

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

Financial Statements

June 30, 2023 and 2022

## Independent Auditors' Report

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

### Opinion

We have audited the accompanying financial statements of The Music Conservatory of Westchester, Inc. (the "Conservatory") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Conservatory as of June 30, 2023 and 2022, 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.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Conservatory and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Conservatory's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

**Auditors' Responsibilities for the Audit of the Financial Statements (*continued*)**

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Conservatory's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Conservatory's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*PKF O'Connor Davies, LLP*

Newburgh, New York  
October 30, 2023

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

Statements of Financial Position

	June 30,	
	2023	2022
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 1,259,207	\$ 715,079
Investments	799,842	875,586
Accounts receivable, net	71,493	69,749
Promises to give, net	63,214	206,082
Prepaid expenses and other current assets	23,489	19,584
Total Current Assets	2,217,245	1,886,080
Other Assets		
Investments held for endowment purposes	1,192,437	1,119,946
Land, property and equipment, net	6,762,776	7,015,897
Right-of-use asset, operating	9,202	18,198
Total Other Assets	7,964,415	8,154,041
	\$ 10,181,660	\$ 10,040,121
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 222,958	\$ 376,149
Deferred tuition	301,859	192,904
Short-term lease liabilities, operating	7,665	8,885
Mortgages payable, current portion	147,083	130,386
Total Current Liabilities	679,565	708,324
Long-Term Liabilities		
Mortgages payable, net of current portion and debt issuance costs	2,646,046	2,793,129
Long-term lease liabilities, operating	1,647	9,315
Total Long-Term Liabilities	2,647,693	2,802,444
Total Liabilities	3,327,258	3,510,768
Net Assets		
Without donor restrictions	5,430,892	4,763,531
With donor restrictions	1,423,510	1,765,822
Total Net Assets	6,854,402	6,529,353
	\$ 10,181,660	\$ 10,040,121

See notes to financial statements

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

Statement of Activities  
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUE AND SUPPORT AND RECLASSIFICATIONS</b>			
Revenue			
Tuition	\$ 1,528,291	\$ -	\$ 1,528,291
Scholarships and discounts on lessons	<u>(204,884)</u>	<u>-</u>	<u>(204,884)</u>
Net Tuition	1,323,407	-	1,323,407
Contracted services	565,372	-	565,372
Investment return	28,867	115,704	144,571
Other	<u>23,303</u>	<u>-</u>	<u>23,303</u>
Total Revenue	<u>1,940,949</u>	<u>115,704</u>	<u>2,056,653</u>
Support			
Public agencies	72,500	261,859	334,359
Foundations and corporations	33,543	200,250	233,793
Individuals	425,749	73,065	498,814
Contributed non-financial assets	74,915	-	74,915
Special events, net of direct donor benefits of \$56,695	<u>202,500</u>	<u>67,994</u>	<u>270,494</u>
Total Support	<u>809,207</u>	<u>603,168</u>	<u>1,412,375</u>
Net assets released from restrictions			
Time and purpose restrictions released	985,198	(985,198)	-
Appropriated endowment earnings	<u>75,986</u>	<u>(75,986)</u>	<u>-</u>
Total Net Assets Released from Restrictions	<u>1,061,184</u>	<u>(1,061,184)</u>	<u>-</u>
Total Operating Revenue and Support and Reclassifications	<u>3,811,340</u>	<u>(342,312)</u>	<u>3,469,028</u>
<b>OPERATING EXPENSES</b>			
Program Expenses			
Instruction	2,093,167	-	2,093,167
Outreach program	431,440	-	431,440
Performances	<u>56,848</u>	<u>-</u>	<u>56,848</u>
Total Program Expenses	<u>2,581,455</u>	<u>-</u>	<u>2,581,455</u>
Supporting Expenses			
Management and general	185,308	-	185,308
Fundraising	<u>475,324</u>	<u>-</u>	<u>475,324</u>
Total Supporting Expenses	<u>660,632</u>	<u>-</u>	<u>660,632</u>
Total Operating Expenses	<u>3,242,087</u>	<u>-</u>	<u>3,242,087</u>
Change in Net Assets From Operations Before Rental Income	<u>569,253</u>	<u>(342,312)</u>	<u>226,941</u>
Rental Income, net	<u>98,108</u>	<u>-</u>	<u>98,108</u>
Change in Net Assets	667,361	(342,312)	325,049
<b>NET ASSETS</b>			
Beginning of year	<u>4,763,531</u>	<u>1,765,822</u>	<u>6,529,353</u>
End of year	<u>\$ 5,430,892</u>	<u>\$ 1,423,510</u>	<u>\$ 6,854,402</u>

