

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

Financial Statements

June 30, 2021 and 2020

## 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, 2021 and 2020, 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, 2021 and 2020, 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  
February 15, 2022

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

Statements of Financial Position

	June 30,	
	2021	2020
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 1,117,699	\$ 692,791
Investments	1,015,390	914,454
Accounts receivable	52,999	62,082
Promises to give	18,350	77,600
Prepaid expenses and other current assets	14,643	26,885
Total Current Assets	2,219,081	1,773,812
Other Assets		
Investments held for endowment purposes	1,298,307	988,821
Land, property and equipment, net	6,006,739	6,170,823
Unbilled rents receivable	-	13,715
Security deposits	2,000	-
Deferred leasing costs, net	-	8,040
Total Other Assets	7,307,046	7,181,399
	\$ 9,526,127	\$ 8,955,211
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 163,727	\$ 32,454
Line of credit	-	165,000
Due to tenant, current portion	-	7,590
Deferred tuition	202,774	90,378
Refundable advance	125,000	125,000
Mortgages payable, current portion	224,767	45,718
Total Current Liabilities	716,268	466,140
Long-Term Liabilities		
Mortgages payable, net of current portion and debt issuance costs	2,544,317	2,770,686
Notes payable	957,659	503,017
Total Long-Term Liabilities	3,501,976	3,273,703
Total Liabilities	4,218,244	3,739,843
Net Assets		
Without donor restrictions	3,745,796	4,076,724
With donor restrictions	1,562,087	1,138,644
Total Net Assets	5,307,883	5,215,368
	\$ 9,526,127	\$ 8,955,211

See notes to financial statements

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

Statement of Activities

Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUE AND SUPPORT</b>			
Revenue			
Tuition	\$ 1,334,081	\$ -	\$ 1,334,081
Scholarships and discounts on lessons	<u>(124,164)</u>	<u>-</u>	<u>(124,164)</u>
Net Tuition	<u>1,209,917</u>	<u>-</u>	<u>1,209,917</u>
Contracted services	388,395	-	388,395
Scholarships	<u>(78,501)</u>	<u>-</u>	<u>(78,501)</u>
Net Contracted Services	<u>309,894</u>	<u>-</u>	<u>309,894</u>
Investment return	828	325,752	326,580
Other	<u>6,400</u>	<u>-</u>	<u>6,400</u>
Total Revenue	<u>1,527,039</u>	<u>325,752</u>	<u>1,852,791</u>
Support			
Public agencies	74,000	50,480	124,480
Foundations and corporations	55,332	214,475	269,807
Individuals	126,792	87,650	214,442
Special events	<u>139,570</u>	<u>-</u>	<u>139,570</u>
Total Support	<u>395,694</u>	<u>352,605</u>	<u>748,299</u>
Net assets released from restrictions			
Time and purpose restrictions released	238,648	(238,648)	-
Appropriated endowment earnings	<u>16,266</u>	<u>(16,266)</u>	<u>-</u>
Total Net Assets Released from Restrictions	<u>254,914</u>	<u>(254,914)</u>	<u>-</u>
Total Operating Revenue and Support	<u>2,177,647</u>	<u>423,443</u>	<u>2,601,090</u>
<b>OPERATING EXPENSES</b>			
Program Expenses			
Instruction	1,654,918	-	1,654,918
Outreach program	328,652	-	328,652
Performances	<u>32,431</u>	<u>-</u>	<u>32,431</u>
Total Program Expenses	<u>2,016,001</u>	<u>-</u>	<u>2,016,001</u>
Supporting Expenses			
Management and general	328,282	-	328,282
Fundraising	<u>253,918</u>	<u>-</u>	<u>253,918</u>
Total Supporting Expenses	<u>582,200</u>	<u>-</u>	<u>582,200</u>
Total Operating Expenses	<u>2,598,201</u>	<u>-</u>	<u>2,598,201</u>
Change in Net Assets From Operations Before Rental Income			
	<u>(420,554)</u>	<u>423,443</u>	<u>2,889</u>
Rental income, net	<u>89,626</u>	<u>-</u>	<u>89,626</u>
Change in Net Assets	<u>(330,928)</u>	<u>423,443</u>	<u>92,515</u>
<b>NET ASSETS</b>			
Beginning of year	<u>4,076,724</u>	<u>1,138,644</u>	<u>5,215,368</u>
End of year	<u>\$ 3,745,796</u>	<u>\$ 1,562,087</u>	<u>\$ 5,307,883</u>

