

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

Independent Auditor's Report and Consolidated Financial Statements

August 31, 2018



**The Elaine Kaufman Cultural Center/
Lucy Moses School for Music and Dance and Affiliate
August 31, 2018**

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Independent Auditor's Report

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

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, 2018, 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 consolidated 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 consolidated 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 consolidated financial position of The Elaine Kaufman Cultural Center/Lucy Moses School for Music and Dance and Affiliate as of August 31, 2018, 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.

Prior Year Audited by Other Auditors and Summarized Comparative Information

The 2017 financial statements were audited by Loeb & Troper LLP, and their report thereon, dated February 7, 2018, expressed an unmodified opinion. The summarized comparative information presented herein as of and for the year ended August 31, 2017 is consistent with the audited financial statements from which it has been derived.

Consolidating and Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis rather than to present the financial position, change in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. The information in the Schedule of Functional Expenses of The Elaine Kaufman Cultural Center/Lucy Moses School for Music and Dance and Schedule of Functional Expenses of Opus 118 Harlem School of Music 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 consolidated 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.

The 2017 supplementary information was audited by Loeb & Troper LLP, whose report dated February 7, 2018, expressed an unmodified opinion on such information in relation to the financial statements for the year ended June 30, 2017, taken as a whole. The summarized comparative information presented herein for the year ended June 30, 2017 has been derived from those audited financial statements.

BKD, LLP

New York, New York
January 31, 2019

**The Elaine Kaufman Cultural Center/
Lucy Moses School for Music and Dance and Affiliate**
Consolidated Balance Sheet with Consolidating Information
August 31, 2018
(With Summarized Financial Information for August 31, 2017)

	2018			2017	
	Center	Opus 118	Eliminations	Total	Total
Assets					
Cash	\$ 2,683,570	\$ 120,211	\$ -	\$ 2,803,781	\$ 2,816,476
Certificates of deposit	-	74,974	-	74,974	74,974
Investments	8,645,270	-	-	8,645,270	8,702,074
Accounts receivable, net of allowance, 2018 - \$11,528, 2017 - \$14,597	3,545	-	-	3,545	17,375
Contributions receivable	761,124	-	-	761,124	820,582
Note receivable from Opus 118	50,000	-	(50,000)	-	-
Accrued interest and other receivables	87,859	-	(9,281)	78,578	47,404
Prepaid expenses and other assets	131,059	-	-	131,059	154,011
Due from Opus 118	848	-	(848)	-	-
Property and equipment, net	10,756,094	67,337	-	10,823,431	11,743,342
	<u>\$ 23,119,369</u>	<u>\$ 262,522</u>	<u>\$ (60,129)</u>	<u>\$ 23,321,762</u>	<u>\$ 24,376,238</u>
Total assets					

**The Elaine Kaufman Cultural Center/
Lucy Moses School for Music and Dance and Affiliate**
Consolidated Balance Sheet with Consolidating Information
August 31, 2018
(With Summarized Financial Information for August 31, 2017)

	2018				2017
	Center	Opus 118	Eliminations	Total	Total
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	\$ 114,149	\$ -	\$ -	\$ 114,149	\$ 128,709
Accrued salaries payable	82,516	-	-	82,516	103,553
Accrued interest payable	-	9,281	(9,281)	-	-
Note payable to the Center	-	50,000	(50,000)	-	-
Due to the Center	-	848	(848)	-	-
Deferred revenue					
Ticket sales	263,055	-	-	263,055	221,691
Tuition and other fees	740,987	1,809	-	742,796	754,746
Accrued retirement benefits payable	-	-	-	-	6,000
Total liabilities	<u>1,200,707</u>	<u>61,938</u>	<u>(60,129)</u>	<u>1,202,516</u>	<u>1,214,699</u>
Net Assets					
Unrestricted	13,337,217	114,534	-	13,451,751	14,377,767
Temporarily restricted	2,391,913	86,050	-	2,477,963	2,599,240
Permanently restricted	6,189,532	-	-	6,189,532	6,184,532
Total net assets	<u>21,918,662</u>	<u>200,584</u>	<u>-</u>	<u>22,119,246</u>	<u>23,161,539</u>
Total liabilities and net assets	<u>\$ 23,119,369</u>	<u>\$ 262,522</u>	<u>\$ (60,129)</u>	<u>\$ 23,321,762</u>	<u>\$ 24,376,238</u>

