

**The Music Conservatory
of Westchester, Inc.**

Financial Statements

June 30, 2020 and 2019

Independent Auditors' Report

Board of Trustees The Music Conservatory of Westchester, Inc.

We have audited the accompanying financial statements of The Music Conservatory of Westchester, Inc. (the "Conservatory"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 Music Conservatory of Westchester, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PKF O'Connor Davies, LLP
Newburgh, New York
January 6, 2021

The Music Conservatory of Westchester, Inc.

Statements of Financial Position

	June 30,	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 692,791	\$ 596,577
Investments	914,454	222,995
Accounts receivable	62,082	115,620
Promises to give	77,600	67,620
Prepaid expenses and other current assets	26,885	28,272
Total Current Assets	1,773,812	1,031,084
Other Assets		
Investments held for endowment purposes	988,821	1,053,772
Land, property and equipment, net	6,170,823	6,432,616
Unbilled rents receivable	13,715	34,182
Deferred leasing costs, net	8,040	22,980
Total Other Assets	7,181,399	7,543,550
	\$ 8,955,211	\$ 8,574,634
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 32,454	\$ 169,548
Line of credit	165,000	150,000
Due to tenant, current portion	7,590	11,500
Deferred tuition	90,378	165,230
Refundable advance	125,000	125,000
Capitalized lease payable, current portion	-	241
Mortgages payable, current portion	45,718	45,661
Total Current Liabilities	466,140	667,180
Long-Term Liabilities		
Mortgages payable, net of current portion and debt issuance costs	2,770,686	2,980,682
Note payable	503,017	-
Due to tenant, net of current portion	-	7,590
Total Long-Term Liabilities	3,273,703	2,988,272
Total Liabilities	3,739,843	3,655,452
Net Assets		
Without donor restrictions	4,076,724	3,697,983
With donor restrictions	1,138,644	1,221,199
Total Net Assets	5,215,368	4,919,182
	\$ 8,955,211	\$ 8,574,634

See notes to financial statements

The Music Conservatory of Westchester, Inc.

Statement of Activities

Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE AND SUPPORT			
Revenue			
Tuition	\$ 1,849,495	\$ -	\$ 1,849,495
Scholarships and discounts on lessons	(99,478)	-	(99,478)
Net Tuition	1,750,017	-	1,750,017
Contracted services	452,354	-	452,354
Scholarships	(70,986)	-	(70,986)
Net Contracted Services	381,368	-	381,368
Investment return	9,133	(22,958)	(13,825)
Other	33,498	-	33,498
Total Revenue	2,174,016	(22,958)	2,151,058
Support			
Public agencies	46,500	50,581	97,081
Foundations and corporations	21,173	157,890	179,063
Individuals	708,212	93,850	802,062
Special events	3,219	-	3,219
Total Support	779,104	302,321	1,081,425
Net assets released from restrictions			
Time and purpose restrictions released	319,925	(319,925)	-
Appropriated endowment earnings	41,993	(41,993)	-
Total Net Assets Released from Restrictions	361,918	(361,918)	-
Total Operating Revenue and Support	3,315,038	(82,555)	3,232,483
OPERATING EXPENSES			
Program Expenses			
Instruction	1,504,896	-	1,504,896
Outreach program	465,888	-	465,888
Performances	234,174	-	234,174
Total Program Expenses	2,204,958	-	2,204,958
Supporting Expenses			
Management and general	489,475	-	489,475
Fundraising	314,781	-	314,781
Total Supporting Expenses	804,256	-	804,256
Total Operating Expenses	3,009,214	-	3,009,214
Change in Net Assets From Operations Before			
Rental Income	305,824	(82,555)	223,269
Rental income, net	72,917	-	72,917
Change in Net Assets	378,741	(82,555)	296,186
NET ASSETS			
Beginning of year	3,697,983	1,221,199	4,919,182
End of year	\$ 4,076,724	\$ 1,138,644	\$ 5,215,368

See notes to financial statements

The Music Conservatory of Westchester, Inc.

Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE AND SUPPORT			
Revenue			
Tuition	\$ 1,870,984	\$ -	\$ 1,870,984
Scholarships and discounts on lessons	<u>(167,307)</u>	<u>-</u>	<u>(167,307)</u>
Net Tuition	<u>1,703,677</u>	<u>-</u>	<u>1,703,677</u>
Contracted services	529,952	-	529,952
Scholarships	<u>(57,913)</u>	<u>-</u>	<u>(57,913)</u>
Net Contracted Services	<u>472,039</u>	<u>-</u>	<u>472,039</u>
Investment return	197	34,551	34,748
Other	<u>23,749</u>	<u>-</u>	<u>23,749</u>
Total Revenue	<u>2,199,662</u>	<u>34,551</u>	<u>2,234,213</u>
Support			
Public agencies	51,500	42,908	94,408
Foundations and corporations	36,313	165,460	201,773
Individuals	174,299	113,915	288,214
Special events, net of direct donor benefits of \$57,055	<u>380,616</u>	<u>-</u>	<u>380,616</u>
Total Support	<u>642,728</u>	<u>322,283</u>	<u>965,011</u>
Net assets released from restrictions			
Time and purpose restrictions released	413,789	(413,789)	-
Appropriated endowment earnings	<u>38,500</u>	<u>(38,500)</u>	<u>-</u>
Total Net Assets Released from Restrictions	<u>452,289</u>	<u>(452,289)</u>	<u>-</u>
Total Operating Revenue and Support	<u>3,294,679</u>	<u>(95,455)</u>	<u>3,199,224</u>
OPERATING EXPENSES			
Program Expenses			
Instruction	1,616,500	-	1,616,500
Outreach program	481,863	-	481,863
Performances	<u>243,968</u>	<u>-</u>	<u>243,968</u>
Total Program Expenses	<u>2,342,331</u>	<u>-</u>	<u>2,342,331</u>
Supporting Expenses			
Management and general	495,384	-	495,384
Fundraising	<u>381,109</u>	<u>-</u>	<u>381,109</u>
Total Supporting Expenses	<u>876,493</u>	<u>-</u>	<u>876,493</u>
Total Operating Expenses	<u>3,218,824</u>	<u>-</u>	<u>3,218,824</u>
Change in Net Assets From Operations Before			
Rental Income	<u>75,855</u>	<u>(95,455)</u>	<u>(19,600)</u>
Rental income, net	<u>63,402</u>	<u>-</u>	<u>63,402</u>
Change in Net Assets	139,257	(95,455)	43,802
NET ASSETS			
Beginning of year	<u>3,558,726</u>	<u>1,316,654</u>	<u>4,875,380</u>
End of year	<u>\$ 3,697,983</u>	<u>\$ 1,221,199</u>	<u>\$ 4,919,182</u>