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
<b>OPERATING REVENUE AND SUPPORT</b>			
Revenue			
Tuition	\$ 1,849,495	\$ -	\$ 1,849,495
Scholarships and discounts on lessons	<u>(99,478)</u>	<u>-</u>	<u>(99,478)</u>
Net Tuition	<u>1,750,017</u>	<u>-</u>	<u>1,750,017</u>
Contracted services	452,354	-	452,354
Scholarships	<u>(70,986)</u>	<u>-</u>	<u>(70,986)</u>
Net Contracted Services	<u>381,368</u>	<u>-</u>	<u>381,368</u>
Investment return	9,133	(22,958)	(13,825)
Other	<u>33,498</u>	<u>-</u>	<u>33,498</u>
Total Revenue	<u>2,174,016</u>	<u>(22,958)</u>	<u>2,151,058</u>
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	<u>3,219</u>	<u>-</u>	<u>3,219</u>
Total Support	<u>779,104</u>	<u>302,321</u>	<u>1,081,425</u>
Net assets released from restrictions			
Time and purpose restrictions released	319,925	(319,925)	-
Appropriated endowment earnings	<u>41,993</u>	<u>(41,993)</u>	<u>-</u>
Total Net Assets Released from Restrictions	<u>361,918</u>	<u>(361,918)</u>	<u>-</u>
Total Operating Revenue and Support	<u>3,315,038</u>	<u>(82,555)</u>	<u>3,232,483</u>
<b>OPERATING EXPENSES</b>			
Program Expenses			
Instruction	1,504,896	-	1,504,896
Outreach program	465,888	-	465,888
Performances	<u>234,174</u>	<u>-</u>	<u>234,174</u>
Total Program Expenses	<u>2,204,958</u>	<u>-</u>	<u>2,204,958</u>
Supporting Expenses			
Management and general	489,475	-	489,475
Fundraising	<u>314,781</u>	<u>-</u>	<u>314,781</u>
Total Supporting Expenses	<u>804,256</u>	<u>-</u>	<u>804,256</u>
Total Operating Expenses	<u>3,009,214</u>	<u>-</u>	<u>3,009,214</u>
Change in Net Assets From Operations Before			
Rental Income	<u>305,824</u>	<u>(82,555)</u>	<u>223,269</u>
Rental income, net	<u>72,917</u>	<u>-</u>	<u>72,917</u>
Change in Net Assets	<u>378,741</u>	<u>(82,555)</u>	<u>296,186</u>
<b>NET ASSETS</b>			
Beginning of year	<u>3,697,983</u>	<u>1,221,199</u>	<u>4,919,182</u>
End of year	<u>\$ 4,076,724</u>	<u>\$ 1,138,644</u>	<u>\$ 5,215,368</u>

