

**THE DAVID HOCHSTEIN
MEMORIAL MUSIC SCHOOL, INC.**

FINANCIAL STATEMENTS

June 30, 2020



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The David Hochstein Memorial Music School, Inc.
Rochester, New York

We have audited the accompanying financial statements of The David Hochstein Memorial Music School, Inc. (a New York State nonprofit organization), which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of cash flows for the years then ended, the related statements of activities, and functional revenues and expenses for the year ended June 30, 2020, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



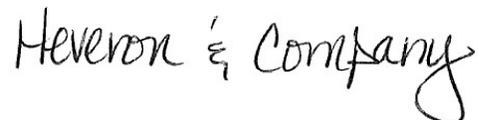
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The David Hochstein Memorial Music School, Inc. as of June 30, 2020 and 2019, and its cash flows for the years then ended, and the changes in net assets and functional revenues and expenses for the year ended June 30, 2020 in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the The David Hochstein Memorial Music School, Inc.'s statements of activities, and functional revenues and expenses for the year ended June 30, 2019, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 19, 2019. In our opinion, the summarized comparative information presented herein, as of and for the year ended June 30, 2019 is consistent, in all material respects with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Heveron & Company".

Heveron & Company
Certified Public Accountants

Rochester, New York
September 16, 2020

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
BALANCE SHEETS
June 30, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 693,420	\$ 298,879
Accounts Receivable, Net of Allowances	50,100	40,288
Prepaid Expenses	34,120	43,507
Pledges Receivable, Net of Allowances	<u>89,710</u>	<u>29,272</u>
 Total Current Assets	 <u>867,350</u>	 <u>411,946</u>
<u>Property and Equipment</u>		
Building and Improvements	6,145,636	6,063,845
Pianos and Musical Instruments	725,824	704,324
Furniture and Fixtures	669,917	639,897
Parking Lot and Land Improvements	544,919	544,919
Leasehold Improvements	179,343	179,343
Library	64,901	64,901
Website	8,192	8,192
Less: Accumulated Depreciation	<u>(4,971,835)</u>	<u>(4,765,708)</u>
 Net Property and Equipment	 <u>3,366,897</u>	 <u>3,439,713</u>
<u>Other Assets</u>		
Investments	<u>3,966,267</u>	<u>3,947,418</u>
 Total Other Assets	 <u>3,966,267</u>	 <u>3,947,418</u>
 TOTAL ASSETS	 <u>\$ 8,200,514</u>	 <u>\$ 7,799,077</u>

LIABILITIES AND NET ASSETS

	2020	2019
<u>Current Liabilities</u>		
Accounts Payable and Accrued Expenses	\$ 65,276	\$ 32,826
Accrued Payroll	82,655	82,853
Loan Payable - Current Portion	172,653	47,500
Deferred Revenue	22,461	29,475
Total Current Liabilities	343,045	192,654
<u>Long-Term Liabilities</u>		
Loan Payable - Long-Term Portion	212,757	-
Total Liabilities	555,802	192,654
<u>Net Assets</u>		
Without Donor Restrictions:		
Undesignated	3,227,556	3,428,606
Board Designated Quasi-Endowment	2,648,349	2,630,500
Total Net Assets Without Donor Restrictions	5,875,905	6,059,106
With Donor Restrictions:		
Purpose Restrictions	376,740	230,399
Perpetual In Nature	1,392,067	1,316,918
Total Net Assets With Donor Restrictions	1,768,807	1,547,317
Total Net Assets	7,644,712	7,606,423
TOTAL LIABILITIES AND NET ASSETS	\$8,200,514	\$7,799,077

See Independent Auditors' Report and Notes to Financial Statements.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2020
(With Comparative Totals For The Year Ended June 30, 2019)