**The Elaine Kaufman Cultural Center/
Lucy Moses School for Music and Dance and Affiliate
Consolidated Statement of Activities with Consolidating Information
Year Ended August 31, 2018
(With Summarized Financial Information for the Year Ended August 31, 2017)**

	Unrestricted						Temporarily Restricted	Permanently Restricted	Total	
	Center		Total	Opus 118	Eliminations	Total			2018	2017
	Operating	Plant								
Revenues, Gains (Losses) and Other Support										
Tuition and related revenues - Center (net of scholarships of \$204,495 in 2018)	\$ 3,482,128	\$ -	\$ 3,482,128	\$ -	\$ -	\$ 3,482,128	\$ -	\$ -	\$ 3,482,128	\$ 3,474,735
Tuition and related revenues - Opus 118 Harlem School of Music (net of scholarships of \$64,986 in 2018)	-	-	-	62,075	-	62,075	-	-	62,075	72,479
Presentation/facilities services	1,371,238	-	1,371,238	-	-	1,371,238	-	-	1,371,238	1,277,307
Contributions	793,339	-	793,339	198,999	-	992,338	1,335,218	5,000	2,332,556	2,083,237
Contributions - in-kind	-	32,515	32,515	16,500	-	49,015	-	-	49,015	100,509
Special events	1,002,439	-	1,002,439	-	-	1,002,439	-	-	1,002,439	802,425
Direct cost of special events	(161,395)	-	(161,395)	-	-	(161,395)	-	-	(161,395)	(137,354)
Special projects contributions	-	-	-	-	-	-	35,273	-	35,273	65,000
Rental income	709,105	-	709,105	-	-	709,105	-	-	709,105	709,105
Government grants	-	-	-	-	-	-	261,000	-	261,000	260,040
Contracted services	102,753	-	102,753	100,000	(37,800)	164,953	-	-	164,953	153,060
Investment return	41,058	-	41,058	-	(1,500)	39,558	335,722	-	375,280	596,716
Other income	-	-	-	36,537	-	36,537	-	-	36,537	39,574
Net assets released from restrictions	1,932,523	96,217	2,028,740	59,750	-	2,088,490	(2,088,490)	-	-	-
Total revenues, gains (losses) and other support	9,273,188	128,732	9,401,920	473,861	(39,300)	9,836,481	(121,277)	5,000	9,720,204	9,496,833
Expenses										
Program services										
Lucy Moses School	3,174,690	240,643	3,415,333	-	-	3,415,333	-	-	3,415,333	3,387,788
Special Music School K-8	1,365,173	364,883	1,730,056	-	-	1,730,056	-	-	1,730,056	1,727,036
Special Music School H.S.	662,249	3,037	665,286	-	-	665,286	-	-	665,286	672,815
Theatre program	598,203	39,781	637,984	-	-	637,984	-	-	637,984	616,192
Presentations/facilities services	1,667,883	246,473	1,914,356	-	-	1,914,356	-	-	1,914,356	1,818,979
Face the Music	255,791	2,890	258,681	-	-	258,681	-	-	258,681	228,360
Library	22,614	7,349	29,963	-	-	29,963	-	-	29,963	29,048
Special projects	97,517	-	97,517	-	-	97,517	-	-	97,517	70,956
Opus 118 in-school	-	-	-	121,487	-	121,487	-	-	121,487	109,024
Opus 118 after-school	-	-	-	99,268	-	99,268	-	-	99,268	95,977
Total program services	7,844,120	905,056	8,749,176	220,755	-	8,969,931	-	-	8,969,931	8,756,175
Supporting services										
Management and general	437,148	29,394	466,542	151,909	(39,300)	579,151	-	-	579,151	514,087
Fund raising	1,131,768	45,365	1,177,133	36,282	-	1,213,415	-	-	1,213,415	1,197,886
Total supporting services	1,568,916	74,759	1,643,675	188,191	(39,300)	1,792,566	-	-	1,792,566	1,711,973
Total expenses	9,413,036	979,815	10,392,851	408,946	(39,300)	10,762,497	-	-	10,762,497	10,468,148
Excess (deficiency) of revenues, gains (losses) and other support over expenses	(139,848)	(851,083)	(990,931)	64,915	-	(926,016)	(121,277)	5,000	(1,042,293)	(971,315)
Other changes in net assets										
Acquisition of fixed assets	(22,664)	22,664	-	-	-	-	-	-	-	-
Change in Net Assets	(162,512)	(828,419)	(990,931)	64,915	-	(926,016)	(121,277)	5,000	(1,042,293)	(971,315)
Net Assets, Beginning of Year	4,142,732	10,185,416	14,328,148	49,619	-	14,377,767	2,599,240	6,184,532	23,161,539	24,132,854
Net Assets, End of Year	\$ 3,980,220	\$ 9,356,997	\$ 13,337,217	\$ 114,534	\$ -	\$ 13,451,751	\$ 2,477,963	\$ 6,189,532	\$ 22,119,246	\$ 23,161,539