See notes to financial statements

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

Statement of Functional Expenses

Year Ended June 30, 2021

	Program Expenses				Supporting Services			2021 Total
	Instruction	Outreach Program	Performances	Total	Management and General	Fund- raising	Total	
Personnel Services								
Administrative salaries	\$ 445,688	\$ 51,000	\$ -	\$ 496,688	\$ 192,188	\$ 172,938	\$ 365,126	\$ 861,814
Faculty salaries	543,966	203,612	1,530	749,108	-	-	-	749,108
Payroll taxes and employee benefits	138,117	39,951	117	178,185	37,509	35,930	73,439	251,624
Total Personnel Services	<u>1,127,771</u>	<u>294,563</u>	<u>1,647</u>	<u>1,423,981</u>	<u>229,697</u>	<u>208,868</u>	<u>438,565</u>	<u>1,862,546</u>
Other Than Personnel Costs								
Professional fees	25,051	3,684	271	29,006	33,296	14,862	48,158	77,164
Artist fees	750	-	1,723	2,473	-	-	-	2,473
Interest and bank charges	69,096	2,255	5,186	76,537	3,900	746	4,646	81,183
Processing fees	33,473	102	-	33,575	257	6,142	6,399	39,974
Supplies and music	4,301	319	234	4,854	860	1,714	2,574	7,428
Software and subscriptions	3,095	9	-	3,104	4,871	1,434	6,305	9,409
Printing and postage	907	116	-	1,023	366	314	680	1,703
Equipment rental and leases	5,487	703	-	6,190	1,900	1,900	3,800	9,990
Travel and entertainment	500	-	-	500	119	-	119	619
Membership dues	2,253	-	-	2,253	126	-	126	2,379
Advertising and marketing	27,323	249	-	27,572	-	-	-	27,572
Telephone	5,677	728	-	6,405	1,964	1,964	3,928	10,333
Utilities	33,221	1,084	2,493	36,798	571	359	930	37,728
Insurance	25,824	843	1,938	28,605	444	279	723	29,328
Building repairs and maintenance	66,289	2,163	4,975	73,427	1,139	715	1,854	75,281
Documentary	-	14,680	-	14,680	-	-	-	14,680
Special events	-	-	-	-	-	12,613	12,613	12,613
Bad debt	-	-	-	-	44,752	-	44,752	44,752
Miscellaneous	1,083	1,083	-	2,166	1,203	-	1,203	3,369
Depreciation	222,817	6,071	13,964	242,852	2,817	2,008	4,825	247,677
Total Other Than Personnel Costs	<u>527,147</u>	<u>34,089</u>	<u>30,784</u>	<u>592,020</u>	<u>98,585</u>	<u>45,050</u>	<u>143,635</u>	<u>735,655</u>
Total Expenses	<u>\$ 1,654,918</u>	<u>\$ 328,652</u>	<u>\$ 32,431</u>	<u>\$ 2,016,001</u>	<u>\$ 328,282</u>	<u>\$ 253,918</u>	<u>\$ 582,200</u>	<u>\$ 2,598,201</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	
<b>Personnel Services</b>								
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
<b>Total Personnel Services</b>	<b>1,079,893</b>	<b>375,797</b>	<b>160,614</b>	<b>1,616,304</b>	<b>332,835</b>	<b>239,898</b>	<b>572,733</b>	<b>2,189,037</b>
<b>Other Than Personnel Costs</b>								
Professional fees	-	-	-	-	68,188	32,088	100,276	100,276
Artist fees	154	-	546	700	-	-	-	700
Interest and bank charges	67,733	1,856	9,278	78,867	12,062	1,856	13,918	92,785
Processing fees	36,003	986	4,932	41,921	6,412	986	7,398	49,319
Supplies and music	19,293	4,823	2,597	26,713	7,422	2,968	10,390	37,103
Software and subscriptions	6,012	1,503	809	8,324	2,312	925	3,237	11,561
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
<b>Total Other Than Personnel Costs</b>	<b>425,003</b>	<b>90,091</b>	<b>73,560</b>	<b>588,654</b>	<b>156,640</b>	<b>74,883</b>	<b>231,523</b>	<b>820,177</b>
<b>Total Expenses</b>	<b>\$ 1,504,896</b>	<b>\$ 465,888</b>	<b>\$ 234,174</b>	<b>\$ 2,204,958</b>	<b>\$ 489,475</b>	<b>\$ 314,781</b>	<b>\$ 804,256</b>	<b>\$ 3,009,214</b>