	<u>With Donor Restrictions</u>			<u>Totals</u>	
	<u>Without Donor</u>	<u>Purpose</u>	<u>Perpetual</u>	<u>2020</u>	<u>2019</u>
	<u>Restrictions</u>	<u>Restrictions</u>	<u>In Nature</u>		
<u>Support and Revenue</u>					
Support:					
Gifts, Grants and					
Contributions	\$ 698,644	\$ 300,079	\$ 75,149	\$1,073,872	\$ 805,858
Special Events	5,086	-	-	5,086	155,602
Less: Direct Benefit to					
Donors	-	-	-	-	(18,009)
Releases from Restrictions	153,738	(153,738)	-	-	-
Revenue:					
Tuition and Registration	1,706,602	-	-	1,706,602	1,876,165
Less: Tuition Assistance	(234,517)	-	-	(234,517)	(281,924)
Rental Income	91,421	-	-	91,421	125,000
Bookstore Sales Income	100	-	-	100	372
Other Income	<u>24,861</u>	<u>-</u>	<u>-</u>	<u>24,861</u>	<u>15,577</u>
Total Support and Revenue					
	<u>2,445,935</u>	<u>146,341</u>	<u>75,149</u>	<u>2,667,425</u>	<u>2,678,641</u>
<u>Expenses</u>					
Program Services	2,029,480	-	-	2,029,480	2,066,336
Supporting Services:					
Management and General	510,650	-	-	510,650	453,830
Fund Raising	<u>176,098</u>	<u>-</u>	<u>-</u>	<u>176,098</u>	<u>159,532</u>
Total Expenses					
	<u>2,716,228</u>	<u>-</u>	<u>-</u>	<u>2,716,228</u>	<u>2,679,698</u>

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2020
(With Comparative Totals For The Year Ended June 30, 2019)
(Continued)

	<u>With Donor Restrictions</u>			<u>Totals</u>	
	<u>Without Donor Restrictions</u>	<u>Purpose Restrictions</u>	<u>Perpetual In Nature</u>	<u>2020</u>	<u>2019</u>
Change in Net Assets - Operating	(270,293)	146,341	75,149	(48,803)	(1,057)
<u>Other Revenues, (Expenses), Gains</u>					
<u>and (Losses):</u>					
Net Investment Returns	184,526	108,693	-	293,219	295,937
Depreciation Expense	<u>(206,127)</u>	<u>-</u>	<u>-</u>	<u>(206,127)</u>	<u>(199,207)</u>
Total Other Revenues, (Expenses), Gains and (Losses)	<u>(21,601)</u>	<u>108,693</u>	<u>-</u>	<u>87,092</u>	<u>96,730</u>
Change in Net Assets	(291,894)	255,034	75,149	38,289	95,673
Net Assets - Beginning of Year	6,059,106	230,399	1,316,918	7,606,423	7,510,750
Net Assets Released from Restrictions Pursuant to Endowment Spending Rate	<u>108,693</u>	<u>(108,693)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets - End of Year	<u>\$5,875,905</u>	<u>\$ 376,740</u>	<u>\$1,392,067</u>	<u>\$7,644,712</u>	<u>\$7,606,423</u>

See Independent Auditors' Report and Notes to Financial Statements.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
STATEMENT OF FUNCTIONAL REVENUES AND EXPENSES
For The Year Ended June 30, 2020
(With Comparative Totals For The Year Ended June 30, 2019)