See notes to financial statements

The Music Conservatory of Westchester, Inc.
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Expenses				Supporting Services			2020 Total
	Instruction	Outreach Program	Performances	Total	Management and General	Fund- raising	Total	
Personnel Services								
Administrative salaries	\$ 172,855	\$ 201,664	\$ 96,030	\$ 470,549	\$ 268,885	\$ 220,870	\$ 489,755	\$ 960,304
Faculty salaries	765,990	143,623	47,874	957,487	-	-	-	957,487
Payroll taxes and employee benefits	138,881	29,968	16,418	185,267	63,117	18,695	81,812	267,079
Retirement benefits	2,167	542	292	3,001	833	333	1,166	4,167
Total Personnel Services	1,079,893	375,797	160,614	1,616,304	332,835	239,898	572,733	2,189,037
Other Than Personnel Costs								
Professional fees	-	-	-	700	68,188	32,088	100,276	100,276
Artist fees	154	-	546	700	-	-	-	700
Interest and bank charges	103,736	2,842	14,210	120,788	18,474	2,842	21,316	142,104
Supplies and music	25,305	6,326	3,406	35,037	9,734	3,893	13,627	48,664
Printing and postage	919	230	124	1,273	354	142	496	1,769
Equipment rental and leases	6,571	1,643	885	9,099	2,526	1,011	3,537	12,636
Travel and entertainment	681	77	205	963	128	193	321	1,284
Membership dues	7,737	742	2,120	10,599	-	-	-	10,599
Advertising and marketing	18,156	1,741	4,974	24,871	-	-	-	24,871
Telephone	6,181	1,545	832	8,558	2,378	951	3,329	11,887
Utilities	25,966	2,361	7,082	35,409	7,082	4,720	11,802	47,211
Insurance	17,653	1,605	4,815	24,073	4,815	3,210	8,025	32,098
Building repairs and maintenance	39,251	3,568	10,705	53,524	10,705	7,137	17,842	71,366
Documentary	-	62,680	-	62,680	-	-	-	62,680
Special events	-	-	-	-	-	13,965	13,965	13,965
Miscellaneous	-	-	-	-	1,503	-	1,503	1,503
Depreciation	172,693	4,731	23,656	201,080	30,753	4,731	35,484	236,564
Total Other Than Personnel Costs	425,003	90,091	73,560	588,654	156,640	74,883	231,523	820,177
Total Expenses	\$ 1,504,896	\$ 465,888	\$ 234,174	\$ 2,204,958	\$ 489,475	\$ 314,781	\$ 804,256	\$ 3,009,214

See notes to financial statements

The Music Conservatory of Westchester, Inc.
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Expenses				Supporting Services			2019 Total
	Instruction	Outreach Program	Performances	Total	Management and General	Fund- raising	Total	
Personnel Services								
Administrative salaries	\$ 169,311	\$ 197,529	\$ 94,062	\$ 460,902	\$ 263,372	\$ 216,342	\$ 479,714	\$ 940,616
Faculty salaries	848,424	159,080	53,026	1,060,530	-	-	-	1,060,530
Payroll taxes and employee benefits	135,096	29,209	16,009	180,314	61,300	18,186	79,486	259,800
Retirement benefits	6,481	1,620	872	8,973	2,494	997	3,491	12,464
Total Personnel Services	1,159,312	387,438	163,969	1,710,719	327,166	235,525	562,691	2,273,410
Other Than Personnel Costs								
Professional fees	-	-	-	-	68,571	32,268	100,839	100,839
Artist fees	220	-	780	1,000	-	-	-	1,000
Interest and bank charges	106,864	2,928	14,638	124,430	19,031	2,928	21,959	146,389
Supplies and music	48,029	12,007	6,465	66,501	18,473	7,389	25,862	92,363
Printing and postage	2,030	507	273	2,810	780	312	1,092	3,902
Equipment rental and leases	3,612	903	486	5,001	1,390	556	1,946	6,947
Travel and entertainment	1,573	178	475	2,226	297	445	742	2,968
Membership dues	5,595	537	1,533	7,665	-	-	-	7,665
Advertising and marketing	26,941	2,583	7,381	36,905	-	-	-	36,905
Telephone	5,708	1,427	768	7,903	2,195	878	3,073	10,976
Utilities	27,290	2,481	7,443	37,214	7,442	4,962	12,404	49,618
Insurance	17,593	1,600	4,799	23,992	4,799	3,199	7,998	31,990
Building repairs and maintenance	42,792	3,890	11,670	58,352	11,671	7,780	19,451	77,803
Documentary	-	60,726	-	60,726	-	-	-	60,726
Special events	-	-	-	-	-	80,209	80,209	80,209
Bad debt	(1,059)	-	-	(1,059)	-	-	-	(1,059)
Miscellaneous	-	-	-	-	3,295	-	3,295	3,295
Depreciation	170,000	4,658	23,288	197,946	30,274	4,658	34,932	232,878
Total Other Than Personnel Costs	457,188	94,425	79,999	631,612	168,218	145,584	313,802	945,414
Total Expenses	\$ 1,616,500	\$ 481,863	\$ 243,968	\$ 2,342,331	\$ 495,384	\$ 381,109	\$ 876,493	\$ 3,218,824