See notes to financial statements

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

Statement of Activities  
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUE AND SUPPORT AND RECLASSIFICATIONS</b>			
Revenue			
Tuition	\$ 1,431,614	\$ -	\$ 1,431,614
Scholarships and discounts on lessons	<u>(196,448)</u>	-	<u>(196,448)</u>
Net Tuition	1,235,166	-	1,235,166
Contracted services	494,819	-	494,819
Investment return	94	(122,539)	(122,445)
Other	<u>5,503</u>	-	<u>5,503</u>
Total Revenue	<u>1,735,582</u>	<u>(122,539)</u>	<u>1,613,043</u>
Support			
Public agencies	55,000	318,378	373,378
Foundations and corporations	45,694	163,000	208,694
Individuals	26,478	220,948	247,426
Contributed non-financial assets	139,003	-	139,003
Special events, net of direct donor benefits of \$108,075	357,291	49,836	407,127
Paycheck Protection Program loan forgiveness	<u>957,659</u>	-	<u>957,659</u>
Total Support	<u>1,581,125</u>	<u>752,162</u>	<u>2,333,287</u>
Net assets released from restrictions			
Time and purpose restrictions released	370,066	(370,066)	-
Appropriated endowment earnings	<u>55,822</u>	<u>(55,822)</u>	-
Total Net Assets Released from Restrictions	<u>425,888</u>	<u>(425,888)</u>	-
Total Operating Revenue and Support and Reclassifications	<u>3,742,595</u>	<u>203,735</u>	<u>3,946,330</u>
<b>OPERATING EXPENSES</b>			
Program Expenses			
Instruction	1,765,987	-	1,765,987
Outreach program	415,173	-	415,173
Performances	<u>42,895</u>	-	<u>42,895</u>
Total Program Expenses	<u>2,224,055</u>	-	<u>2,224,055</u>
Supporting Expenses			
Management and general	198,633	-	198,633
Fundraising	<u>403,339</u>	-	<u>403,339</u>
Total Supporting Expenses	<u>601,972</u>	-	<u>601,972</u>
Total Operating Expenses	<u>2,826,027</u>	-	<u>2,826,027</u>
Change in Net Assets From Operations Before Rental Income			
	<u>916,568</u>	<u>203,735</u>	<u>1,120,303</u>
Rental Income, net	<u>101,167</u>	-	<u>101,167</u>
Change in Net Assets	1,017,735	203,735	1,221,470
<b>NET ASSETS</b>			
Beginning of year	<u>3,745,796</u>	<u>1,562,087</u>	<u>5,307,883</u>
End of year	<u>\$ 4,763,531</u>	<u>\$ 1,765,822</u>	<u>\$ 6,529,353</u>