	<u>Music and Dance</u>	<u>Expressive Arts</u>	<u>ROCMusic Program</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Direct Benefit to Donors</u>	<u>Totals</u>	
								2020	2019
<u>Support and Revenue</u>									
Support:									
Gifts, Grants and Contributions \$	422,682	\$ 49,000	\$ 53,101	\$ 524,783	\$ 2,376	\$ 537,705	\$ -	\$ 1,064,864	\$ 795,687
United Way Designations	-	-	-	-	-	9,008	-	9,008	10,171
Special Events, Net	1,475	-	1,233	2,708	-	2,378	-	5,086	137,593
Revenue:									
Tuition and Registration, Net	1,219,882	252,203	-	1,472,085	-	-	-	1,472,085	1,594,241
Rental Income	-	-	-	-	91,421	-	-	91,421	125,000
Bookstore Sales Income, Net	100	-	-	100	-	-	-	100	372
Other Income	<u>16,562</u>	<u>-</u>	<u>943</u>	<u>17,505</u>	<u>7,356</u>	<u>-</u>	<u>-</u>	<u>24,861</u>	<u>15,577</u>
Total Support and Revenue	<u>1,660,701</u>	<u>301,203</u>	<u>55,277</u>	<u>2,017,181</u>	<u>101,153</u>	<u>549,091</u>	<u>-</u>	<u>2,667,425</u>	<u>2,678,641</u>
<u>Expenses:</u>									
Salaries and Wages	1,179,516	302,984	53,109	1,535,609	235,284	120,727	-	1,891,620	1,873,846
Outside Professional Staff	21,846	7,673	-	29,519	-	-	-	29,519	29,596
Payroll Taxes	106,236	30,904	3,888	141,028	19,925	10,189	-	171,142	161,844
Employee Benefits	<u>36,739</u>	<u>17,046</u>	<u>137</u>	<u>53,922</u>	<u>14,557</u>	<u>1,593</u>	<u>-</u>	<u>70,072</u>	<u>66,696</u>
Total Personnel Costs	1,344,337	358,607	57,134	1,760,078	269,766	132,509	-	2,162,353	2,131,982
Utilities	60,285	7,646	-	67,931	5,352	765	-	74,048	87,420
Repairs and Maintenance	55,986	6,036	-	62,022	4,817	562	-	67,401	69,786
Insurance	34,368	4,191	-	38,559	2,934	419	-	41,912	39,297

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
STATEMENT OF FUNCTIONAL REVENUES AND EXPENSES
For The Year Ended June 30, 2020
(With Comparative Totals For The Year Ended June 30, 2019)
(Continued)

	<u>Music and Dance</u>	<u>Expressive Arts</u>	<u>ROCmusic Program</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Direct Benefit to Donors</u>	<u>Totals</u>	
								2020	2019
<u>Expenses (Continued):</u>									
Rent Expense	31,642	-	-	31,642	3,516	-	-	35,158	39,816
Total Occupancy	182,281	17,873	-	200,154	16,619	1,746	-	218,519	236,319
Bank Service Charges	-	-	10	10	56,131	-	-	56,141	60,948
Printing, Artwork, Promotion	-	-	188	188	52,385	-	-	52,573	46,350
Other	26,799	-	5,124	31,923	9,531	6,498	-	47,952	45,914
Professional Services	-	-	-	-	17,260	25,000	-	42,260	23,430
Purchased Services	-	-	170	170	29,360	5,000	-	34,530	29,500
Property Taxes	8,104	988	-	9,092	23,185	-	-	32,277	28,584
Conferences and Travel	1,595	8,260	-	9,855	4,305	-	-	14,160	16,661
Bad Debt Expense	-	-	-	-	14,000	-	-	14,000	14,000
Educational Supplies	3,865	1,193	5,854	10,912	-	-	-	10,912	21,880
Telephone	2,472	753	-	3,225	5,914	1,613	-	10,752	10,536
Organizational Dues	-	-	-	-	7,712	-	-	7,712	8,118
Supplies	678	256	-	934	2,207	741	-	3,882	6,214
Printing and Postage	-	-	-	-	688	2,991	-	3,679	6,723
Recitals and Performances	2,939	-	-	2,939	-	-	-	2,939	5,710
Interest Expense	-	-	-	-	1,587	-	-	1,587	4,838
Total Expenses	<u>1,573,070</u>	<u>387,930</u>	<u>68,480</u>	<u>2,029,480</u>	<u>510,650</u>	<u>176,098</u>	<u>-</u>	<u>2,716,228</u>	<u>2,697,707</u>

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
STATEMENT OF FUNCTIONAL REVENUES AND EXPENSES
For The Year Ended June 30, 2020
(With Comparative Totals For The Year Ended June 30, 2019)
(Continued)