See notes to financial statements

The Music Conservatory of Westchester, Inc.

Statements of Cash Flows

	Year Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 296,186	\$ 43,802
Adjustments to reconcile change in net assets to net cash from operating activities		
Realized gain on sale of investments	(1,999)	(20,613)
Unrealized gain on investments	46,222	9,586
Decrease in unbilled rents receivable	20,467	16,468
Depreciation	277,747	274,061
Amortization of debt issuance costs	665	1,132
Forgiveness of loan payable to member of Board of Trustees	-	(45,000)
Donated property and equipment	(8,000)	-
Provision for bad debts	-	(1,059)
Net change in operating assets and liabilities		
Accounts receivable	53,538	(29,977)
Promises to give	(9,980)	31,389
Prepaid expenses and other current assets	1,387	4,259
Deferred leasing costs	14,940	14,940
Accounts payable and accrued expenses	(137,094)	3,032
Deferred tuition	(74,852)	(50,474)
Refundable advance	-	125,000
Due to tenant	(11,500)	(11,519)
Net Cash from Operating Activities	<u>467,727</u>	<u>365,027</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(7,954)	(77,207)
Proceeds from sale of investments	232,449	38,500
Purchase of investments	(903,180)	(246,519)
Net Cash from Investing Activities	<u>(678,685)</u>	<u>(285,226)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of mortgages payable	(210,604)	(194,041)
Proceeds from note payable	503,017	-
Borrowings under line of credit	165,000	150,000
Repayment of borrowings under line of credit	(150,000)	(140,000)
Repayment of capital lease obligations	(241)	(2,769)
Net Cash from Financing Activities	<u>307,172</u>	<u>(186,810)</u>
Net Change in Cash and Cash Equivalents	96,214	(107,009)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>596,577</u>	<u>703,586</u>
End of year	<u>\$ 692,791</u>	<u>\$ 596,577</u>
SUPPLEMENTAL CASH FLOWS INFORMATION		
Cash paid for interest	\$ 119,896	\$ 127,542

See notes to financial statements

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

1. Organization

The Music Conservatory of Westchester, Inc. (the “Conservatory”) operates a school of music instruction in White Plains, New York and promotes music education and appreciation through outreach programs and performances in Westchester County, New York, Fairfield County, Connecticut and surrounding areas.

The Conservatory is a not-for-profit corporation organized under the not-for-profit laws of the State of New York, and chartered as an education corporation by the Education Department of the State of New York. The Conservatory has been granted tax-exempt status under Internal Revenue Code Section 501(c)(3) and has been classified as an organization that is not a private foundation under Section 509(a) and has been designated as a publicly supported organization under Section 170(b)(1)(A)(vi). Contributions to the Organization are tax-deductible within the limitations prescribed by the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

Net assets are classified based on the presence or absence of donor imposed restrictions. Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Without donor restrictions – consist of resources available for the general support of the Conservatory’s operations. Net assets without donor restrictions may be used at the discretion of the Conservatory’s management and Board of Trustees (the “Board”).

With donor restrictions – some donor imposed restrictions represent amounts restricted by donors for specific activities of the Conservatory or to be used at some future date. The Conservatory records contributions as with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies *(continued)*

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers

Effective January 1, 2019, the Conservatory adopted new U.S. GAAP revenue recognition guidance Accounting Standards Update (“ASU”) 2014-09 *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”) which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new revenue recognition guidance does not apply to how contributions and promises to give are recognized, as they are specifically scoped out of the new guidance.

The core principle of the new guidance is that an entity should recognize revenue from the transfer of services to customers in an amount that reflects the consideration the entity expects to receive for those services to customers.

The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. In addition, this guidance requires new or expanded disclosures related to judgments made by entities when following this framework. Analysis of various provisions of this standard resulted in no significant changes in the way the Conservatory recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. When revenue is earned over a period that spans the year end, it is recognized in the applicable period in which it is earned. The new guidance requires the Conservatory to not recognize revenue until it is probable of collection.

Revenue is measured as the amount of consideration the Conservatory expects to be entitled to recover in exchange for providing services. Tuition and contractual services are accounted for as exchange transactions. The Conservatory offers variable consideration in the form of scholarships and discounts. The Conservatory uses a portfolio approach as a practical expedient to account for categories of contracts as collective groups, rather than recognizing revenue on an individual contract basis. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

The Conservatory has elected the practical expedient and does not adjust the promised amount of consideration from fees for services for the effects of a significant financing component due to the Conservatory’s expectation that the period between the time the service is provided and the time that revenue is received for that service will be one year or less.