See notes to financial statements

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

Statements of Cash Flows

	Year Ended June 30,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 92,515	\$ 296,186
Adjustments to reconcile change in net assets to net cash from operating activities		
Realized gain on sale of investments	-	(1,999)
Unrealized (gain) loss on investments	(310,066)	46,222
Decrease in unbilled rents receivable	13,715	20,467
Depreciation	289,352	277,747
Amortization of debt issuance costs	390	665
Amortization of deferred leasing costs	8,040	14,940
Bad debt expense	44,752	-
Donated property and equipment	-	(8,000)
Net change in operating assets and liabilities		
Accounts receivable	(35,669)	53,538
Promises to give	59,250	(9,980)
Prepaid expenses and other current assets	12,242	1,387
Security deposits	(2,000)	-
Accounts payable and accrued expenses	131,273	(137,094)
Deferred tuition	112,396	(74,852)
Due to tenant	(7,590)	(11,500)
Net Cash from Operating Activities	408,600	467,727
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(125,268)	(7,954)
Proceeds from sale of investments	32,135	232,449
Purchase of investments	(132,491)	(903,180)
Net Cash from Investing Activities	(225,624)	(678,685)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of mortgages payable	(47,710)	(210,604)
Proceeds from notes payable	454,642	503,017
Repayments line of credit	(165,000)	165,000
Borrowings under line of credit	-	(150,000)
Repayment of capital lease obligations	-	(241)
Net Cash from Financing Activities	241,932	307,172
Net Change in Cash and Cash Equivalents	424,908	96,214
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	692,791	596,577
End of year	\$ 1,117,699	\$ 692,791
<b>SUPPLEMENTAL CASH FLOWS INFORMATION</b>		
Cash paid for interest	\$ 72,115	\$ 119,896

See notes to financial statements



# The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2021 and 2020

## 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, 2021 and 2020

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

#### ***Revenue from Contracts with Customers***

The Conservatory follows US GAAP revenue recognition guidance which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. 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***

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.

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

Notes to Financial Statements  
June 30, 2021 and 2020

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

#### ***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.

#### ***Donated Materials 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.

## The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2021 and 2020

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

#### ***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.

#### ***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. The Conservatory has adopted the "FASB Staff Practical Expedient Rule" relating to the review of leases and lease modifications. This rule allows for the Conservatory to treat lease concessions as a direct result of the coronavirus as if they existed in the original contract and do not have to be treated as modifications. As of June 30, 2021, the Conservatory has recorded an allowance of \$44,752 (see Note 15). No allowance for doubtful accounts was deemed necessary as of June 30, 2020.

#### ***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, 2021 and 2020, no allowance for doubtful accounts has been deemed necessary.

#### ***Fair Value Measurement of Financial Instruments***

The Conservatory follows U.S. GAAP guidance 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

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

Notes to Financial Statements  
June 30, 2021 and 2020

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

#### ***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.

#### ***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, 2021 and 2020.

#### ***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. As of June 30, 2021 and 2020, debt issuance costs was \$61,246 and accumulated amortization was \$60,691 and \$60,301.

#### ***Advertising and Marketing Costs***

Advertising and marketing costs are charged to expense as incurred and approximated \$28,000 and \$25,000 for the years ended June 30, 2021 and 2020.

## The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2021 and 2020

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

#### **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, 2018.

#### ***Reclassifications***

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 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 February 15, 2022.

### 3. Concentrations of Credit Risk

Financial instruments that potentially subject the Conservatory to concentrations of credit risk consist primarily of cash and cash equivalents 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. The Conservatory believes that no significant concentration of credit risk exists with respect to receivables. At June 30, 2021 and 2020, \$400,239 and \$390,526 of cash was maintained with institutions in excess of FDIC limits.