	<u>Music and Dance</u>	<u>Expressive Arts</u>	<u>ROCmusic Program</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Direct Benefit to Donors</u>	<u>Totals</u>	
								2020	2019
Less Expenses Included with Support on the Statement of Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,009)</u>
Total Expenses	<u>1,573,070</u>	<u>387,930</u>	<u>68,480</u>	<u>2,029,480</u>	<u>510,650</u>	<u>176,098</u>	<u>-</u>	<u>2,716,228</u>	<u>2,679,698</u>
Change in Net Assets - Operating	<u>87,631</u>	<u>(86,727)</u>	<u>(13,203)</u>	<u>(12,299)</u>	<u>(409,497)</u>	<u>372,993</u>	<u>-</u>	<u>(48,803)</u>	<u>(1,057)</u>
<u>Other Revenues, (Expenses), Gains</u>									
<u>and (Losses):</u>									
Net Investment Returns	-	-	-	-	293,219	-	-	293,219	295,937
Depreciation Expense	<u>(152,790)</u>	<u>(17,835)</u>	<u>-</u>	<u>(170,625)</u>	<u>(33,928)</u>	<u>(1,574)</u>	<u>-</u>	<u>(206,127)</u>	<u>(199,207)</u>
	<u>(152,790)</u>	<u>(17,835)</u>	<u>-</u>	<u>(170,625)</u>	<u>259,291</u>	<u>(1,574)</u>	<u>-</u>	<u>87,092</u>	<u>96,730</u>
Change in Net Assets	<u>\$ (65,159)</u>	<u>\$ (104,562)</u>	<u>\$ (13,203)</u>	<u>\$ (182,924)</u>	<u>\$ (150,206)</u>	<u>\$ 371,419</u>	<u>\$ -</u>	<u>\$ 38,289</u>	<u>\$ 95,673</u>

See Independent Auditors' Report and Notes to Financial Statements.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2020 and 2019

	2020	2019
<u>Cash Flow From Operating Activities</u>		
Change in Net Assets	\$ 38,289	\$ 95,673
Contributions Restricted for Long-Term Purposes	(75,149)	(30,040)
Noncash Expenses, Revenues, Losses and Gains:		
Depreciation	206,127	199,207
Net Realized/Unrealized Gain on Investments	(248,574)	(221,614)
Donated Musical Equipment	(16,500)	(33,000)
Bad Debt	14,000	14,000
Decrease/(Increase) In:		
Accounts Receivable	(23,813)	36,026
Pledges Receivable	(60,438)	(5,766)
Prepaid Expenses	9,387	(5,816)
Increase/(Decrease) In:		
Accounts Payable and Accrued Expenses	32,450	(18,689)
Accrued Payroll	(198)	5,318
Deferred Revenue	(7,014)	10,129
Net Cash Flow Provided/(Used) By Operating Activities	(131,433)	45,428
<u>Cash Flow From Investing Activities</u>		
Purchase of Property and Equipment	(116,811)	(46,925)
Proceeds from Sale of Investments	1,246,799	762,532
Purchase of Investments	(1,017,073)	(639,229)
Cash Flow Provided By Investing Activities	112,915	76,378
<u>Cash Flow From Financing Activities</u>		
Contributions Restricted for Long-Term Purposes	75,149	30,040
Proceeds from Line of Credit	433,951	449,500
Payments on Line of Credit	(433,951)	(449,500)
Proceeds from Paycheck Protection Loan	385,410	-
Payments on Debt	(47,500)	(47,500)
Cash Flow Provided/(Used) By Financing Activities	413,059	(17,460)

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2020 and 2019
(Continued)

	2020	2019
Net Increase in Cash and Cash Equivalents	394,541	104,346
Cash and Cash Equivalents - Beginning of Year	298,879	194,533
Cash and Cash Equivalents - End of Year	\$ 693,420	\$ 298,879
 <u>Supplemental Disclosures</u>		
Cash Paid During The Year For:		
Interest	\$ 1,587	\$ 4,838

See Independent Auditors' Report and Notes to Financial Statements.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The David Hochstein Memorial Music School, Inc. (the Organization) is a New York State nonprofit organization that provides musical and dance education in an environment which nurtures and encourages personal achievement. The Organization serves the Rochester, New York community. The Organization obtains its support directly and indirectly from individuals and organizations in the community.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Net Assets

In accordance with accounting principles generally accepted in the United States of America, the Organization reports information regarding its financial position and activities according to the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, based on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Contributions that are expected to be received in future years are recorded at their present value. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Income Taxes

The Internal Revenue Service has determined that the Organization is qualified as a charity exempt under Section 501(c)(3) of the Internal Revenue Code, and has also determined that the Organization is publicly supported. As a result, no provision for federal or state income taxes has been made.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect. Amounts that management believes to be uncollectible after collection efforts have been completed are written off. In addition, management evaluates the need for, and if appropriate, provides an allowance to reduce receivables to amounts management expects will be collected. There were allowances at June 30, 2020 and 2019 of \$43,995 and \$46,254, respectively.