Based on the Conservatory’s strong collection experience, the Conservatory has concluded that all revenue recognized is probable of collection.

Recognition of Contributions

Effective January 1, 2019, the Conservatory adopted Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (“ASU 2018-08”).

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Pronouncements (continued)

Recognition of Contributions (continued)

This guidance provides a framework for evaluating whether grants should be accounted for as exchange transactions or as nonexchange transactions. Analysis of the various provisions of this standard resulted in no significant changes in the way the Conservatory recognizes contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Revenue Recognition

Contributions, including unconditional promises to give, are recognized as revenue at fair value in the period received. Unconditional promises to give that are due beyond one year are discounted to reflect the present value of future cash flows using a risk adjusted discount rate assigned in the year the respective pledge originates. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. Conditional promises to give are recognized when the conditions upon which they depend have been substantially met.

Contributions to be held in perpetuity are those funds whose use is limited by donor imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Board. Net assets held in perpetuity are comprised of endowed funds, the income from which is to be used for programs and capital improvements. Endowment investment earnings stipulated for specific purposes are recorded as revenue with donor restrictions and appropriated for operating purposes in accordance with donor designations or determined by the Board for undesignated endowment earnings.

Tuition Revenue, Scholarships and Discounts

Tuition is recorded as a contract liability of deferred revenue when billed to the student and recognized as revenue during the semester as lessons/classes are completed. Scholarship awards and discounts applied to tuition billings are recorded as a reduction of accounts receivable and recognized as a reduction of revenues at the time revenue from completed lessons/classes are recognized.

Contractual Services and Scholarships

Contractual service revenues are recognized ratably as services are provided in accordance with the contractual agreement. Contractual service revenues recognized are reduced by any scholarships awarded.

Special Events

Revenues and expenses incurred relative to special events, such as a benefit concert, gala, golf outing or festival, are recognized upon occurrence of the respective event.

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies *(continued)*

Donated Material and Services

Donated non-cash assets are recorded at their fair value at the date of donation. Donated services that create or enhance non-financial assets or that require specialized skills, provided by individuals possessing those skills, and that would typically need to be purchased if not provided by donation, are recorded at fair value in the period the service is provided.

Rental Income

Rental income is recorded on the straight line basis over the life of the lease and presented on the statements of financial position as unbilled rents receivable.

Future Adoption of New Lease Guidance

In February 2016 the Financial Accounting Standards Board (“FASB”) issued amended guidance on accounting for leases. The amended guidance requires the recognition of a right-of-use asset and a lease liability for all leases by lessees with the exception of leases with an initial term of twelve months or less and amends disclosure requirements associated with leasing arrangements. The amended guidance modifies how a lessor classifies each lease to align it with the lessee's accounting model and the recently adopted revenue recognition guidance. On June 3, 2020, the FASB issued Accounting Standards Update 2020-05 which extended the effective date of this amended lease guidance. The guidance will become effective for the Conservatory for the fiscal year beginning after December 15, 2021. The Conservatory is currently assessing the impact the new guidance will have on its results of operations, financial position and cash flows.

Operating Measure

The Conservatory has elected to present an operating measure in its statements of activities. Accordingly, items affecting operations are segregated from those not affecting operations. Items not affecting operations are rental income net of expenses for property owned by the Conservatory the sole purpose of which is for rental income.

Cash and Cash Equivalents

Except for those cash equivalents which are included in the Conservatory's investment portfolio which are held for long-term investment purposes, cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies *(continued)*

Accounts Receivable and Allowance for Doubtful Accounts

The Conservatory generally extends credit to students and Organizations with which it has contractual agreements. Accounts receivable consist of tuition and fees due and contract services rendered and are stated at the amount management expects to collect from student and contract billings. Accounts receivable are stated at the amount that management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a reduction in the valuation allowance and a reduction in accounts receivable. As of June 30, 2020 and 2019, no allowance for doubtful accounts has been deemed necessary.

Promises to Give and Allowance for Doubtful Accounts

Unconditional promises to give are recorded when the promise is made. When applicable an estimate of uncollectible promises has been made and included as an offset to promises to give. The Conservatory believes all other receivables are current and collectible.

All promises to give greater than one year are recorded at their estimated realizable value on a discounted basis. The discount is recognized as a reduction in contribution revenue and is amortized over the duration of the promise. As of June 30, 2020 and 2019, no allowance for doubtful accounts has been deemed necessary.

Fair Value Measurement of Financial Instruments

The Conservatory follows U.S. GAAP on Fair Value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted process in active markets. Level 2 inputs relate to assets with other than quoted priced 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.

The value of the Conservatory's investments by input level are included in Note 6 to the financial statements

Investment Valuation

Investments are carried at fair value.

Investment Income Recognition

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 change in net assets.

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Land, Property and Equipment

Land, property and equipment purchases over \$2,500 and with useful lives greater than one year are capitalized and stated at cost less accumulated depreciation. Donated assets are capitalized at fair value at the time of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets which range from 5 to 40 years.

Deferred Leasing Costs

Costs incurred for the long-term rental of the commercial building are deferred and amortized using the straight-line method over the term of the lease.

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Conservatory records impairment losses on long-lived assets used in operations when the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. No impairment charges were recognized as of June 30, 2020 and 2019.