### 4. Promises to Give

Promises to give are summarized as follows at June 30:

	<u>2021</u>	<u>2020</u>
Due in one year	<u>\$ 18,350</u>	<u>\$ 77,600</u>

## The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2021 and 2020

### 5. Availability of Financial Assets and Liquidity

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

	<u>2021</u>	<u>2020</u>
Total assets	\$ 9,526,127	\$ 8,955,211
Less:		
Net assets with donor restrictions	1,562,087	1,138,644
Board designated net assets	1,062,844	717,454
Prepaid expenses and other current assets	14,643	26,885
Land, property and equipment, net	6,006,739	6,170,823
Unbilled rents receivable	-	13,715
Security deposits	2,000	-
Deferred leasing costs, net	<u>-</u>	<u>8,040</u>
	<u>\$ 877,814</u>	<u>\$ 879,650</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 Conservatory also maintains governing board-designated funds for capital improvements totaling \$412,844 and \$117,454 as of June 30, 2021 and 2020. These funds include a reserve for priority facility replacements with a balance of \$47,454 and \$47,454 as of June 30, 2021 and 2020. The governing board has designated a total of \$70,000 towards a future capital project and therefore this amount is not available for priority facility replacements as of both June 30, 2021 and 2020. 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, 2021 and 2020 is \$486,777 and \$177,292.

### 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.

## The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2021 and 2020

### 6. Endowments, Investments and Investment Return *(continued)*

#### ***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 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 guidance 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, 2021 and 2020.



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

Notes to Financial Statements  
June 30, 2021 and 2020

**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, 2021:

	With Donor Restrictions		Total
	Purpose Restricted	Held in Perpetuity	
Balance, Beginning of Year	\$ 177,292	\$ 811,529	\$ 988,821
Investment income	13,213	-	13,213
Capital appreciation	312,539	-	312,539
Appropriated for expenditure	(16,266)	-	(16,266)
Balance, End of Year	\$ 486,778	\$ 811,529	1,298,307
Investments not considered endowments			1,015,390
Total Investments			\$2,313,697

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

	With Donor Restrictions		Total
	Purpose Restricted	Held in Perpetuity	
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, 2021 and 2020

**6. Endowments, Investments and Investment Return (continued)**

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)	2021	2020
Exchange Traded Funds		
Equities portfolio	\$ 921,482	\$ 627,114
Bond portfolio	1,193,445	1,194,137
REIT portfolio	72,374	55,835
Total Investments at Fair Value	2,187,301	1,877,086
Cash held for investments	126,396	26,189
Total Investments	\$ 2,313,697	\$ 1,903,275

The Conservatory invests in various debt and equity securities. These investment securities are recorded at fair value. Accordingly, the investment securities can fluctuate because of interest rates, reinvestment, market and other risks depending on the nature of the specific investment. Therefore, it is reasonably possible that these factors will result in changes in the value of the Conservatory's investments which could materially affect amounts reported in the financial statements.

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

	2021	2020
Interest and dividends	\$ 16,514	\$ 30,398
Realized gains	-	1,999
Unrealized losses	310,066	(46,222)
	\$ 326,580	\$ (13,825)

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

Notes to Financial Statements  
June 30, 2021 and 2020

**7. Land, Property and Equipment**

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

	2021	2020
Land, Property and Equipment Used in Operations:		
Land and land improvements	\$ 725,856	\$ 725,856
Building and improvements	7,795,539	7,752,170
Equipment	991,903	911,004
	9,513,298	9,389,030
Accumulated depreciation	(4,732,742)	(4,486,065)
	4,780,556	4,902,965
Commercial Rental Property:		
Land	426,734	426,734
Building	1,650,334	1,650,334
	2,077,068	2,077,068
Accumulated depreciation	(850,885)	(809,210)
	1,226,183	1,267,858
Property and Equipment, net	\$ 6,006,739	\$ 6,170,823

**Liens on Property and Equipment**

As discussed in Notes 11, 12, 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:

	2021	2020
Deferred leasing costs	\$ 146,394	\$ 146,394
Accumulated amortization	(146,394)	(138,354)
	\$ -	\$ 8,040

Amortization expense for the years ended June 30, 2021 and 2020 was \$8,040 and \$14,940.

## The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2021 and 2020

### 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 the coronavirus pandemic (see Note 21), the facility improvements and upgrades have been delayed. The Conservatory has applied for and received a one-year extension on the contract period through February 2022.