See notes to financial statements

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

Statement of Functional Expenses  
Year Ended June 30, 2023

	Program Expenses				Supporting Services			2023 Total
	Instruction	Outreach Program	Performances	Total	Management and General	Fundraising	Total	
<b>Personnel Services</b>								
Administrative salaries	\$ 608,408	\$ 63,133	\$ 3,185	\$ 674,726	\$ 118,917	\$ 208,281	\$ 327,198	\$ 1,001,924
Faculty salaries	607,180	267,063	8,880	883,123	-	-	-	883,123
Payroll taxes and employee benefits	154,714	43,540	144	198,398	12,425	29,096	41,521	239,919
<b>Total Personnel Services</b>	<b>1,370,302</b>	<b>373,736</b>	<b>12,209</b>	<b>1,756,247</b>	<b>131,342</b>	<b>237,377</b>	<b>368,719</b>	<b>2,124,966</b>
<b>Other Than Personnel Costs</b>								
Professional fees	34,483	4,487	591	39,561	35,464	21,959	57,423	96,984
Artist fees	12,695	-	-	12,695	-	-	-	12,695
Interest and bank charges	70,762	3,077	5,388	79,227	5,176	855	6,031	85,258
Processing fees	39,136	172	-	39,308	160	9,416	9,576	48,884
Supplies and music	16,659	1,561	1,251	19,471	947	10,537	11,484	30,955
Software and subscriptions	13,162	284	-	13,446	1,614	3,397	5,011	18,457
Printing and postage	222	25	-	247	211	128	339	586
Travel and entertainment	1,022	-	-	1,022	-	-	-	1,022
Membership dues	1,336	-	-	1,336	450	667	1,117	2,453
Advertising and marketing	63,518	1,250	2,500	67,268	-	28,247	28,247	95,515
Telephone	5,559	619	-	6,178	1,033	1,759	2,792	8,970
Utilities	77,569	3,494	5,871	86,934	1,376	845	2,221	89,155
Insurance	24,197	1,119	1,837	27,153	391	264	655	27,808
Building repairs and maintenance	55,257	1,640	4,168	61,065	979	887	1,866	62,931
Documentary	-	25,615	-	25,615	-	-	-	25,615
Food, tickets, and event venues	-	-	-	-	-	210,676	210,676	210,676
Lease expense	5,669	607	-	6,276	1,026	1,698	2,724	9,000
Depreciation	301,619	13,754	23,033	338,406	5,139	3,307	8,446	346,852
<b>Total Other Than Personnel Costs</b>	<b>722,865</b>	<b>57,704</b>	<b>44,639</b>	<b>825,208</b>	<b>53,966</b>	<b>294,642</b>	<b>348,608</b>	<b>1,173,816</b>
<b>Total Expenses Before Direct Donor Benefits</b>	<b>2,093,167</b>	<b>431,440</b>	<b>56,848</b>	<b>2,581,455</b>	<b>185,308</b>	<b>532,019</b>	<b>717,327</b>	<b>3,298,782</b>
Direct Donor Benefits	-	-	-	-	-	(56,695)	(56,695)	(56,695)
<b>Total Expenses</b>	<b>\$ 2,093,167</b>	<b>\$ 431,440</b>	<b>\$ 56,848</b>	<b>\$ 2,581,455</b>	<b>\$ 185,308</b>	<b>\$ 475,324</b>	<b>\$ 660,632</b>	<b>\$ 3,242,087</b>

See notes to financial statements

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

Statement of Functional Expenses  
Year Ended June 30, 2022

	Program Expenses				Supporting Services			2022 Total
	Instruction	Outreach Program	Performances	Total	Management and General	Fundraising	Total	
<b>Personnel Services</b>								
Administrative salaries	\$ 503,631	\$ 51,522	\$ -	\$ 555,153	\$ 126,571	\$ 185,692	\$ 312,263	\$ 867,416
Faculty salaries	553,926	258,926	6,018	818,870	-	-	-	818,870
Payroll taxes and employee benefits	130,495	36,341	503	167,339	14,637	31,929	46,566	213,905
<b>Total Personnel Services</b>	<b>1,188,052</b>	<b>346,789</b>	<b>6,521</b>	<b>1,541,362</b>	<b>141,208</b>	<b>217,621</b>	<b>358,829</b>	<b>1,900,191</b>
<b>Other Than Personnel Costs</b>								
Professional fees	38,331	5,408	674	44,413	40,947	23,179	64,126	108,539
Artist fees	-	-	1,674	1,674	-	-	-	1,674
Interest and bank charges	77,968	3,010	5,885	86,863	3,528	891	4,419	91,282
Processing fees	36,404	-	-	36,404	643	17,530	18,173	54,577
Supplies and music	6,537	770	394	7,701	270	4,925	5,195	12,896
Software and subscriptions	10,287	148	-	10,435	2,564	2,230	4,794	15,229
Printing and postage	664	57	-	721	130	252	382	1,103
Travel and entertainment	-	-	-	-	-	239	239	239
Membership dues	2,841	-	-	2,841	450	229	679	3,520
Advertising and marketing	23,585	-	-	23,585	-	-	-	23,585
Telephone	8,054	937	-	8,991	1,498	2,622	4,120	13,111
Utilities	56,317	2,174	4,251	62,742	974	611	1,585	64,327
Insurance	23,756	917	1,793	26,466	411	258	669	27,135
Building repairs and maintenance	75,069	2,898	5,666	83,633	1,283	830	2,113	85,746
Documentary	-	43,202	-	43,202	-	-	-	43,202
Food, tickets, and event venues	-	-	-	-	-	235,844	235,844	235,844
Lease expense	5,673	660	-	6,333	1,055	1,847	2,902	9,235
Depreciation	212,449	8,203	16,037	236,689	3,672	2,306	5,978	242,667
<b>Total Other Than Personnel Costs</b>	<b>577,935</b>	<b>68,384</b>	<b>36,374</b>	<b>682,693</b>	<b>57,425</b>	<b>293,793</b>	<b>351,218</b>	<b>1,033,911</b>
<b>Total Expenses Before Direct Donor Benefits</b>	<b>1,765,987</b>	<b>415,173</b>	<b>42,895</b>	<b>2,224,055</b>	<b>198,633</b>	<b>511,414</b>	<b>710,047</b>	<b>2,934,102</b>
Direct Donor Benefits	-	-	-	-	-	(108,075)	(108,075)	(108,075)
<b>Total Expenses</b>	<b>\$ 1,765,987</b>	<b>\$ 415,173</b>	<b>\$ 42,895</b>	<b>\$ 2,224,055</b>	<b>\$ 198,633</b>	<b>\$ 403,339</b>	<b>\$ 601,972</b>	<b>\$ 2,826,027</b>