Debt Issuance Costs

Debt issuance costs are reported on the statements of financial position as a direct deduction from the face amount of the debt. The debt issuance costs are being amortized over the term of the debt using the interest method. The Conservatory reflects amortization of debt issuance costs within interest expense. At June 30, 2020 and 2019, debt issuance costs was \$61,246 and accumulated amortization was \$60,301 and \$59,637.

Advertising and Marketing Costs

Advertising and marketing costs are charged to expense as incurred and approximated \$25,000 and \$37,000 for the years ended June 30, 2020 and 2019.

Accounting for Uncertainty in Income Taxes

The Conservatory recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Conservatory had no uncertain tax positions that would require financial statement recognition and/or disclosure. The Conservatory is no longer subject to examination by applicable taxing jurisdictions for periods prior to June 30, 2017.

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation. These reclassifications have had no effect on net assets.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is January 6, 2021.

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

3. Concentrations of Credit Risk

Financial instruments that potentially subject the Conservatory to concentrations of credit risk consist primarily of cash and cash equivalents, investments and accounts receivable, which are expected to be collected in the normal course of business. At times, cash balances may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit. The Conservatory does not believe that a significant risk of loss due to the failure of a financial institution presently exists. At June 30, 2020 and 2019, \$390,526 and \$276,703 of cash was maintained with an institution in excess of FDIC limits. The Conservatory believes that no significant concentration of credit risk exists with respect to receivables.

At times investments held in brokerage investment accounts may exceed Securities Investors Protection Corporation coverage limits. The Conservatory's investment management policy is to mitigate the credit risks by appointing a brokerage trustee that is a major financial institution. The Conservatory monitors the balances and brokerages involved as a method of reducing its risk. The Conservatory believes that its investments do not present a material credit risk.

4. Promises to Give

Promises to give are summarized as follows at June 30:

	<u>2020</u>	<u>2019</u>
Due in one year	<u>\$ 77,600</u>	<u>\$ 67,620</u>

5. Availability of Financial Assets and Liquidity

Financial assets available for general expenditures within one year of June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Total assets	\$8,955,211	\$8,574,634
Less:		
Net assets with donor restrictions	1,138,644	1,221,199
Board designated net assets	717,454	78,441
Prepaid expenses and other current assets	26,885	28,272
Land, property and equipment, net	6,170,823	6,432,616
Unbilled rents receivable	13,715	34,182
Deferred leasing costs, net	<u>8,040</u>	<u>22,980</u>
	<u>\$ 879,650</u>	<u>\$ 756,944</u>

The Conservatory's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts for tuition and a concentration of contributions received near the end of the fiscal year. To help manage liquidity needs, the Conservatory maintains a line of credit with a bank that is drawn upon as needed to manage cash flow.

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

5. Availability of Financial Assets and Liquidity *(continued)*

The Conservatory also maintains governing board-designated funds for capital improvements totaling \$117,454 and \$78,441 as of June 30, 2020 and 2019. These funds include a reserve for priority facility replacements with a balance of \$47,454 and \$45,941 as of June 30, 2020 and 2019. The governing board has designated a total of \$70,000 and \$32,500 towards a future capital project and therefore this amount is not available for priority facility replacements as of June 30, 2020 and 2019. During the year ended June 30, 2020, the Board established an operating reserve totaling \$600,000. Certain endowment account investments are primarily funding financial need scholarships. The Board has the ability to vote to temporarily fund a short-term priority issue with the commitment to replenish the endowment fund with interest. The available balance as of June 30, 2020 and 2019 is \$177,292 and \$242,243.

6. Endowments, Investments and Investment Return

Interpretation of Law

The Conservatory follows the provisions of the New York State Uniform Prudent Management of Institutional Funds Act ("NYPMIFA"). Consistent with its interpretation of NYPMIFA, the Conservatory classified as net assets held in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified as net assets held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Conservatory in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Return Objectives and Risk Parameters

The Conservatory maintains various donor-restricted endowment funds whose purpose is to provide long term support for its education programs, primarily scholarships, operations and capital maintenance. The Conservatory has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while attempting to maintain purchasing power of the endowment assets.

The Conservatory utilizes a total return investment approach with its asset allocation diversified over multiple asset classes and sub classes. The overall investment objective of the Conservatory's donor-restricted endowment funds is to provide the greatest level of support for scholarships, operating expenses and capital maintenance of the Conservatory consistent with the preservation of purchasing power of the Endowment. To balance the current and future needs for operating and maintenance support, the Conservatory's investment policy seeks to maintain or enhance the real (inflation-adjusted) purchasing power of the Endowment, net of payments pursuant to the spending policy described below. This objective leads to an equity-oriented investment strategy, which in turn implies that the total market value and amount available to support the Conservatory's operations will likely fluctuate from year to year.

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

6. Endowments, Investments and Investment Return (continued)

The investment performance objective is to attain, a 15 year distributed time horizon with an expected return of 5.0% - 6.0% per annum over the long term with a moderate level of risk.

Spending Rate Methods

The Conservatory has adopted a policy of annually expending amounts from its invested funds maintained as donor-restricted endowment to support education programs and current operations based on five percent of a three-year quarterly rolling market value of investments held.

Underwater Endowment Funds

If donor-restricted endowment funds held in perpetuity have experienced losses below the donor-restricted amount of such funds due to market fluctuations, U.S. GAAP requires that such excess losses be reflected in net assets with donor restrictions. None of the Conservatory's donor restricted endowment funds were below historical cost at June 30, 2020 and 2019.

