

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND
DANCE AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

AUGUST 31, 2016

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

TABLE OF CONTENTS

Independent Auditor's Report

Exhibit

- A - Consolidated Balance Sheet**
- B - Consolidated Statement of Activities**
- C - Consolidated Statement of Functional Expenses**
- D - Consolidated Statement of Cash Flows**

Notes to Consolidated Financial Statements

Schedule

- 1 - Schedule of Functional Expenses of The Elaine Kaufman Cultural Center/
Lucy Moses School for Music and Dance**
- 2 - Schedule of Functional Expenses of Opus 118 Harlem School of Music**

Independent Auditor's Report

**Board of Trustees
The Elaine Kaufman Cultural Center/
Lucy Moses School for Music and Dance and Affiliate**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Elaine Kaufman Cultural Center/Lucy Moses School for Music and Dance and Affiliate, which comprise the consolidated balance sheet as of August 31, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Elaine Kaufman Cultural Center/Lucy Moses School for Music and Dance and Affiliate as of August 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Elaine Kaufman Cultural Center/Lucy Moses School for Music and Dance's August 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 3, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Loeb & Troper LLP

January 13, 2017

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

EXHIBIT A

CONSOLIDATED BALANCE SHEET

AUGUST 31, 2016

(With Summarized Financial Information for August 31, 2015)

	2016			2015
	<u>Center</u>	<u>Opus 118</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Cash	\$ 2,440,382	\$ 65,433		\$ 2,505,815
Certificates of deposit	250,000			250,000
Investments (Note 2)	8,411,083			8,411,083
Accounts receivable (net of allowance for doubtful accounts of \$9,362 in 2016 and \$4,234 in 2015)	22,175	6,000		28,175
Contributions receivable (Note 4)	1,518,578	13,646		1,532,224
Government grant receivable				60,000
Note receivable from Opus 118	50,000		\$ (50,000)	
Accrued interest and other receivables	61,277		(6,281)	54,996
Prepaid expenses and other assets	120,479	600		121,079
Due from Opus 118	852		(852)	
Fixed assets - net (Note 5)	<u>12,505,905</u>	<u>65,782</u>		<u>12,571,687</u>
Total assets	<u>\$ 25,380,731</u>	<u>\$ 151,461</u>	<u>\$ (57,133)</u>	<u>\$ 25,475,059</u>
				<u>\$ 25,636,563</u>

-continued-

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

**EXHIBIT A
-2-**

CONSOLIDATED BALANCE SHEET

AUGUST 31, 2016

(With Summarized Financial Information for August 31, 2015)

	2016			2015
	<u>Center</u>	<u>Opus 118</u>	<u>Eliminations</u>	<u>Total</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 200,496	\$ 19,328		\$ 219,824
Accrued salaries payable	87,289			87,289
Accrued interest payable		6,281	\$ (6,281)	
Loan payable to the Center		50,000	(50,000)	
Due to the Center		852	(852)	
Deferred revenue				
Ticket sales	220,875			220,875
Tuition and other fees	729,658	3,302		732,960
Accrued retirement benefits payable (Note 6)	81,257			81,257
Total liabilities	<u>1,319,575</u>	<u>79,763</u>	<u>(57,133)</u>	<u>1,342,205</u>
Net assets (Exhibit B)				
Unrestricted	14,531,231	58,052		14,589,283
Temporarily restricted (Note 7)	3,370,393	13,646		3,384,039
Permanently restricted (Note 8)	6,159,532			6,159,532
Total net assets	<u>24,061,156</u>	<u>71,698</u>		<u>24,132,854</u>
Total liabilities and net assets	<u>\$ 25,380,731</u>	<u>\$ 151,461</u>	<u>\$ (57,133)</u>	<u>\$ 25,475,059</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE

EXHIBIT B

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2016

(With Summarized Financial Information for the Year Ended August 31, 2015)