See notes to financial statements



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

Statements of Cash Flows

	Year Ended June 30,	
	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 325,049	\$ 1,221,470
Adjustments to reconcile change in net assets to net cash from operating activities		
Realized gain on sale of investments	(19,970)	(65,147)
Unrealized (gain) loss on investments	(67,014)	202,324
Depreciation	388,144	283,959
Amortization of debt issuance costs	32,951	25,447
Amortization of right of use assets	8,996	8,279
Interest and other costs incurred from refinancing	-	44,406
Paycheck Protection Program loan forgiveness	-	(957,659)
Donated property and equipment	-	(70,849)
Net change in operating assets and liabilities		
Accounts receivable	(1,744)	(26,750)
Promises to give	142,868	(177,732)
Prepaid expenses and other current assets	(3,905)	(4,941)
Security deposits	-	2,000
Accounts payable and accrued expenses	(153,191)	36,289
Deferred tuition	108,955	(9,870)
Refundable advance	-	(125,000)
Repayments of right-of-use lease obligations	(8,888)	(8,277)
Net Cash from Operating Activities	<u>752,251</u>	<u>377,949</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(135,023)	(1,046,135)
Proceeds from sale of investments	1,171,833	387,243
Purchase of investments	(1,081,596)	(206,255)
Net Cash from Investing Activities	<u>(44,786)</u>	<u>(865,147)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of mortgages payable	(163,337)	(275,146)
Proceeds from mortgage payable	-	372,596
Payments of debt issuance costs	-	(12,872)
Net Cash from Financing Activities	<u>(163,337)</u>	<u>84,578</u>
Net Change in Cash and Cash Equivalents	544,128	(402,620)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>715,079</u>	<u>1,117,699</u>
End of year	<u>\$ 1,259,207</u>	<u>\$ 715,079</u>

See notes to financial statements

# The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2023 and 2022

## 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 Conservatory 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 as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as net assets with donor restrictions until the assets are placed in service.

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

Notes to Financial Statements  
June 30, 2023 and 2022

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

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

The Conservatory follows U.S. 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, 2023 and 2022

### **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.

#### ***Special Events***

The Conservatory records revenue from special events net of cost of direct benefit to donors. 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.

#### ***Contributed Non-financial Assets***

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 is presented on the statement of activities as rental income, net.

#### ***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.

#### ***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.

## The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2023 and 2022

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

#### ***Accounts Receivable and Allowance for Doubtful Accounts (continued)***

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, 2023 and 2022, the allowance for doubtful accounts was \$44,752 (see note 14).

#### ***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. No allowance for doubtful accounts was deemed necessary as of June 30, 2023. For the year ended June 30, 2022, the Conservatory recorded an allowance of \$10,000. 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.

#### ***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 prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

The value of the Conservatory’s investments by input level are included in note 7 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, 2023 and 2022

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

#### **Leases**

The Conservatory's leases consist of office equipment leases for a copier and a postage machine, both with lease terms that are 5 years, and determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets ("ROU assets"), short-term lease liabilities, operating and long-term lease liabilities, operating on the accompanying statements of financial position.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The leases do not provide an implicit borrowing rate. The Conservatory uses their incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Conservatory will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Conservatory's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Conservatory has lease agreements with lease and non-lease components, which are generally accounted for separately. For the office equipment leases, the Conservatory accounts for the lease and non-lease components as a single lease component. Variable lease components in these leases are maintenance and are recognized in operating expenses in the period in which the obligation is incurred.