The following is a reconciliation of the activity in the endowment funds during the year ended June 30, 2020:

	With Donor Restrictions		
	Purpose Restricted	Held in Perpetuity	Total
Balance, Beginning of Year	\$ 242,243	\$ 811,529	\$1,053,772
Investment income	22,287	-	22,287
Capital depreciation	(45,245)	-	(45,245)
Appropriated for expenditure	(41,993)	-	(41,993)
Balance, End of Year	\$ 177,292	\$ 811,529	988,821
Investments not considered endowments			914,454
Total Investments			\$1,903,275

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

6. Endowments, Investments and Investment Return (continued)

The following is a reconciliation of the activity in the endowment funds during the year ended June 30, 2019:

	With Donor Restrictions		Total
	Purpose Restricted	Held in Perpetuity	
Balance, Beginning of Year	\$ 246,192	\$ 811,529	\$ 1,057,721
Investment income	23,519	-	23,519
Capital appreciation	11,032	-	11,032
Appropriated for expenditure	(38,500)	-	(38,500)
Balance, End of Year	\$ 242,243	\$ 811,529	1,053,772
Investments not considered endowments			222,995
Total Investments			\$ 1,276,767

The following are major categories of investments measured at fair value on a recurring basis categorized by the fair value hierarchy at June 30:

Unadjusted Quoted Prices (Level 1)	2020	2019
Exchange Traded Funds		
Equities portfolio	\$ 627,114	\$ 667,405
Bond portfolio	1,194,137	541,167
REIT portfolio	55,835	62,141
Total Investments at Fair Value	1,877,086	1,270,713
Cash held for investments	26,189	6,054
Total Investments	\$ 1,903,275	\$ 1,276,767

Investment return consisted of the following for the years ended June 30:

	2020	2019
Interest and dividends	\$ 30,398	\$ 23,721
Realized gains	1,999	20,613
Unrealized losses	(46,222)	(9,586)
	\$ (13,825)	\$ 34,748

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

7. Land, Property and Equipment

Land, property and equipment consists of the following as of June 30:

	2020	2019
Land, Property and Equipment Used in Operations:		
Land and land improvements	\$ 725,856	\$ 725,856
Building and improvements	7,752,170	7,744,216
Equipment	911,004	903,004
	9,389,030	9,373,076
Accumulated depreciation	(4,486,065)	(4,249,501)
	4,902,965	5,123,575
Commercial Rental Property:		
Land	426,734	426,734
Building	1,650,334	1,650,334
	2,077,068	2,077,068
Accumulated depreciation	(809,210)	(768,027)
	1,267,858	1,309,041
Property and Equipment, net	\$ 6,170,823	\$ 6,432,616

Liens on Property and Equipment

As discussed in Notes 11, 12, 13, and 15, certain operating and commercial rental assets are subject to liens related to their respective financing arrangements.

8. Deferred Leasing Costs

Deferred leasing costs and related amortization as of June 30 is as follows:

	2020	2019
Deferred leasing costs	\$ 146,394	\$ 146,394
Accumulated amortization	(138,354)	(123,414)
	\$ 8,040	\$ 22,980

Amortization expense for the years ended June 30, 2020 and 2019 was \$14,940.

Future expected amortization expense is as follows at June 30, 2020:

2021	\$ 8,040
------	----------

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

9. Refundable Advance

During the year ended June 30, 2019, the Conservatory received a refundable advance totaling \$125,000 in conjunction with a contract to provide funding towards facility improvements and upgrades. The contract period expires February 2021, during which time the Conservatory is required to use these funds for the purpose stated within the contract or the Conservatory will be obligated to repay these funds to the funding agency. As a result of COVID-19 (see Note 21), the facility improvements and upgrades have been delayed. As of the date the financial statements were available for issuance, the Conservatory has applied for a one-year extension on the contract period.

10. Capital Lease Obligation

In June 2014, the Conservatory entered into a capital lease agreement with Ricoh Leasing Company for office equipment for a five-year lease term that expired in July 2019. The cost basis of the office equipment leased is included in land, property and equipment and was amortized using the straight-line method over the term of the lease. The lease agreement called for minimum lease payments of \$927 per month through July 23, 2019.

As of June 30, 2020 and 2019, leased equipment has been recorded as land, property and equipment at a cost of \$11,936. Amortization charged on capitalized equipment leases for the years ended June 30, 2020 and 2019 was \$1,194 and \$2,387. Accumulated amortization amounted to \$11,936 and \$10,742 for the years ended June 30, 2020 and 2019.

11. Line of Credit

The Conservatory maintained a line of credit with a bank in the amount of \$150,000 renewable annually. The line is secured by all personal property of the Conservatory. Effective February, 2020, the line of credit was renewed in the amount of \$165,000. Interest is calculated at the Wall Street Journal prime rate (3.25% and 5.50% at June 30, 2020 and 2019). There was an outstanding balance of \$165,000 and \$150,000 at June 30, 2020 and 2019. The bank requires the Conservatory to maintain a minimum debt service coverage ratio of 1.2 to be tested annually. Interest expense was \$1,560 and \$1,842 for the years ended June 30, 2020 and 2019.

12. Obligation to Westchester County Industrial Development Agency

In June 2009, The County of Westchester Industrial Development Agency ("IDA") issued \$4,500,000 of tax exempt Civic Facility Revenue Bonds in connection with the acquisition and renovation of the Conservatory's building and educational facility center located at 214-216 Central Avenue, White Plains, New York. The bonds originally will become due on July 1, 2029.