**The Elaine Kaufman Cultural Center/
Lucy Moses School for Music and Dance and Affiliate
Consolidated Statement of Functional Expenses
Year Ended August 31, 2018
(With Summarized Financial Information for the Year Ended August 31, 2017)**

	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	2018	2017
Salaries	\$ 2,322,908	\$ 909,244	\$ 509,122	\$ 296,302	\$ 873,203	\$ 172,248	\$ 13,525	\$ 22,989	\$ 96,156	\$ 73,642	\$ 5,289,339	\$ 123,749	\$ 764,149	\$ -	\$ 887,898	\$ 6,177,237	\$ 6,011,477
Payroll taxes and employee benefits	378,981	193,645	94,407	55,654	211,362	31,310	2,209	11,880	10,874	8,328	998,650	20,671	148,636	-	169,307	1,167,957	1,079,853
Total salaries and related expenses	2,701,889	1,102,889	603,529	351,956	1,084,565	203,558	15,734	34,869	107,030	81,970	6,287,989	144,420	912,785	-	1,057,205	7,345,194	7,091,330
Supplies and printing	49,546	6,124	7,240	23,918	73,451	6,007	1,170	2,414	579	443	170,892	3,179	48,193	-	51,372	222,264	218,525
Telephone and Internet	8,102	2,485	236	525	7,805	504	74	-	119	91	19,741	1,575	4,758	-	6,333	26,074	26,064
Equipment rental and maintenance	31,112	15,045	2,118	1,416	25,816	1,491	202	-	2,068	160	79,428	7,802	16,698	-	24,500	103,928	104,205
Postage	8,227	180	57	4,469	13,989	737	-	-	-	-	28,159	648	8,305	-	8,953	37,112	43,102
Outside services	66,320	12,392	28,823	51,238	67,162	9,636	970	43,560	-	-	280,101	210,305	41,009	-	251,314	531,415	359,279
Legal fees	-	-	-	-	-	-	-	-	-	-	-	-	42,294	-	-	42,294	147,290
Advertising	-	-	-	-	-	-	-	-	-	-	-	-	56,975	-	-	56,975	55,386
Cultivation expenses	9,045	699	299	410	1,933	2,456	-	9,507	-	-	24,349	5,234	25,358	-	30,592	54,941	59,277
Fares and messengers	1,550	111	446	4,718	75	3,062	-	6,877	-	-	16,839	1,998	2,090	-	4,088	20,927	15,901
Piano tuning and instrumental	22,803	11,228	9,713	3,490	43,797	4,415	-	190	-	-	95,636	-	-	-	-	95,636	76,599
Graphic artist	5,400	-	-	-	-	-	-	-	-	-	5,400	406	3,250	-	3,656	9,056	10,245
Artists' fees	-	-	-	111,425	96,600	15,460	-	-	-	-	223,485	-	-	-	-	223,485	212,905
Promotional materials	-	-	-	-	350	-	-	-	-	-	350	-	-	-	-	350	2,638
Publication and conventions	7,659	-	-	-	499	-	616	-	-	-	8,774	3,815	9,693	-	13,508	22,282	19,091
Computerization	10,841	970	-	870	2,041	39	-	-	-	-	14,761	3,937	4,114	-	8,051	22,812	23,245
Concession expense	-	-	-	-	10,120	-	-	-	-	-	10,120	-	-	-	-	10,120	12,764
Investment advisory fees	-	-	-	-	-	-	-	-	-	-	-	51,487	-	-	51,487	51,487	49,096
Audit fees	-	-	-	-	-	-	-	-	-	-	-	33,950	-	-	33,950	40,325	
Service charges	56,943	1,222	376	7,819	9,297	597	-	-	-	-	76,254	-	12,382	-	12,382	88,636	80,623
Other fees	-	-	-	-	-	-	-	-	-	-	-	25	-	-	25	25	
Space rental	-	785	-	10,342	-	918	-	-	-	-	15,973	5,455	1,538	-	6,993	22,966	25,125
Liability insurance - licensees	-	-	-	-	5,600	-	-	-	-	-	5,600	-	-	-	-	5,600	5,600
Other insurance	-	-	-	-	-	-	-	-	4,934	3,779	8,713	3,990	1,126	-	5,116	13,829	14,108
Marketing expenses	67,223	19,918	4,979	4,979	95,855	3,735	-	-	-	-	196,689	-	52,284	-	52,284	248,973	202,997
