u>
	<u>\$48,449</u>	<u>\$48,449</u>

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2017 and 2016 consists of:

	<u>2017</u>	<u>2016</u>
Time restricted	\$ -	\$30,000
Music Therapy program	12,721	17,939
Music Partners	<u>10,000</u>	<u>14,328</u>
	<u>\$22,721</u>	<u>\$62,267</u>

Net assets released from restriction during the years ended June 30, 2017 and 2016 consists of:

	<u>2017</u>	<u>2016</u>
Time restricted	\$ 30,000	\$ 44,250
Jazz fellowships	-	15,000
Music Therapy program	55,538	59,061
Music Partners program	19,008	69,172
Suzuki program	-	5,000
Scholarship support	<u>-</u>	<u>95</u>
	<u>\$104,546</u>	<u>\$192,578</u>

NOTE 8 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.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 Commitment and Contingency (Continued)

- 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 four (4) 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 $\frac{1}{2}$ 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 9 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, 2017

NOTE 10 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, 2017 and 2016, net tuition was as follows:

	2017	2016
Tuition income	\$2,055,473	\$2,001,037
Less: Scholarships	(10,650)	(32,046)
Discounts	(95,511)	(100,175)
	1,949,312	1,868,816
Allowance for uncollectible tuition	(7,659)	(53,311)
Net Tuition	<u>\$1,941,643</u>	<u>\$1,815,505</u>

NOTE 11 In-Kind Donation

During fiscal year 2017, the Executive Director worked on a pro bono basis with the exception of a \$15,000 payment. An additional \$95,496 has been recorded as in-kind. The value of this service was estimated based on the salary of the previous Executive Director.

During the fiscal year 2016, the Conservatory received two in-kind service contributions. The first was an award for donated marketing consulting time. The second was for a Board Advancement program, which continued into fiscal year 2017. No value has been recorded for these services, as the amount was deemed immaterial to the financial statements on a whole.

NOTE 12 Management Plans

In the spring and summer of 2016, the Conservatory's Board of Trustees and Staff committed to a series of critical strategic and financial actions to address the Conservatory's financial condition. The key priorities were to stabilize and strengthen the Conservatory, and put the organization on a path to long term, sustainable growth.

The Board took a number of affirmative steps to directly address the Conservatory's financial challenges, including expanding the Board with regard to size and experience, and increase the give/get commitment required of each member.

In August of 2016, the Conservatory hired Chad Cooper to serve as its new Executive Director and thus revamped the leadership roles. Chad was formerly a Board member, and had been serving as the Treasurer since October of 2015. Chad came to the Conservatory with a strong financial background and ability and foresight to institute new financial models. He also agreed to work for extremely minimal compensation to relieve some of the financial stress on the Conservatory.

THE BROOKLYN QUEENS CONSERVATORY OF MUSIC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 12 Management Plans (Continued)

As part of the strategic planning and budgeting process for fiscal year 2017, the Board and Staff overhauled the Conservatory's development strategy instituting new key components. This included hiring a development consultant, and a full time development associate, throwing five major fundraisers and a multitude of smaller community building events, expanding the Conservatory's donor base to include more of the community, a wider range of foundation and government support as well as individual donor support.

The Board and Staff committed to a series of fiscal action steps to address the Conservatory's financial difficulties, including rigorous budgeting for fiscal year 2017 with a stronger focus on divisional program and site-based profitability.

The Conservatory's financial action plan and revamped development model produced immediate, positive results in fiscal year 2017. The Conservatory surpassed the budgeted expectations for the turnaround. It achieved a year over year increase in net income of approximately \$466,000, an increase in total net assets of approximately \$303,000 and a \$29,000 reduction in loans payable. The Conservatory has also overcome the monthly cash flow shortfalls and built liquidity, ending fiscal year 2017 with cash on hand of \$472,990, a considerable increase over the prior year.

100% of the Conservatory's Board members met their required give/get in fiscal year 2017. Additionally they raised excess of the required give/get threshold, which entitled the Conservatory to a \$50,000 matching grant offered by a donor.

The Board and management have maintained the development strategy and rigorous budgeting process for fiscal year 2018, with the expectation of continuing its momentum of increasing net assets and its positive cash flow.