### 10. Line of Credit

The Conservatory maintained a line of credit with a bank in the amount of \$165,000 renewable annually. The line of credit expired on February 28, 2021 and was not renewed. The line was secured by all personal property of the Conservatory. Interest is calculated at the Wall Street Journal prime rate (3.25% at June 30, 2020). There was \$165,000 outstanding as of June 30, 2020. The bank required the Conservatory to maintain a minimum debt service coverage ratio of 1.2 to be tested annually. Interest expense was \$842 and \$1,560 for the years ended June 30, 2021 and 2020.

### 11. 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.

#### ***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 at both June 30, 2021 and 2020 and is included in mortgages payable on the statements of financial position. Future principal payments due as of June 30, 2021 are included in Note 14. 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 the fixed charge coverage ratio at the end of each quarter of the fiscal year ended June 30, 2021 due to the decline in enrollment and tuition driven by COVID-19. The Conservatory also did not deliver its audited financial statements within 120 days after June 30, 2021. Subsequent to the year ended June 30, 2021, the debt was refinanced and the bonds were paid off (see Note 20).

## The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2021 and 2020

### 12. 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, 2021 and 2020. The outstanding balance on the mortgage was \$704,639 and \$752,349 as of June 30, 2021 and 2020. Interest is 4.25% per annum. All future principal payments as of June 30, 2021, are included in Note 14. 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 the fixed charge ratio at June 30, 2021 due to the decline in enrollment and tuition driven by COVID-19. The Conservatory also did not deliver its audited financial statements within 120 days after June 30, 2021. Subsequent to the year ended June 30, 2021, the debt was refinanced and the mortgage was paid off (see Note 20).

### 13. Notes 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, 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 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, 2021, 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. The SBA notified the Conservatory that the first draw of the PPP loan has been forgiven on August 4, 2021.

In accordance with the provisions of the Consolidated Appropriation Act, 2021, on March 29, 2021, the Company received a second draw of PPP loan proceeds in the amount of \$454,642. Terms for this second draw loan are similar to the first draw loan noted above, except that the unforgiven portion of the PPP loan, if any, is payable within five years (compared to two years on first draw) 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 Company does not apply for forgiveness, payments begin approximately 16 months after the loan date.

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

Notes to Financial Statements  
June 30, 2021 and 2020

**14. Mortgages and Notes Payable**

The future scheduled principal payments for the mortgage payable, IDA bonds and notes payable as of June 30, 2021 are presented below:

Year Ending June 30,	Mortgage Payable	IDA Bonds	Notes Payable	Total Principal Payments
2022	\$ 49,767	\$ 175,000	\$ -	\$ 224,767
2023	654,872	190,000	-	844,872
2024	-	200,000	-	200,000
2025	-	215,000	-	215,000
2026	-	230,000	-	230,000
Thereafter	-	1,055,000	-	1,055,000
Expected to be forgiven	-	-	957,659	957,659
	704,639	2,065,000	957,659	3,727,298
Unamortized debt issuance costs	(555)	-	-	(555)
	<u>\$ 704,084</u>	<u>\$ 2,065,000</u>	<u>\$ 957,659</u>	<u>\$ 3,726,743</u>

Interest expense for the mortgages payable was \$109,960 and \$118,336 for the years ended June 30, 2021 and 2020.

**15. 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 was due to receive \$65,000 of income for the year ended June 30, 2021, of which \$41,092 remains receivable as of June 30, 2021. Under the agreement, the Conservatory received \$65,000 for the year ended June 30, 2020. Facility sharing reimbursements are included in contracted services in the statements of activities. The Conservatory has determined that due to the uncertainty of the collectability of the receivable balance, the amount should be fully reserved (see Note 2). As of and for the year ended June 30, 2021, the Conservatory has recorded an allowance of \$44,752, which includes an additional amount due for utility charges of \$3,660. The operating agreement was amended effective July 1, 2021 and extended through December 31, 2021.