	Unrestricted					Temporarily Restricted	Permanently Restricted	Total	
	Operating	Center Plant	Total	Opus 118	Eliminations			Total	2016
Revenues, gains (losses) and other support									
Tuition and related revenues - Center (net of scholarships of \$211,159 in 2016)	\$ 3,422,410		\$ 3,422,410			\$ 3,422,410		\$ 3,422,410	\$ 3,196,584
Tuition and related revenues - Opus 118 Harlem School of Music (net of scholarships of \$47,468 in 2016)				\$ 166,663		166,663		166,663	157,892
Presentation/facilities services	1,249,425		1,249,425			1,249,425		1,249,425	1,158,985
Contributions	399,646		399,646	167,989		567,635	\$ 2,315,041	2,882,676	1,927,368
Contributions - in-kind (Note 10)		\$ 21,158	21,158	21,563		42,721		42,721	18,563
Special events	550,514		550,514			550,514		550,514	564,994
Direct cost of special events	(114,867)		(114,867)			(114,867)		(114,867)	(97,366)
Special projects contributions							56,693	56,693	49,000
Rental income	682,244		682,244			682,244		682,244	682,244
Government grants							260,300	260,300	285,800
Contracted services	93,671		93,671		\$ (36,000)	57,671		57,671	39,272
Investment income (Note 3)	114,335		114,335		(1,500)	112,835	494,558	607,393	(170,209)
Other income				9,890		9,890		9,890	6,904
Net assets released from restrictions (Note 7)	2,331,799	96,219	2,428,018			2,428,018	(2,428,018)		
Total revenues, gains (losses) and other support	8,729,177	117,377	8,846,554	366,105	(37,500)	9,175,159	698,574	9,873,733	7,820,031
Expenses (Exhibit C)									
Program services									
Lucy Moses School	3,013,835	268,342	3,282,177			3,282,177		3,282,177	3,248,007
Special Music School K-8	1,361,117	392,378	1,753,495			1,753,495		1,753,495	1,768,947
Special Music School H.S.	576,846	5,822	582,668			582,668		582,668	472,992
Theatre program	553,304	52,608	605,912			605,912		605,912	610,431
Presentations/facilities services	1,520,473	240,272	1,760,745			1,760,745		1,760,745	1,678,914
Face the Music	294,445	3,223	297,668			297,668		297,668	261,791
Library	21,891	7,798	29,689			29,689		29,689	38,455
Special projects	47,201		47,201			47,201		47,201	40,165
Opus 118 in-school				107,268		107,268		107,268	99,901
Opus 118 after-school				106,182		106,182		106,182	178,700
Total program services	7,389,112	970,443	8,359,555	213,450		8,573,005		8,573,005	8,398,303
Supporting services									
Management and general	357,593	31,191	388,784	161,501	(37,500)	512,785		512,785	367,443
Fund raising	1,010,810	38,053	1,048,863	28,451		1,077,314		1,077,314	1,060,265
Total supporting services	1,368,403	69,244	1,437,647	189,952	(37,500)	1,590,099		1,590,099	1,427,708
Total expenses	8,757,515	1,039,687	9,797,202	403,402	(37,500)	10,163,104		10,163,104	9,826,011
Excess (deficiency) of revenues, gains (losses) and other support over expenses	(28,338)	(922,310)	(950,648)	(37,297)	-	(987,945)	698,574	(289,371)	(2,005,980)
Other changes in net assets									
Consolidation of net assets of Opus 118 Harlem School of Music									166,308
Acquisition of fixed assets	(119,374)	119,374							
Change in net assets (Exhibit D)	(147,712)	(802,936)	(950,648)	(37,297)	-	(987,945)	698,574	(289,371)	(1,839,672)
Net assets - beginning of year	3,764,571	11,717,308	15,481,879	95,349		15,577,228	2,685,465	24,422,225	26,261,897
Net assets - end of year (Exhibit A)	\$ 3,616,859	\$ 10,914,372	\$ 14,531,231	\$ 58,052	\$ -	\$ 14,589,283	\$ 3,384,039	\$ 6,159,532	\$ 24,422,225