Short-term leases, which have an initial term of 12 months or less, are not recorded on the statements of financial position.

#### **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 (see note 8).

Construction-in-progress includes the cost of construction and other indirect costs attributable to the construction of a recording and other studios not yet placed in service. No provision for depreciation is made on construction-in-progress until the recording and other studios are placed in service. The recording and other studios were placed in service in September 2022.

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

Notes to Financial Statements  
June 30, 2023 and 2022

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

#### ***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, 2023 and 2022.

#### ***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. For the years ended June 30, 2023 and 2022, amortization of debt issuance costs was \$32,951 and \$22,392. As of June 30, 2023 and 2022, debt issuance costs was \$63,808 and \$96,759, net of accumulated amortization of \$55,343 and \$22,392.

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

Advertising and marketing costs are charged to expense as incurred and approximated \$96,000 and \$24,000 for the years ended June 30, 2023 and 2022.

#### ***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, 2020.

#### ***Functional Expenses Allocation***

The financial statements report certain categories of expenses that are attributable to program and supporting services of the Conservatory. Therefore, these expenses require an allocation using a reasonable basis that is consistently applied. The expenses that are allocated include salaries and personnel costs which are allocated based on estimates of time and effort and other expenses which include professional fees, interest and bank charges, processing fees, office and administrative expenses which are allocated based on the functions receiving the benefit.

#### ***Reclassifications***

Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 presentation. These reclassifications have had no effect on net assets.

## The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2023 and 2022

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

#### **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 October 31, 2023.

### 3. Concentrations

#### **Concentrations of Credit Risk**

Financial instruments that potentially subject the Conservatory to concentrations of credit and market risk consist principally of cash and cash equivalents, on deposit with financial institutions, investments held at financial institutions and receivables. Deposits held at financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") are insured up to \$250,000. Investment holdings at financial institutions insured by the Securities Investor Protection Corporation ("SIPC") are insured up to \$500,000 (\$250,000 for cash holdings). At times cash balances may exceed the FDIC and/or the SIPC limit.

As of June 30, 2023 and 2022, the Conservatory's uninsured cash and cash equivalents, balances on deposit totaled approximately \$871,000 and \$426,000. As of June 30, 2023 and 2022 the Conservatory's uninsured investment holdings totaled approximately \$1,483,000 and \$1,442,000.

The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment, investment advisor, investment manager or group of investments represents a significant concentration of credit risk.

#### **Concentrations of Revenue and Support**

As of and for the year ended June 30, 2023, one donor represented approximately 11% of total revenue and support, two donors represented 29% of accounts receivable, net and three donors represented approximately 62% of promises to give, net.

As of June 30, 2022, one donor represented approximately 28% of accounts receivable, net and one donor represented approximately 85% of promises to give, net.

### 4. Promises to Give

Promises to give are summarized as follows at June 30:

	2023	2022
Due in one year	\$ 63,214	\$ 216,082
Allowance for uncollectible promises to give	-	(10,000)
	<u>\$ 63,214</u>	<u>\$ 206,082</u>



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

Notes to Financial Statements  
June 30, 2023 and 2022

**5. Contract Receivable and Liability**

The following are the contract receivable and liability balances as of June 30:

	2023	2022	2021
Tuition receivables	\$ 4,222	\$ 2,361	\$ 4,915
Contract services receivables	65,831	65,650	47,411
Rent receivables	1,440	1,738	-
	\$ 71,493	\$ 69,749	\$ 52,326
 Deferred tuition	 \$ 301,859	 \$ 192,904	 \$ 202,774

**6. Availability of Financial Assets and Liquidity**

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

	2023	2022
Total assets	\$10,181,660	\$10,040,121
Less:		
Net assets with donor restrictions	1,423,510	1,765,822
Board designated net assets	895,884	800,000
Net assets with donor restrictions expected to be expensed in less than one year	(167,895)	(137,200)
Prepaid expenses and other current assets	23,489	19,584
Land, property and equipment, net	6,762,776	7,015,897
Right-of-use asset, operating	9,202	18,198
	\$ 1,234,694	\$ 557,820

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 (see note 10).