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

12. Obligation to Westchester County Industrial Development Agency (*continued*)

Restructure of IDA Bond Issue - Interest Rate Fixed

In June 2004, the Conservatory entered into a Credit and Bond Purchase Agreement to acquire all of the IDA variable rate bonds and fix the interest rate at 4.5% for a ten-year period ending July 1, 2014. Effective July 1, 2014, the Conservatory entered into a rate reset on the then outstanding balance of \$2,995,000, and fixed the interest rate at 3.8% for a ten-year period which ends on June 30, 2024. The principal repayment schedule extends until maturity of the bonds on July 1, 2029; however, the Bank or the Conservatory may exercise certain rights and options under the credit agreement after ten years, including re-setting the interest rate to reflect market conditions then existing. The outstanding balance of the IDA bond issue was \$2,065,000 and \$2,230,000 at June 30, 2020 and 2019 and is included in mortgages payable on the statements of financial position. Future principal payments due as of June 30, 2020 are included in Note 15. The bond agreement contains various affirmative and negative covenants including a covenant to maintain, at the end of each quarter, a minimum fixed charge coverage ratio of 1.20 to 1. The bond agreement also requires the Conservatory to deliver its audited financial statements within 120 days after year-end. The Conservatory was not in compliance with this requirement, however, the trustee has indicated that they have not deemed such matters as an event of default. Consequently, the financial statements classify such liabilities according to their contractual maturity terms.

13. Mortgage Payable

On August 23, 2012, the Conservatory entered into a refinancing agreement which consolidated existing mortgages in the amount of \$1,060,000. The mortgage will become due on August 23, 2022. Upon mandatory tender, the Conservatory may renegotiate the financing and elect to convert the mortgage to a different variable interest rate or to a fixed rate. The mortgage provides for payments of principal and interest of \$6,600 as of June 30, 2020 and 2019. The outstanding balance on the mortgage was \$752,349 and \$797,952 as of June 30, 2020 and 2019. Interest is 4.25% per annum. All future principal payments as of June 30, 2020, are included in Note 15. The mortgage agreement contains various affirmative and negative covenants including a covenant to maintain a minimum fixed charge ratio of 1.2 to be tested annually. The mortgage agreement also requires the Conservatory to deliver its audited financial statements within 120 days after year-end. The Conservatory was not in compliance with this requirement, however, a waiver was received from the bank.

14. Note Payable

On April 21, 2020, the Conservatory received loan proceeds in the amount of \$503,017 under the Paycheck Protection Program (the "PPP loan") from the Small Business Administration ("SBA") through an independent bank. The PPP loan, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times the 2019 average monthly payroll expenses of the qualifying entity. The PPP loan bears an interest rate of 1% per annum. All

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

14. Note Payable (continued)

or a portion of the PPP loan principal and accrued interest are forgivable as long as the borrower uses the loan proceeds in accordance with the program. Although, the Conservatory believes this loan will be substantially or fully forgiven, there can be no guarantee that the SBA will approve the loan forgiveness. The unforgiven portion of the PPP loan, if any, is payable within two years from the date of the PPP loan with a deferral of payments of principal or interest until the amount of loan forgiveness is determined by the SBA. If the Conservatory does not apply for forgiveness, payments begin approximately 16 months after the loan date. As of June 30, 2020, the PPP loan is recognized as a note payable on the statement of financial position. The Conservatory will recognize the income from the forgiveness of the PPP loan when it receives the notification of forgiveness from SBA in accordance with Accounting Standards Codification (“ASC”) 470 Debt.

15. Mortgages and Note Payable

The future scheduled principal payments for the mortgage payable, IDA bonds and note payable as of June 30, 2020 are presented below:

Year Ending June 30,	Mortgage Payable	IDA Bonds	Note Payable	Total Principal Payments
2021	\$ 45,718	\$ -	\$ -	\$ 45,718
2022	49,767	175,000	-	224,767
2023	656,864	190,000	-	846,864
2024	-	200,000	-	200,000
2025	-	215,000	-	215,000
Thereafter	-	1,285,000	-	1,285,000
Expected to be forgiven	-	-	503,017	503,017
	752,349	2,065,000	503,017	3,320,366
Unamortized debt issuance costs	(945)	-	-	(945)
	<u>\$ 751,404</u>	<u>\$ 2,065,000</u>	<u>\$ 503,017</u>	<u>\$ 3,319,421</u>

The July 1, 2020 IDA bond principal payment is excluded from the above schedule because the payment was made during the year end June 30, 2020.

Interest expense for the mortgages payable was \$118,336 and \$125,598 for the years ended June 30, 2020 and 2019.

16. Facility Sharing Under Operating Agreement

The Conservatory shares part of the 216 Property with Dance in Education Fund, Inc. (“DEF”), an unrelated entity, under an extended operating agreement through June 30, 2021. Under the agreement, the Conservatory received income of \$65,000 and \$74,078 for the years ended June 30, 2020 and 2019. Facility sharing reimbursements are included in contracted services in the statements of activities.

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

16. Facility Sharing Under Operating Agreement (continued)

Future minimum annual facility sharing reimbursements provided under the agreement for the year ended June 30 are as follows:

2021	\$	65,000
------	----	--------

17. Rental of Commercial Property

On July 30, 2010, the Conservatory entered into an agreement to lease the building at 214 Central Avenue to Faust Harrison Pianos, Inc. ("FHP") for a period of 10 years commencing February 7, 2011. In accordance with terms of the lease, rental payments were not due until March 7, 2011. Over the remaining five years of the lease, \$42,128 is deductible from rental payments which represent the Conservatory's remaining share of capital improvement costs to the building made by FHP and is recorded in the statement of financial position as due to tenant.