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE

EXHIBIT C

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2016
(With Summarized Financial Information for the Year Ended August 31, 2015)

	Program Services											Supporting Services			Total		
	Lucy Moses School	Special Music School K-8	Special Music School H.S.	Theatre Program	Presentations/Facilities Services	Face The Music	Library	Special Projects	Opus 118 In-School	Opus 118 After-School	Total	Management and General	Fund Raising	Special Events	Total	2016	2015
Salaries	\$ 2,211,359	\$ 938,032	\$ 477,133	\$ 281,984	\$ 794,127	\$ 201,606	\$ 14,249	\$ 26,059	\$ 74,436	\$ 72,017	\$ 5,091,002	\$ 103,477	\$ 690,237	\$ 793,714	\$ 5,884,716	\$ 5,663,203	
Payroll taxes and employee benefits	350,005	178,073	58,369	54,629	172,357	40,152	2,200	11,534	9,301	8,999	885,619	18,965	127,733	146,698	1,032,317	983,121	
Total salaries and related expenses	2,561,364	1,116,105	535,502	336,613	966,484	241,758	16,449	37,593	83,737	81,016	5,976,621	122,442	817,970	940,412	6,917,033	6,646,324	
Supplies and printing	54,444	4,389	8,247	18,437	88,736	2,942	34	1,889	798	772	180,688	7,643	32,711	40,354	221,042	221,797	
Telephone and Internet	8,910	2,913	263	352	8,429	163	113		110	106	21,359	1,778	5,246	7,024	28,383	29,754	
Equipment rental and maintenance	32,393	15,980	2,728	1,596	29,940	1,312	228		1,131	1,094	86,402	6,758	18,030	24,788	111,190	75,009	
Postage	11,661	398	34	6,197	24,175	29					42,494	1,553	8,349	9,902	52,396	41,360	
Outside services	61,028	12,720	5,149	47,240	55,128	5,254	812	4,512			191,843	42,280	61,719	103,999	295,842	352,693	
Legal fees												120,616		120,616	8,405	8,405	
Advertising												68,378		68,378	68,378	62,151	
Cultivation expenses	6,281	738	691	1,434	2,510	1,489					13,143	4,361	5,466	9,827	22,970	23,987	
Fares and messengers	951	19	207	5,412	628	14,395		112			21,724	566	3,379	3,945	25,669	21,730	
Piano tuning and instrumental	23,302	7,362	5,105	1,080	37,969	655					75,473			75,473	73,847	73,847	
Graphic artist	5,400									2,400	7,800		5,983	5,983	13,783	13,600	
Artists' fees			9,550	88,750	77,000	16,375					191,675			191,675	186,434	186,434	
Promotional materials	797			336	3,997						5,130			5,130	9,228	9,228	
Publication and conventions	9,552			470	2,633		691	3,095			16,441	3,400	4,596	7,996	24,437	19,027	
Computerization	924	350	927		2,795	1,114					6,110	4,288	561	4,849	10,959	7,477	
Concession expense					13,446						13,446			13,446	13,332	13,332	
Investment advisory fees												49,294		49,294	49,294	53,148	
Audit fees												39,000		39,000	39,000	37,515	
Supplemental retirement benefits												19,330		19,330	19,330	32,904	
Service charges	52,721	1,496	252	6,824	6,573	998					68,864		6,251	6,251	75,115	69,450	
Other fees												25		25	25	5,434	
Space rental (Note 10)		525		10,000		1,213			12,255	11,857	35,850	2,169	688	2,857	38,707	39,127	
Liability insurance - licensees					5,600						5,600			5,600	5,600	5,600	
Other insurance									3,916	3,788	7,704	3,011	955	3,966	11,670	11,022	
Marketing expenses	60,970	18,065	4,516	4,516	83,552	4,516					176,135		49,680	49,680	225,815	204,200	
Building expense	122,662	179,358	2,661	24,047	109,830	1,473	3,564				443,595	14,257	17,394	31,651	475,246	536,968	
Depreciation	268,342	392,378	5,822	52,608	240,272	3,223	7,798		5,321	5,149	980,913	31,191	38,053	69,244	1,050,157	1,067,786	
Sundry	475	699	1,014		1,048	759					3,995	412	188	600	4,595	9,850	
Catering and event planning														\$ 114,867	114,867	114,867	
Bad debt												14,404		14,404	14,404	14,404	
Other expenses												4,923	95	5,018	5,018	5,018	
Total expenses	3,282,177	1,753,495	582,668	605,912	1,760,745	297,668	29,689	47,201	107,268	106,182	8,573,005	562,079	1,077,314	114,867	1,754,260	10,327,265	9,976,525
Less expenses deducted directly from revenues on the statement of activities																	
Investment advisory fees												(49,294)		(49,294)	(49,294)	(53,148)	
Direct costs of special events													(114,867)	(114,867)	(114,867)	(97,366)	
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 3,282,177	\$ 1,753,495	\$ 582,668	\$ 605,912	\$ 1,760,745	\$ 297,668	\$ 29,689	\$ 47,201	\$ 107,268	\$ 106,182	\$ 8,573,005	\$ 512,785	\$ 1,077,314	\$ -	\$ 1,590,099	\$ 10,163,104	\$ 9,826,011