The Conservatory also maintains governing board-designated funds for capital improvements totaling \$150,000 as of June 30, 2023 and 2022. As of June 30, 2023 and 2022, the Board maintains an operating reserve totaling \$695,884 and \$600,000. Certain endowment account investments are primarily funding financial need scholarships. As of June 30, 2023 and 2022, the Board maintains funds for outreach programs and scholarships totaling \$50,000.

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

Notes to Financial Statements  
June 30, 2023 and 2022

### **6. Availability of Financial Assets and Liquidity (*continued*)**

The Board has the ability to vote to temporarily fund a short-term priority issue, by using restricted endowment funds, with the commitment to replenish the endowment fund with interest. The available restricted endowment balance as of June 30, 2023 and 2022 is \$380,908 and \$308,417.

### **7. 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 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.

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

Notes to Financial Statements  
June 30, 2023 and 2022

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

***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, 2023 and 2022.

The following is a reconciliation of the activity in the endowment funds during the year ended June 30, 2023:

	With Donor Restrictions		Total
	Purpose Restricted	Held in Perpetuity	
Balance, Beginning of year	\$ 308,417	\$ 811,529	\$ 1,119,946
Investment income	48,690	-	48,690
Capital appreciation	67,014	-	67,014
Appropriated for expenditure	(43,213)	-	(43,213)
Balance, End of Year	\$ 380,908	\$ 811,529	1,192,437
Investments not considered endowments			799,842
Total Investments			\$ 1,992,279

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

Notes to Financial Statements  
June 30, 2023 and 2022

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

The following is a reconciliation of the activity in the endowment funds during the year ended June 30, 2022:

	With Donor Restrictions		Total
	Purpose Restricted	Held in Perpetuity	
Balance, Beginning of Year	\$ 486,778	\$ 811,529	\$ 1,298,307
Investment income	79,785	-	79,785
Capital depreciation	(202,324)	-	(202,324)
Appropriated for expenditure	(55,822)	-	(55,822)
Balance, End of Year	\$ 308,417	\$ 811,529	1,119,946
Investments not considered endowments			875,586
Total Investments			\$ 1,995,532

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)	2023	2022
Exchange Traded Funds		
Equities portfolio	\$ 717,091	\$ 626,795
Bond portfolio	1,205,808	1,250,432
REIT portfolio	59,411	64,779
Total Investments at Fair Value	1,982,310	1,942,006
Cash held for investments	9,969	53,526
Total Investments	\$ 1,992,279	\$ 1,995,532

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.

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

Notes to Financial Statements  
June 30, 2023 and 2022

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

***Underwater Endowment Funds (continued)***

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

	2023	2022
Interest and dividends	\$ 57,587	\$ 14,732
Realized gains	19,970	65,147
Unrealized gains (losses)	67,014	(202,324)
	\$ 144,571	\$ (122,445)

**8. Land, Property and Equipment**

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

	Useful Lives (years)	2023	2022
Land, Property and Equipment Used in Operations:			
Land and land improvements	-	\$ 725,856	\$ 725,856
Building and improvements	10-40	8,951,462	7,763,705
Equipment	1-5	1,264,120	1,078,589
Construction-in-progress	-	-	1,238,265
		10,941,438	10,806,415
Accumulated depreciation		(5,322,261)	(4,975,409)
		5,619,177	5,831,006
Commercial Rental Property:			
Land	-	426,734	426,734
Building	40	1,650,334	1,650,334
		2,077,068	2,077,068
Accumulated depreciation		(933,469)	(892,177)
		1,143,599	1,184,891
Land, Property and Equipment, net		\$ 6,762,776	\$ 7,015,897

**Liens on Property and Equipment**

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

**9. Leases**

The Conservatory has operating leases for a copier and a postage machine. These leases have remaining lease terms of 19 months and include options to extend the leases up to 1 year.