Building expense	125,995	191,045	1,590	20,828	129,048	1,513	3,848	-	-	-	473,867	15,390	23,752	-	39,142	513,009	533,879
Depreciation	240,643	364,883	3,037	39,781	246,473	2,890	7,349	-	6,668	5,107	916,831	29,394	45,365	-	74,759	991,590	1,058,006
Charitable contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,500
Bad debt	-	-	-	-	-	-	-	-	-	-	-	7,559	-	-	7,559	7,559	11,235
Sundry	1,535	80	2,843	-	230	1,313	-	-	-	-	6,001	-	665	-	665	6,666	4,400
Other expenses	-	-	-	-	-	-	-	-	89	3,890	3,979	800	50	-	850	4,829	5,479
Catering and event planning	-	-	-	-	-	-	-	-	-	-	-	-	-	161,395	161,395	161,395	137,354
Total expenses	3,415,333	1,730,056	665,286	637,984	1,914,356	258,681	29,963	97,517	121,487	99,268	8,969,931	630,638	1,213,415	161,395	2,005,448	10,975,379	10,654,598
Less expenses deducted directly from revenues on the statement of activities																	
Investment advisory fees	-	-	-	-	-	-	-	-	-	-	-	(51,487)	-	-	(51,487)	(51,487)	(49,096)
Direct costs of special events	-	-	-	-	-	-	-	-	-	-	-	-	(161,395)	(161,395)	(161,395)	(137,354)	
Total expenses reported by function on the statement of activities	\$ 3,415,333	\$ 1,730,056	\$ 665,286	\$ 637,984	\$ 1,914,356	\$ 258,681	\$ 29,963	\$ 97,517	\$ 121,487	\$ 99,268	\$ 8,969,931	\$ 579,151	\$ 1,213,415	\$ -	\$ 1,792,566	\$ 10,762,497	\$ 10,468,148

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

Consolidated Statement of Cash Flows

Year Ended August 31, 2018

(With Summarized Financial Information for the Year Ended August 31, 2017)

	2018	2017
Operating Activities		
Change in net assets	\$ (1,042,293)	\$ (971,315)
Items not requiring (providing) operating cash flows		
Depreciation	991,590	1,058,006
Realized gain on investments	(157,349)	(375,817)
Unrealized gain on investments	(17,543)	(36,059)
Donated property and equipment	(49,015)	(100,509)
Changes in		
Accounts receivable	13,830	10,800
Contributions receivable	59,458	711,642
Accrued interest and other receivables	(31,174)	7,592
Prepaid expenses and other assets	22,952	(32,932)
Accounts payable and accrued expenses	(14,560)	(91,115)
Accrued salaries payable	(21,037)	16,264
Deferred revenue	29,414	22,602
Accrued retirement benefits payable	(6,000)	(75,257)
Net cash provided by (used in) operating activities	(221,727)	143,902
Investing Activities		
Property and equipment acquisitions	(22,664)	(129,152)
Proceeds from sales and redemptions of investments	1,759,604	3,985,563
Purchases of investments	(1,527,908)	(3,689,652)
Net cash provided by investing activities	209,032	166,759
Increase (decrease) in cash	(12,695)	310,661
Cash, beginning of year	2,816,476	2,505,815
Cash, end of year	\$ 2,803,781	\$ 2,816,476

**The Elaine Kaufman Cultural Center/
Lucy Moses School for Music and Dance and Affiliate**
Notes to Consolidated Financial Statements
August 31, 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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 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, contributions and special events.