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE****CONSOLIDATED STATEMENT OF CASH FLOWS****YEAR ENDED AUGUST 31, 2016**

Cash flows from operating activities		
Change in net assets (Exhibit B)	\$	(289,371)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation		1,050,157
Realized gain on investments		(369,532)
Unrealized gain on investments		(70,478)
Donated fixed assets		(24,158)
Decrease (increase) in assets		
Accounts receivable		(7,054)
Contributions receivable		(752,746)
Government grant receivable		60,000
Accrued interest and other receivables		(4,853)
Prepaid expenses and other assets		5,175
Increase (decrease) in liabilities		
Accounts payable and accrued expenses		60,428
Accrued salaries payable		55,810
Deferred revenue		28,299
Accrued retirement benefits payable		(16,670)
		<u>(16,670)</u>
Net cash provided (used) by operating activities	\$	(274,993)
Cash flows from investing activities		
Fixed asset acquisitions		(119,374)
Proceeds from sales of investments and certificates of deposit		2,155,665
Purchases of investments and certificates of deposit		<u>(1,991,595)</u>
Net cash provided by investing activities		<u>44,696</u>
Net change in cash		(230,297)
Cash - beginning of year		<u>2,736,112</u>
Cash - end of year	\$	<u><u>2,505,815</u></u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2016

NOTE 1 - NATURE OF ENTITY

These consolidated financial statements consist of the following individually incorporated entities: The Elaine Kaufman Cultural Center/Lucy Moses School for Music and Dance (the “Center”) and Opus 118 Harlem School of Music (Opus 118).

The Center, founded on the belief that the arts are essential to the human experience and a vital component of education for everyone, is a unique and innovative center for music education and performance in New York City, providing music education and performance programs for more than 75,000 New Yorkers of all ages and ability levels each year through the Lucy Moses School, Special Music School, Merkin Concert Hall, Face the Music and a vibrant musical theater program.

Opus 118 Harlem School of Music (“Opus 118”) was founded in 1991. Opus 118 remains committed to its mission of providing quality music instruction and teacher development in an environment that nurtures excellence and creativity.

Effective September 1, 2014, the Center became the sole member of Opus 118.

The Center and Opus 118 are not-for-profit organizations exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and are publicly supported organizations as described in Section 509(a). The Center and Opus 118 are funded primarily through tuition and contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The consolidated financial statements are prepared on the accrual basis of accounting.