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

Notes to Financial Statements  
June 30, 2023 and 2022

**9. Leases (continued)**

The lease cost and other required information for the years ended June 30,:

	2023	2022
Lease Cost:		
Operating lease	\$ 9,000	\$ 9,235
Other Information:		
Weighted Average Remaining Lease Term		
Operating lease	19 months	31 months
Weighted Average Discount Rate		
Operating lease	3.63%	3.63%

The following table presents information about the amount and timing of cash flows arising from the Conservatory's operating leases as of June 30, 2023:

2024	\$ 7,887
2025	577
2026	577
2027	576
Total Undiscounted Operating Lease Payments	9,617
Less imputed interest	(305)
	\$ 9,312

**10. Line of Credit**

The Conservatory entered into a line of credit agreement with a bank on December 21, 2021 upon refinancing its mortgage payables. The line of credit 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%. As of June 30, 2023, the interest rate was 8.5%. As of June 30, 2023 there is no outstanding balance. The line 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.

**11. Mortgages Payable**

On December 21, 2021, the Conservatory entered into a mortgage loan transaction with a bank for \$3,100,000 (the "mortgage note") to pay off outstanding balances of the Industrial Development Agency Variable Rate Civic Facility Revenue Bonds, Series 1999 and the existing mortgage payable. Net proceeds, recognized during the year ended June 30, 2022, of the 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. The escrow amount was fully refunded to the Conservatory on February 2, 2022, as no environmental issues were found.

## The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2023 and 2022

### 11. Mortgages Payable (continued)

The 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 mortgage note bears interest at 3.41% per annum and is based on a fifteen-year amortization schedule.

The 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 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. The outstanding balance on the mortgage payable is \$2,793,129, net of debt issuance costs, at June 30, 2023.

The future scheduled principal payments for the mortgage payable as of June 30, 2023 are as follows:

2024	\$ 168,813
2025	175,005
2026	181,152
2027	187,515
2028	193,910
Thereafter	<u>1,950,542</u>
	2,856,937
Unamortized debt issuance costs	<u>(63,808)</u>
	<u>\$ 2,793,129</u>

Interest expense for the mortgage payable was \$69,552 and \$79,228 for the years ended June 30, 2023 and 2022.

The future amortization of debt issuance costs as of June 30, 2023 is as follows:

2024	\$ 21,730
2025	14,330
2026	9,450
2027	6,232
2028	6,232
Thereafter	<u>5,834</u>
	<u>\$ 63,808</u>

## The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2023 and 2022

### 12. Paycheck Protection Program Loan

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 SBA notified the Conservatory that the first draw of the PPP loan was forgiven on August 4, 2021.

In accordance with the provisions of the Consolidated Appropriation Act, 2021, on March 29, 2021, the Conservatory 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. The SBA notified the Conservatory that the second draw of the PPP loan was forgiven on December 31, 2021.

For the year ended June 30, 2022, the Conservatory recognized as support both PPP loans totaling \$957,659 as Paycheck Protection Program loan forgiveness in the statement of activities.

### 13. Contributed Non-financial Assets and Services

The Conservatory’s policy related to contributed non-financial assets and services is to utilize the assets received to carry out the mission of the Conservatory. If an asset is received that does not allow the Conservatory to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

Contributed non-financial assets and services consisted of the following for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Musical instruments	\$ -	\$ 70,849
Miscellaneous items for charity auction	48,890	47,028
Building maintenance	-	14,000
Legal and professional services	25,000	7,126
Performance supplies	<u>1,025</u>	<u>-</u>
	<u>\$ 74,915</u>	<u>\$ 139,003</u>

The Conservatory received donated musical instruments with an estimated fair market value of \$70,849 for the year ended June 30, 2022. The estimated fair market value is based on an appraisal. There were no donated musical instruments for the year ended June 30, 2023.



## The Music Conservatory of Westchester, Inc.

Notes to Financial Statements  
June 30, 2023 and 2022

### 13. Contributed Non-financial Assets and Services (*continued*)

The Conservatory received donated merchandise with an estimated fair market value of \$48,890 and \$47,028 for the years ended June 30, 2023 and 2022. The estimated fair market value is based on the sale prices of similar items. The donated merchandise was placed in fund-raising auctions and sold for approximately \$21,000 and \$41,000 for the years ended June 30, 2023 and 2022.

The Conservatory received donated building maintenance with an estimated fair market value of \$14,000 for the year ended June 30, 2022. The estimated fair market value is based current market rates of building maintenance services. There was no donated building maintenance for the year ended June 30, 2023.

The Conservatory was provided with a promotional video, related to special events for the year ended June 30, 2023 and legal services at no cost, related to the financing of its debt, for the year ended June 30, 2022 and other professional services. Based on current market rates for videography, legal and professional services the Conservatory would have paid \$25,000 and \$7,126 for the years ended June 30, 2023 and 2022.