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

2022	\$ 32,500
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## The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2021 and 2020

### 16. 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:

	<u>Minimum Rental Revenue</u>
2022	\$ 199,000
2023	199,000
2024	199,000
2025	199,000
2026	<u>116,085</u>
Total	<u>\$ 912,085</u>

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

Notes to Financial Statements  
June 30, 2021 and 2020

**16. 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>2021</u>	<u>2020</u>
Income From Rental Property		
Rental income	\$ 179,155	\$ 164,180
Reimbursement by tenant	<u>47,327</u>	<u>45,367</u>
Total Income From Rental Operations	<u>226,482</u>	<u>209,547</u>
Cost of Rental		
Real estate taxes	44,571	37,805
Insurance costs	10,390	2,813
Interest expense	31,490	33,596
Building repairs and maintenance	300	5,628
Depreciation of property	41,675	41,183
Amortization of deferred financing costs	390	665
Amortization of deferred leasing costs	<u>8,040</u>	<u>14,940</u>
Total Cost of Rental	<u>136,856</u>	<u>136,630</u>
Rental Income, net	<u>\$ 89,626</u>	<u>\$ 72,917</u>

**17. 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 for the year ended June 30, 2020. 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, 2021 and 2020

**18. Net Assets**

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

	2021	2020
<i>Perpetual in nature:</i>		
Endowment fund	\$ 811,529	\$ 811,529
<i>Purpose:</i>		
Scholarships	8,000	-
Healing Our Hero's	43,048	42,728
Outreach program	88,000	-
Operations	486,777	177,292
Capital improvements	124,733	107,095
	<b>\$ 1,562,087</b>	<b>\$ 1,138,644</b>

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

	2021	2020
Undesignated	\$ 2,682,952	\$ 3,359,270
Board designated operating reserve	600,000	600,000
Board designated for capital improvements	412,844	117,454
Board designated for outreach programs and scholarships	50,000	-
	<b>\$ 3,745,796</b>	<b>\$ 4,076,724</b>

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

	2020	2019
Scholarships	\$ 144,620	\$ 112,400
Healing Our Hero's	14,680	62,680
Outreach program	41,980	128,890
Capital improvements	37,368	15,955
Operations	16,266	41,993
Total Restrictions Released	<b>\$ 254,914</b>	<b>\$ 361,918</b>

**19. 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, 2021 and 2020, for such services. There were no legal services received by the Conservatory during the year ended June 30, 2021.

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

Notes to Financial Statements  
June 30, 2021 and 2020

### **20. Subsequent Events**

On December 21, 2021, the Conservatory entered into a mortgage loan transaction with a bank for \$3,100,000 (the "new mortgage payable"). The proceeds were used to pay off the outstanding balances of the IDA bonds (see Note 11) and the outstanding balance of the mortgage payable (see Note 12). Net proceeds of the new mortgage note totaled \$222,596 after repayment of the existing debt, accrued interest, and financing costs. In addition, \$150,000 was deposited into an escrow account at the time of the closing for any potential unknown environmental costs which was subsequently returned to the Conservatory on February 2, 2022.

The new mortgage note is due in monthly installments of \$22,100 of principal and interest commencing January 21, 2022 through December 21, 2031, the maturity date, at which time the remaining outstanding principal balance and any unpaid accrued interest is due. The new mortgage note bears interest at 3.41% per annum and is based on a fifteen-year amortization schedule.

The new mortgage note is secured by a first priority lien on the Conservatory's buildings and educational facility center located at 214-216 Central Avenue, White Plains, New York. As additional security, the Conservatory has assigned tenant leases and rents to the bank.

The new mortgage note may be prepaid in whole or in part at any time by the Conservatory subject to a prepayment fee as defined in the note agreement. However, the Conservatory can make one prepayment each year of the loan or any amount not exceeding 15% of the outstanding principal balance without incurring a prepayment fee.

As part of the new mortgage note transaction, the Conservatory also entered into a line of credit agreement with the same bank that provides for up to \$160,000 in borrowings. The line of credit is payable on demand and bears interest at the bank's prime rate plus .5%.

### **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 had 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.

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

Notes to Financial Statements  
June 30, 2021 and 2020

**21. COVID-19 (continued)**

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 two PPP loans totaling \$957,659 (see Note 13).

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

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