FHP has two five-year renewal options at the end of the initial ten-year lease term. Effective September 2019, FHP entered into an agreement with the Conservatory for the first five-year renewal option period ending January 31, 2026. Terms of this lease also require that FHP reimburse the Conservatory for all assessed real estate taxes on the property and pay its own utility and maintenance costs.

Following are the future minimum rental payments due June 30:

	Gross Minimum Rental Revenue	Credits Due to Tenant for Leasehold Improvements	Net Minimum Rental Revenue
2021	\$ 195,075	\$ (7,628)	\$ 187,447
2022	199,000	-	199,000
2023	199,000	-	199,000
2024	199,000	-	199,000
2025	199,000	-	199,000
2026	116,085	-	116,085
Total	\$ 1,107,160	\$ (7,628)	\$ 1,099,532

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

17. Rental of Commercial Property (continued)

Leased Property Net Rental Income

Net rental income recorded as non-operating income in the statements of activities was as follows at June 30:

	<u>2020</u>	<u>2019</u>
Income From Rental Property		
Rental income	\$ 164,180	\$ 164,200
Reimbursement by tenant	<u>45,367</u>	<u>44,377</u>
Total Income From Rental Operations	<u>209,547</u>	<u>208,577</u>
Cost of Rental		
Real estate taxes	37,805	42,770
Insurance costs	2,813	2,203
Interest expense	33,596	35,158
Building repairs and maintenance	5,628	7,788
Depreciation of property	41,183	41,183
Amortization of deferred financing costs	665	1,132
Amortization of deferred leasing costs	<u>14,940</u>	<u>14,941</u>
Total Cost of Rental	<u>136,630</u>	<u>145,175</u>
Rental Income, net	<u>\$ 72,917</u>	<u>\$ 63,402</u>

18. Retirement Plans

Tax Deferred Annuity Plan

The Conservatory maintains a tax-deferred annuity plan under Section 403(b) of the Internal Revenue Code. Eligible employees may make voluntary salary reduction contributions to the plan up to the limitations provided in the Internal Revenue Code. The Conservatory does not contribute to the plan.

Special Retirement Payment

The Board of Trustees authorized a retirement payment of \$10,000 per year plus health benefits to provide a supplemental retirement benefit for the spouse of a former executive director. Benefit payments totaled \$4,167 and \$12,464 for the years ended June 30, 2020 and 2019. Upon the death of the spouse of the former executive director during the year ended June 30, 2020, the Conservatory is no longer required to make these benefit payments.

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

19. Net Assets

Net assets with donor restrictions are restricted for the following purposes at June 30:

	2020	2019
<i>Perpetual in nature:</i>		
Endowment fund	\$ 811,529	\$ 811,529
<i>Purpose:</i>		
Scholarships	-	36,519
Healing Our Hero's	42,728	65,408
Operations	177,292	242,243
Capital improvements	107,095	65,500
	<u>\$ 1,138,644</u>	<u>\$ 1,221,199</u>

Net assets without donor restrictions are as follows at June 30:

	2020	2019
Undesignated	\$ 3,359,270	\$ 3,619,542
Board designated operating reserve	600,000	-
Board designated for capital improvements	117,454	78,441
	<u>\$ 4,076,724</u>	<u>\$ 3,697,983</u>

Net assets were released from donor restrictions as follows for the years ended June 30:

	2020	2019
Scholarships	\$ 112,400	\$ 197,433
Healing Our Hero's	62,680	60,726
Outreach program	128,890	134,380
Capital improvements	15,955	11,250
Time	-	10,000
Operations	41,993	38,500
Total Restrictions Released	<u>\$ 361,918</u>	<u>\$ 452,289</u>

20. Related Party Transactions

A member of the Board of Trustees is a partner in a law firm that regularly provides legal services to the Conservatory. The total cost for these services was \$1,862 (including contributed services of \$1,862) for the year ended June 30, 2020. No amounts were owed as of June 30, 2020, for such services. There were no legal services received by the Conservatory during the year ended June 30, 2019.

The Music Conservatory of Westchester, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

21. COVID-19

The Conservatory's operations have been affected by the recent and ongoing outbreak of the coronavirus disease (COVID-19), which was declared a pandemic by the World Health Organization in March 2020. Many countries around the world, including the United States, have significant governmental measures being implemented to control the spread of COVID-19, including temporary closures of businesses, severe restrictions on travel and the movement of people and other material limitations on the conduct of business.

COVID-19 has resulted in the loss of some current and future program services fees. At the beginning of the pandemic most programs were conducted virtually and then programs were offered both in-person and virtually once state orders were lifted. Programs are currently both in-person and virtual and the staff is prepared to shift to virtual if needed. The pandemic has also resulted in substantial volatility in the global financial markets and as a result has impacted the performance of the Conservatory's investment portfolio.

In response to COVID-19's effect on operations, the Conservatory has taken steps to strengthen its financial position to maintain financial liquidity and flexibility. The Conservatory has applied for and received a \$503,017 PPP Loan (see Note 13) through TD Bank. As discussed in Note 13, management expects the PPP loan to be forgiven in full.

Therefore, the full extent of any impact on the results of operations, financial position and cash flows cannot be estimated.

* * * * *