Functional Expenses

The costs of providing the various program services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program, management and general, and fund raising categories.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses are allocated among Music and Dance Program, ROCmusic, a collaborative program co-founded by Hochstein, for which Hochstein serves as fiscal agent, Expressive Arts Program (music, dance, art therapies), Management and General and Fund Raising. Methods used to allocate costs include space usage, the amount of time spent by personnel in each functional area, and determination of the specific purposes of goods and services purchased. The expenses that are allocated include salaries and wages, outside professional staff, benefits, payroll taxes, utilities, repairs and maintenance, rent, insurance, printing, artwork, and promotion, professional services, conferences and travel, educational supplies, telephone, organizational dues, printing and postage, supplies, and other.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Deferred revenue consists of amounts received prior to when they are earned. The related revenue is recognized when services are performed.

Advertising

Advertising costs are expensed as incurred.

Property and Equipment

Property and equipment are stated at cost. The Organization capitalizes property and equipment with a cost of over \$1,000 and an estimated life of three or more years. Depreciation is computed using the straight-line method, based on the estimated useful lives of the assets, as follows.

	<u>Years</u>
Buildings and Improvements	7-40
Leasehold Improvements	15
Furniture and Fixtures	3-10
Parking Lot and Land Improvements	15
Pianos and Musical Instruments	10
Website	7
Library	N/A

The library consists of musical scores, compositions, books, and other unique items. These items are valued at cost, and since they retain their value are not depreciated.

Depreciation expense amounted to \$206,127 and \$199,207 for the years ended June 30, 2020 and 2019, respectively.

In April 1978, the Organization received a gift of a building from Downtown United Presbyterian Church. The building is located at 50 North Plymouth Avenue, Rochester, New York, the present location of the school. The Organization received a quitclaim deed to the premises subject to certain rights of reversion. These rights are exercisable by the Church upon the happening of certain events, namely dissolution, bankruptcy, or non-payment of property taxes by the Organization. The building was recorded on the books at a fair value of \$55,600 based on real estate appraisals of similar buildings sold in the City of Rochester at the time of the gift.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Determining Fair Value of Financial Assets and Liabilities

Accounting principles generally accepted in the United States of America established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements), and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation method are unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Inputs to the valuation method include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

Level 3: Inputs to the valuation method are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used, need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Cash, Cash Equivalents, and Restricted Cash

For the purposes of the statements of cash flows, cash, cash equivalents and restricted cash include all cash on hand and in banks, which, at times, may exceed federally insured limits. The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk with respect to cash, cash equivalents and restricted cash. The Organization had no restricted cash at June 30, 2020 and 2019.

Cash and cash equivalents consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Checking	\$ 416,108	\$ 173,019
Savings	276,912	125,460
Petty Cash/Cash Held for Change	<u>400</u>	<u>400</u>
Cash and Cash Equivalents	<u>\$ 693,420</u>	<u>\$ 298,879</u>

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates in the Preparation of Financial Statements

Accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could vary from those estimates.

Reclassifications

Certain account balances as of June 30, 2019 have been reclassified to conform with the presentation as of June 30, 2020.

Revenue and Revenue Recognition

The Organization recognizes revenue from service fees during the year in which the related services are provided to the consumers, net of amounts to which it does not expect to be entitled. Tuition revenue recognized at time of service. Registration revenue is recognized in July for summer session and in September for fall session; since enrollment is open 12 months out of the year, registration fee revenue can also be recognized the other 10 months as well. Rental income is recognized in the month the event occurs.