Consolidation policy - All material intercompany transactions and balances have been eliminated in the consolidation.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certificates of deposit - Certificates of deposit have maturity dates of more than three months and are considered investments for purposes of cash flow reporting.

-continued-

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments - Investments are recorded at fair value. The Center invests in various types of investment securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility 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, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the Center's financial statements.

Accounts receivable and allowance for doubtful accounts - Accounts receivable consist primarily of unpaid tuition and other fees. Accounts receivable are presented net of allowances for doubtful accounts. The allowances are based on the age of the receivable, a review of payments subsequent to year end, and management's evaluation of the collectibility of the related accounts. Interest is not accrued or recorded on outstanding receivables.

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. The allowances are based on management's evaluation of the collectibility of the related accounts.

Fixed assets - Fixed assets purchases of \$1,000 with estimated useful lives of greater than one year are recorded at cost and depreciated on the straight-line method over their estimated useful lives.

Unrestricted net assets - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

Temporarily and permanently restricted net assets - Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

Tuition and related revenues - Tuition is recognized on the accrual basis. Tuition is billed in advance of services rendered, and revenues are recognized as earned. Payments received in advance are deferred until earned.

-continued-

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Scholarships - The policy of the Center and of Opus 118 has been to award scholarships to deserving students in lieu of accepting only students who have the ability to pay full tuition. Scholarships are netted against revenues in the statement of activities.

Presentation/facilities services - Presentation/facilities services includes concert division revenues which the Center recognizes when events occur. Payments received in advance of the events are deferred until recognized.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In-kind contributions - In-kind contributions are recognized at fair value at the date of donation.

Rental income - Rental income is recorded in accordance with the terms of the agreement. Deferred rental income is recorded when it is material.

Government grants - Government grants are recorded as revenues to the extent that expenditures have been incurred for the purposes specified by the granting agencies. Revenues from government contracts are subject to audit and negotiations between the Center and the government agencies. All government grants received are restricted for specific purposes.

Advertising - Advertising costs are expensed as incurred.

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Summarized financial information - The financial statements include certain prior-year summarized 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 August 31, 2015, from which the summarized information was derived.

-continued-

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The 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 methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access. Level 2 inputs to the valuation methodology 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 other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology 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.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2016 as compared to those used at August 31, 2015.

Corporate bonds, municipal bonds, asset-backed securities and common stock - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the net asset value (NAV) of shares held by the Center at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

-continued-

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of August 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Corporate bonds		\$ 3,117,480	\$ 3,117,480
Municipal bonds		817,975	817,975
Mutual funds - domestic	\$ 616,762		616,762
Asset-backed securities		91,124	91,124
Common stock			
Basic materials	410,472		410,472
Consumer goods	883,501		883,501
Financial	832,442		832,442
Healthcare	352,666		352,666
Industrial goods	571,985		571,985
Services	142,065		142,065
Technology	<u>183,872</u>		<u>183,872</u>
Total investments reported on the fair value hierarchy	<u>\$ 3,993,765</u>	<u>\$ 4,026,579</u>	8,020,344
Cash and cash equivalents			<u>390,739</u>
Total investments			<u>\$ 8,411,083</u>

Uncertainty in income taxes - The Center has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Periods ending August 31, 2013 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through January 13, 2017, which is the date the consolidated financial statements were available to be issued.

-continued-

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2016

NOTE 3 - INVESTMENT INCOME

Investment income consists of the following:

Interest and dividends	\$ 216,677
Realized gain on investments	369,532
Unrealized gain on investments	<u>70,478</u>
	656,687
Less investment advisory fees	<u>(49,294)</u>
	<u>\$ 607,393</u>

NOTE 4 - CONTRIBUTIONS RECEIVABLE

All unconditional contributions receivable have been recorded at fair value. Those receivables that are due in more than one year have been discounted to their present value using an estimated discount rate of 5%.