The Conservatory received donated performance supplies with an estimated fair market value of \$1,025 during the year ended June 30, 2023. The estimated fair value is based on what a willing buyer would pay for the supplies. None was received during the year ended June 30, 2022.

All contributed nonfinancial assets and services received by the Conservatory for the year ended June 30, 2023 and 2022 were considered without donor restrictions and able to be used by the Conservatory as determined by the Board of Trustees and management.

### 14. 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 December 31, 2021. Under the agreement, the Conservatory was due to receive \$65,000 of income annually. As of the date of these financial statements, the Conservatory is negotiating a new lease with the unrelated entity and the entity has continued to pay the monthly amount stipulated in the agreement. For the year ended June 30, 2023 and June 30, 2022, the Conservatory recognized \$65,000 in income. For the year ended June 30, 2021, the Conservatory was due to receive \$65,000 of income, of which \$41,092 remained receivable as of June 30, 2023 and 2022. Facility sharing reimbursements are included in contracted services in the statements of activities. During the year ended June 30, 2022, the Conservatory 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, 2023 and June 30, 2022, the Conservatory has recorded an allowance of \$44,752, which includes an amount due for utility charges of \$3,660.

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

Notes to Financial Statements  
June 30, 2023 and 2022

**15. 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. Under the terms of the lease, the rent increases each February based on the Consumer Price Index for New York/New Jersey.

Following are the future minimum rental payments due June 30:

	Minimum Rental Revenue
2024	\$ 217,557
2025	217,557
2026	126,909
Total	\$ 562,023

***Leased Property Net Rental Income***

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

	2023	2022
Income From Rental Property		
Rental income	\$ 210,563	\$ 201,736
Reimbursement by tenant	45,055	46,315
Total Income From Rental Operations	255,618	248,051
Cost of Rental		
Real estate taxes	45,047	45,147
Insurance costs	17,247	13,094
Interest expense	40,743	37,828
Building repairs and maintenance	-	10
Depreciation of property	41,292	41,294
Amortization of deferred financing costs	13,181	9,511
Total Cost of Rental	157,510	146,884
Rental Income, net	\$ 98,108	\$ 101,167

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

Notes to Financial Statements  
June 30, 2023 and 2022

**16. 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.

**17. Net Assets**

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

	2023	2022
<i>Perpetual in nature:</i>		
Endowment fund	\$ 811,529	\$ 811,529
<i>Purpose:</i>		
Scholarships	79,851	35,271
Healing Our Heroes	128,762	55,624
Outreach program	16,695	25,250
Operations	386,673	313,516
Capital improvements	-	524,632
	\$ 1,423,510	\$ 1,765,822

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

	2023	2022
Undesignated	\$ 4,535,008	\$ 3,963,531
Board designated operating reserve	695,884	600,000
Board designated for capital improvements	150,000	150,000
Board designated for outreach programs and scholarships	50,000	50,000
	\$ 5,430,892	\$ 4,763,531

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

	2023	2022
Scholarships	\$ 64,849	\$ 126,437
Healing Our Heroes	83,350	120,040
Outreach program	112,367	120,879
Operations	75,986	58,532
Capital improvements	724,632	-
Total Restrictions Released	\$ 1,061,184	\$ 425,888

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

Notes to Financial Statements  
June 30, 2023 and 2022

**18. Supplemental Statement of Cash Flows Disclosures**

	Year Ended June 30,	
	2023	2022
Cash paid for interest	\$ 122,036	\$ 127,842
Non-cash Investing and Financing Activities		
Paycheck Protection Program loan forgiveness	-	957,659
Property and equipment financed with accounts payable and accrued expenses	-	176,133
Right-of-use asset acquired under operating lease	-	26,477
Debt issuance costs in refinancing	-	108,779
Refinancing of IDA bonds and mortgage payable	-	2,574,219

**19. Related Party Transactions**

For the years ended June 30, 2023 and 2022, the Conservatory received related party contributions and promises to give totaling \$129,502 and \$215,729, from Board Members and their affiliates.

**20. Contingencies**

***Legal***

From time to time the Conservatory is involved in litigation arising in the normal course of business. Management estimates that such matters will be resolved without material adverse effect on the Conservatory's future financial position, liquidity and changes in net assets.

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