The Organization has analyzed the provisions of ASU 2014-09, *Revenue from Contracts with Customers*, and has determined that no significant changes in the way the organization recognizes revenue are necessary, however, the presentation and disclosures of revenue has been enhanced.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. This guidance implements a single framework for recognition of all revenue earned with customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, timing, and uncertainty of revenues and cash flows arising from contracts with customers. The guidance is effective for the Organization's year ended June 30, 2020.

The Organization adopted ASU No. 2014-09 along with the practical expedient, which allows modifications to contracts to be applied at the time of adoption. The Organization receives revenue from several sources and recognizes revenue based on when performance obligations are met.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional or unconditional. As a result, it enhances comparability of financial information among not-for-profit entities.

The change in accounting principle was adopted on a modified prospective basis in 2020. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of July 1, 2019.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This new accounting standard provides a better presentation of cash flows to the users of its financial statements. Before the change, restricted cash and restricted cash equivalents were not included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts reported on the statement of cash flows. The Organization had no restricted cash for the years ended June 30, 2020 and 2019.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

NOTE 2 - LINE OF CREDIT

The Organization has a line of credit with a maximum borrowing authorization of \$300,000. Advances against this line bear an interest rate at 1% above the current bank prime rate. A balance of zero was to be maintained for 30 consecutive days each year. This was removed during the year ended June 30, 2020. There was no balance due as of June 30, 2020 and 2019.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 3 - LIQUIDITY AND AVAILABILITY

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of music and dance instruction and arts therapy services, as well as the conduct of services undertaken to support those activities to be general expenditures.

At June 30, 2020 and 2019, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 693,420	\$ 298,879
Accounts Receivable, Net of Allowance	50,100	40,288
Pledges Receivable, Net of Allowance	89,710	29,272
Investments	3,966,267	3,947,418
Less: Donor-Imposed Restrictions	(1,768,807)	(1,547,317)
Less: Board Designated Quasi-Endowment	<u>(2,648,349)</u>	<u>(2,630,500)</u>
	<u>\$ 382,341</u>	<u>\$ 138,040</u>

The Organization also has a committed line of credit in the amount of \$300,000, which it may draw upon in the event of short-term liquidity needs.

Although the board designated funds are intended for specific uses, the board has the ability to make funds available for general expenditures, if necessary.

Liquidity and availability of funds is monitored by the President/Executive Director, the Business Manager, and the Finance Committee. Annual operating budgets that may include a draw of funds from the endowment/quasi-endowment, per the Board-approved Spending Policy, are approved by the Board of Directors.

NOTE 4 - INVESTMENTS

Investments in equity securities with readily determinable fair values, and all investments in debt securities are measured at fair market value. Unrealized gains or losses on securities result from differences between the cost and fair market value of securities on a specified valuation date.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 4 - INVESTMENTS (Continued)

Investment securities are exposed to various risks, such as interest rate, market, economic conditions, world affairs, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the accompanying financial statements.

Investments are held in investment funds managed by professional investment advisors.

A summary of investments at market value at June 30, 2020 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
Equity Investments	\$ 2,355,537	\$ -	\$ -	\$ 2,355,537
U.S. Securities*	123,370	-	-	123,370
Corporate Bond Funds	-	503,274	-	503,274
Mutual Bond Funds	545,140	-	-	545,140
Mutual Funds	334,627	-	-	334,627
Money Market Funds	<u>104,319</u>	<u>-</u>	<u>-</u>	<u>104,319</u>
Totals	<u>\$ 3,462,993</u>	<u>\$ 503,274</u>	<u>\$ -</u>	<u>\$ 3,966,267</u>

A summary of investments at market value at June 30, 2019 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
Equity Investments	\$ 2,207,229	\$ -	\$ -	\$ 2,207,229
U.S. Securities*	45,422	-	-	45,422
Corporate Bond Funds	-	443,190	-	443,190
Mutual Bond Funds	660,638	-	-	660,638
Mutual Funds	554,847	-	-	554,847
Money Market Funds	<u>36,092</u>	<u>-</u>	<u>-</u>	<u>36,092</u>
Totals	<u>\$ 3,504,228</u>	<u>\$ 443,190</u>	<u>\$ -</u>	<u>\$ 3,947,418</u>

* Includes U.S. Government and Government Backed Securities.