Contributions receivable are due to be collected as follows:

2017	\$ 810,696
2018	419,358
2019	191,667
2020	<u>171,666</u>
	1,593,387
Less discount to present value	<u>(61,163)</u>
Total	<u>\$ 1,532,224</u>

-continued-

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2016

NOTE 5 - FIXED ASSETS

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Estimated Useful Lives</u>
Land	\$ 993,154		\$ 993,154	
Building	3,799,308	\$ 3,585,607	213,701	40 years
Building improvements	18,147,161	7,362,633	10,784,528	25-40 years
Furniture and equipment	<u>2,646,185</u>	<u>2,065,881</u>	<u>580,304</u>	5-10 years
	<u>\$ 25,585,808</u>	<u>\$ 13,014,121</u>	<u>\$ 12,571,687</u>	

NOTE 6 - ACCRUED RETIREMENT BENEFITS PAYABLE

The governing board of the Center has agreed to pay an annual retirement benefit of \$36,000 to the founding director. The payments began during 1986 and are to continue for the remainder of her life. The financial statements include a liability of \$81,257, which represents the net present value of the expected payments, assuming a discount rate of 5%.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

The total amount funded by the City of New York for the purchase of equipment to date is \$2,308,513.

In connection with the above capital appropriation, the Center entered into a restrictive covenant to limit the use of its building for the benefit of the people of the City. The covenant will expire in 2028.

In accordance with NYC Department of Cultural Affairs guidelines, the funding from the City is being released from restrictions as the corresponding asset is being depreciated.

Temporarily restricted net assets at August 31, 2016 of \$3,384,039 are available for:

Future periods	\$ 1,532,224
Specific purposes - music and arts programs	60,082
Capital building, including undepreciated City of New York capital equipment contributions of \$1,591,533	<u>1,791,733</u>
	<u>\$ 3,384,039</u>

-continued-

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2016

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS (continued)

During 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Depreciation of City capital contributions	\$ 96,219
Music and arts programs	1,240,947
Special Music School K-8	378,979
Special Music School H.S.	155,598
Passage of time	<u>556,275</u>
	<u>\$ 2,428,018</u>

During 2016, the following amounts were added to temporarily restricted net assets:

Capital building	\$ 28,600
Music and arts programs	1,254,394
Special Music School K-8	378,979
Special Music School H.S.	155,598
Future periods	<u>1,309,021</u>
	<u>\$ 3,126,592</u>

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

Chorale	\$ 150,000
Library	553,831
Lucy Moses School	300,000
Merkin Concert Hall	200,000
Operating	3,980,590
Scholarship	782,639
Special Music School	<u>167,472</u>
Total endowments	6,134,532
Loan fund	<u>25,000</u>
Total permanently restricted net assets	<u>\$ 6,159,532</u>

-continued-

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2016

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS (continued)

Interpretation of Relevant Law

The Board of Trustees of the Center adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the “historic dollar value” standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Center is governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7% of the average of its previous five years’ balance. As a result of this interpretation, the Center classifies as permanently restricted net assets (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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of the Center is to maintain the principal of the seven endowment funds at the original amount designated by the donor while generating income to support programs of the Center. The investment policy is designed to achieve this objective. Interest earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established. Interest and dividends earned in relation to the endowment fund was recorded as unrestricted, since it was spent in the year that it was earned.

Funds with Deficiencies

The Center does not have any funds with deficiencies.

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2016

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS (continued)

Changes in Endowment Net Assets for the Year Ended August 31, 2016

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 6,134,532	\$ 6,134,532
Interest and dividends	\$ 153,091		153,091
Investment gains	341,467		341,467
Appropriation for expenditures	<u>(494,558)</u>		<u>(494,558)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 6,134,532</u>	<u>\$ 6,134,532</u>

NOTE 9 - RENTAL INCOME

On August 31, 2012, the Center signed an extension of the license agreement with The New York City School Construction Authority for the Special Music School for ten additional years, expiring September 1, 2022.