Bond investment values are determined by the closing bid price on the last business day of the fiscal year if actively traded.

There were no changes in the valuation techniques during the year.

The Organization draws cash to support programs/operations and capital expenditures when needed, according to the spending policy authorized by the Board of Directors. During 2020 and 2019, funds withdrawn equated to \$274,295 and \$227,520, respectively.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 5 - PLEDGES RECEIVABLE

The Organization has received pledges in support of their operations. The pledges have varying payment schedules. Total pledges at June 30 were:

	2020	2019
In One Year or Less	\$ 61,200	\$ 30,762
Between One Year and Five Years	30,000	-
	91,200	30,762
Less:		
Allowance for Uncollectible Pledges	(126)	(126)
Discount, at 5%	(1,364)	(1,364)
	<u>\$ 89,710</u>	<u>\$ 29,272</u>

NOTE 6 - COMMITMENTS

The Organization is obligated under a non-cancelable operating lease for facilities through June 30, 2021 with an option to renew for successive one year periods. Rentals for June 30, 2020 and 2019 totaled \$35,158 and \$39,451, respectively.

Future minimum lease payment commitments are as follows:

<u>Year</u>	<u>Amount</u>
2021	<u>\$ 28,440</u>

NOTE 7 - DONATED SERVICES AND GOODS

The Organization receives donated services that, although substantial, do not meet the criteria for recording as revenue and expense under accounting principles generally accepted in the United States of America. During 2020 and 2019, approximately 115 and 150 active volunteers provided 1,100 and 1,200 hours of service, respectively.

The Organization receives donated goods that do meet the criteria for recording as revenue and expense or as assets under accounting principles generally accepted in the United States of America. They received donations of instruments and other miscellaneous items during the year. The estimated fair market value of the goods received was \$29,300 and \$42,787 for the years ended June 30, 2020 and 2019, respectively.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 8 - LONG TERM DEBT

	<u>2020</u>	<u>2019</u>
Long-term debt consists of the following at June 30:		
Note payable to a bank for purchase of a parking lot, originally in the amount of \$475,000. This note bears interest at 0.75% above the current bank prime rate. Principal was payable in annual installments of \$47,500 starting in February 2011 through February 2020. Interest was payable monthly. This note was secured by investments. This note was paid off in 2020.	\$ -	\$ 47,500
Less: Current Maturities	-	(47,500)
Long-Term Portion	\$ -	\$ -

NOTE 9 - LOAN PAYABLE

In April 2020, the Organization applied for and was approved to receive a \$385,410 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin for six months after the funding of the loan. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government.

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Capital Projects	\$ 224,781	\$ 68,685
Time Restrictions	71,200	30,762
Hochstein Youth Orchestra	21,741	15,923
Dome Piano Restoration	18,135	23,135
ROC Music	18,120	43,000
Piano Repair	11,105	12,206

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

	<u>2020</u>	<u>2019</u>
Belov Instrument	7,884	7,914
Guitar	1,353	1,353
Flute Fund	1,300	1,300
Expressive Arts	576	25,576
Piano Department	<u>545</u>	<u>545</u>
Subtotal	376,740	230,399
Perpetual in Nature	<u>1,392,067</u>	<u>1,316,918</u>
Total Net Assets with Donor Restrictions	<u>\$ 1,768,807</u>	<u>\$ 1,547,317</u>

NOTE 11 - ENDOWMENTS

The Organization's endowment consists of approximately 10 individual funds established for a variety of purposes. Its endowments include both donor-restricted funds and funds designated by the board of directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions or board designations.

Interpretation of Relevant Law

The Organization has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions, the original value of gifts donated to the perpetual endowment, the original value of subsequent gifts to the perpetual endowment, and accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with NYPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization (7) where appropriate and circumstances would otherwise warrant alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Organization, and (8) the Organization's investment policies.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 11 - ENDOWMENTS (Continued)

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of Directors of the Organization has interpreted NYPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no such deficiencies as of June 30, 2020 and 2019.

Investment Return Objectives, Risk Parameters and Strategies

The Organization has adopted investment and spending policies approved by the Board of Directors for endowment assets that attempt to provide a predictable stream of funding for programs supported by these investments, while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income, as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, mutual funds, and/or money market funds that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 6%, while growing the funds if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average rate of return sufficient for this distribution, and also to provide for the long term growth of the principal of the invested funds. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund, investment assets, and allocation between asset classes, and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Organization has a policy of appropriating for distribution each year, 6% of its endowment fund's average fair value based on the ending value from the prior 3 calendar years. The percentage will be determined annually by the Finance Committee and recommended to the Board of Directors for its approval. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow at a rate sufficient to support a sustainable supplemental flow of income, and appreciation to be used for general purposes of the school to meet donor restrictions, and to provide for the long-term growth of the principal of the invested funds. This is consistent with the Organization's objectives to maintain the purchasing power of the endowment assets, as well as to provide additional real growth through new gifts and investment return.

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 11 - ENDOWMENTS (Continued)

Endowment net asset composition by type of fund as of June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment fund	\$ 2,648,349	\$ -	\$ 2,648,349
Donor-restricted endowment fund: Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	<u>-</u>	<u>1,317,918</u>	<u>1,317,918</u>
Total Endowment Net Assets	<u>\$ 2,648,349</u>	<u>\$ 1,317,918</u>	<u>\$ 3,966,267</u>

Endowment net asset composition by type of fund as of June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment fund	\$ 2,630,500	\$ -	\$ 2,630,500
Donor-restricted endowment fund: Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	<u>-</u>	<u>1,316,918</u>	<u>1,316,918</u>
Total Endowment Net Assets	<u>\$ 2,630,500</u>	<u>\$ 1,316,918</u>	<u>\$ 3,947,418</u>

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 11 - ENDOWMENTS (Continued)

Changes in endowment net assets as of June 30, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets - Beginning of Year	\$ 2,630,500	\$ 1,316,918	\$ 3,947,418
Net Investment Returns	183,451	108,693	292,144
Contributions	-	1,000	1,000
Appropriation of Endowment Assets Pursuant to Spending Rate Policy	-	(108,693)	(108,693)
Other Changes:			
Distribution From Board-Designated Endowment Pursuant to Distribution Policy	<u>(165,602)</u>	<u>-</u>	<u>(165,602)</u>
Endowment Net Assets - End of Year	2,648,349	1,317,918	3,966,267
Pledges Receivable for Endowment	<u>-</u>	<u>74,149</u>	<u>74,149</u>
Reconciled Endowment Net Assets Including Pledges Receivable	<u>\$ 2,648,349</u>	<u>\$ 1,392,067</u>	<u>\$ 4,040,416</u>

Changes in endowment net assets as of June 30, 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets - Beginning of Year	\$ 2,562,227	\$ 1,286,878	\$ 3,849,105
Net Investment Returns	185,654	110,139	295,793
Contributions	-	30,040	30,040
Appropriation of Endowment Assets Pursuant to Spending Rate Policy	-	(110,139)	(110,139)
Other Changes:			
Distribution From Board-Designated Endowment Pursuant to Distribution Policy	<u>(117,381)</u>	<u>-</u>	<u>(117,381)</u>
Endowment Net Assets - End of Year	<u>\$ 2,630,500</u>	<u>\$ 1,316,918</u>	<u>\$ 3,947,418</u>

THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 12 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 16, 2020, which is the date the statements were available for issuance.

Beginning around March 2020, the COVID-19 virus has been declared a global pandemic as it continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty. However, subsequent to June 30, 2020, the investment and credit markets have continued to experience significant volatility. As a result, a substantial portion of the Organization's investments may continue to experience significant declines.

In August 2020, the Organization opened two lines of credit with ESL Federal Credit Union (ESL) for \$250,000 and \$300,000. Advances against these lines bear interest rates at current bank prime rate and .75% below the current bank prime rate, respectively. These lines are secured by assets held with ESL.