Future minimum rental income is as follows:

2017	\$ 709,104
2018	709,104
2019	735,964
2020	735,964
2021	762,824
Subsequent	<u>762,824</u>
Total	<u>\$ 4,415,784</u>

-continued-

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2016

NOTE 10 - GIFTS IN KIND

The Center received the following gifts in kind:

Musical instruments	\$ <u>21,158</u>
---------------------	------------------

Opus 118 received the following gifts in kind:

CPE2 Elementary School Donated Space and Utilities	\$ 18,563
Musical instrument	<u>3,000</u>
	<u>\$ 21,563</u>

NOTE 11 - PENSION

The Center has a defined contribution plan with Teachers Insurance and Annuity Association. Eligible employees may receive up to a 7% contribution depending on length of service. Pension expense for the year was \$171,665.

NOTE 12 - CONCENTRATIONS

Financial instruments which potentially subject the Center to a concentration of credit risk are cash accounts with a financial institution in excess of FDIC insurance limits.

THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE

SCHEDULE 1

SCHEDULE OF FUNCTIONAL EXPENSES OF THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE

YEAR ENDED AUGUST 31, 2016
(With Summarized Financial Information for the Year Ended August 31, 2015)

	Program Services									Supporting Services			Total		
	Lucy Moses School	Special Music School K-8	Special Music School H.S.	Theatre Program	Presentations/Facilities Services	Face The Music	Library	Special Projects	Total	Management and General	Fund Raising	Special Events	Total	2016	2015
Salaries	\$ 2,211,359	\$ 938,032	\$ 477,133	\$ 281,984	\$ 794,127	\$ 201,606	\$ 14,249	\$ 26,059	\$ 4,944,549	\$ 46,231	\$ 672,073		\$ 718,304	\$ 5,662,853	\$ 5,412,344
Payroll taxes and employee benefits	350,005	178,073	58,369	54,629	172,357	40,152	2,200	11,534	867,319	11,372	125,463		136,835	1,004,154	949,627
Total salaries and related expenses	2,561,364	1,116,105	535,502	336,613	966,484	241,758	16,449	37,593	5,811,868	57,603	797,536		855,139	6,667,007	6,361,971
Supplies and printing	54,444	4,389	8,247	18,437	88,736	2,942	34	1,889	179,118	2,171	32,668		34,839	213,957	204,984
Telephone and Internet	8,910	2,913	263	352	8,429	163	113		21,143	1,694	5,219		6,913	28,056	29,230
Equipment rental and maintenance	32,393	15,980	2,728	1,596	29,940	1,312	228		84,177	6,758	18,030		24,788	108,965	75,009
Postage	11,661	398	34	6,197	24,175	29			42,494	953	8,159		9,112	51,606	40,098
Outside services	61,028	12,720	5,149	47,240	55,128	5,254	812	4,512	191,843	22,781	55,700		78,481	270,324	337,073
Legal fees										120,616			120,616	120,616	8,405
Advertising										68,378			68,378	68,378	62,151
Cultivation expenses	6,281	738	691	1,434	2,510	1,489			13,143	4,361	5,466		9,827	22,970	23,987
Fares and messengers	951	19	207	5,412	628	14,395		112	21,724	566	3,379		3,945	25,669	21,730
Piano tuning and instrumental	23,302	7,362	5,105	1,080	37,969	655			75,473					75,473	73,847
Graphic artist	5,400								5,400		5,983		5,983	11,383	13,600
Artists' fees			9,550	88,750	77,000	16,375			191,675					191,675	184,584
Promotional materials	797			336	3,997				5,130					5,130	9,228
Publication and conventions	9,552			470	2,633		691	3,095	16,441	3,400	4,596		7,996	24,437	19,027
Computerization	924	350	927		2,795	1,114			6,110	4,288	561		4,849	10,959	7,477
Concession expense					13,446				13,446					13,446	13,332
Investment advisory fees										49,294			49,294	49,294	53,148
Audit fees										30,000			30,000	30,000	29,000
Supplemental retirement benefits										19,330			19,330	19,330	32,904
Service charges	52,721	1,496	252	6,824	6,573	998			68,864		6,251		6,251	75,115	69,450
Other fees										25			25	25	1,202
Space rental		525		10,000		1,213			11,738					11,738	12,152
Liability insurance - licensees					5,600				5,600					5,600	5,600
Marketing expenses	60,970	18,065	4,516	4,516	83,552	4,516			176,135		49,680		49,680	225,815	204,200
Building expense	122,662	179,358	2,661	24,047	109,830	1,473	3,564		443,595	14,257	17,394		31,651	475,246	536,968
Depreciation	268,342	392,378	5,822	52,608	240,272	3,223	7,798		970,443	31,191	38,053		69,244	1,039,687	1,057,316
Charitable contributions															8,500
Sundry	475	699	1,014		1,048	759			3,995	412	188		600	4,595	9,850
Catering and event planning												\$ 114,867	114,867	114,867	97,366
Total expenses	3,282,177	1,753,495	582,668	605,912	1,760,745	297,668	29,689	47,201	8,359,555	438,078	1,048,863	114,867	1,601,808	9,961,363	9,603,389
Less expenses deducted directly from revenues on the statement of activities															
Investment advisory fees										(49,294)			(49,294)	(49,294)	(53,148)
Direct costs of special events											(114,867)		(114,867)	(114,867)	(97,366)
Total expenses	\$ 3,282,177	\$ 1,753,495	\$ 582,668	\$ 605,912	\$ 1,760,745	\$ 297,668	\$ 29,689	\$ 47,201	\$ 8,359,555	\$ 388,784	\$ 1,048,863	\$ -	\$ 1,437,647	\$ 9,797,202	\$ 9,452,875

See independent auditor's report.

**THE ELAINE KAUFMAN CULTURAL CENTER/
LUCY MOSES SCHOOL FOR MUSIC AND DANCE AND AFFILIATE**

SCHEDULE 2

**SCHEDULE OF FUNCTIONAL EXPENSES OF
OPUS 118 HARLEM SCHOOL OF MUSIC**

YEAR ENDED AUGUST 31, 2016

	<u>Program Services</u>			<u>Supporting Services</u>			
	<u>In School</u>	<u>After School</u>	<u>Total</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>	<u>Total</u>
Salaries	\$ 74,436	\$ 72,017	\$ 146,453	\$ 57,246	\$ 18,164	\$ 75,410	\$ 221,863
Payroll taxes and employee benefits	9,301	8,999	18,300	7,593	2,270	9,863	28,163
Total salaries and related expenses	83,737	81,016	164,753	64,839	20,434	85,273	250,026
Supplies and printing	798	772	1,570	5,472	43	5,515	7,085
Telephone	110	106	216	84	27	111	327
Equipment rental and maintenance	1,131	1,094	2,225				2,225
Postage				600	190	790	790
Outside services				55,499	6,019	61,518	61,518
Graphic artist fees		2,400	2,400				2,400
Audit fees				9,000		9,000	9,000
Space rental	12,255	11,857	24,112	2,169	688	2,857	26,969
Other insurance	3,916	3,788	7,704	3,011	955	3,966	11,670
Interest				1,500		1,500	1,500
Depreciation	5,321	5,149	10,470				10,470
Bad debt				14,404		14,404	14,404
Other expenses				4,923	95	5,018	5,018
Total expenses	<u>\$ 107,268</u>	<u>\$ 106,182</u>	<u>\$ 213,450</u>	<u>\$ 161,501</u>	<u>\$ 28,451</u>	<u>\$ 189,952</u>	<u>\$ 403,402</u>

See independent auditor's report.