Basis of Accounting and Consolidation

The consolidated financial statements are prepared on the accrual basis of accounting and include the financial statements of the Center and Opus 118. All material inter-affiliate balances and transactions 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.

**The Elaine Kaufman Cultural Center/
Lucy Moses School for Music and Dance and Affiliate**
Notes to Consolidated Financial Statements
August 31, 2018

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes interest and dividends; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return is reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

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 gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue. No allowance for doubtful accounts was deemed necessary as of August 31, 2018 for contributions receivables.

Property and Equipment

Property and equipment are stated at cost net of accumulated depreciation. Property and equipment with a cost of \$1,000 or more with estimated useful lives of greater than one year are capitalized. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building	40 years
Building improvements	25 - 40 years
Furniture, equipment and instruments	5 - 10 years

Unrestricted Net Assets

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

**The Elaine Kaufman Cultural Center/
Lucy Moses School for Music and Dance and Affiliate**
Notes to Consolidated Financial Statements
August 31, 2018

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

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

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions In-Kind

In addition to receiving cash contributions, the Center and Opus 118 receive in-kind contributions of furniture, equipment and instruments from various donors. It is the policy of the Center and Opus 118 to record the estimated fair value of certain in-kind donations as property and equipment in its financial statements, and similarly increase contribution revenue by a like amount. For the year ended August 31, 2018, \$32,515 and \$16,500 was received by the Center and Opus 118, respectively, in in-kind contributions.

Rental Income

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

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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. Certain costs have been allocated among the program, management and general and fund raising categories based on the actual usage, number of student, square footage and other methods.

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, 2017, from which the summarized information was derived.

Reclassification

Contracted services income in the amount of \$100,000 was reclassified from tuition and related revenues – OPUS 118 Harlem School of Music for 2017 to conform to the current presentation.

Note 2: Fair Value Measurements and Disclosures

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

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- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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.

Following is a description of the valuation methodology and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheet, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended August 31, 2018.

United States Treasury bills and common stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate bonds, municipal bonds and asset-backed securities: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar securities, the security is valued under a discounted cash flows approach that maximizes observable inputs such as current yields of similar instruments but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available.

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.

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The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of August 31, 2018:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Corporate bonds	\$ -	\$ 3,408,771	\$ 3,408,771
Municipal bonds	-	375,377	375,377
Mutual funds - domestic	581,499	-	581,499
Asset-backed securities	-	54,639	54,639
United States Treasury bills	199,516	-	199,516
Common stock			
Consumer goods	762,988	-	762,988
Energy	150,348	-	150,348
Financial	157,892	-	157,892
Healthcare	174,179	-	174,179
Industrial goods	210,753	-	210,753
Real estate	1,139,863	-	1,139,863
Services	187,172	-	187,172
Technology	775,735	-	775,735
	<u>4,339,945</u>	<u>3,838,787</u>	<u>8,178,732</u>
Total investments reported on the fair value hierarchy	<u>\$ 4,339,945</u>	<u>\$ 3,838,787</u>	8,178,732
Cash and cash equivalents			<u>466,538</u>
Total investments			<u>\$ 8,645,270</u>

Investment return consists of the following:

Interest and dividends	\$ 251,875
Realized gain on investments	157,349
Unrealized gain on investments	<u>17,543</u>
	426,767
Less investment advisory fees	<u>(51,487)</u>
	<u>\$ 375,280</u>

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Note 3: 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 between 5% - 5.5%.

Contributions receivable are due to be collected as follows:

	Temporarily Restricted
2019	\$ 378,667
2020	245,083
2021	81,750
2022	81,750
2023	<u>8,000</u>
	795,250
Less discount to present value	<u>(34,126)</u>
Total	<u><u>\$ 761,124</u></u>

Note 4: Property and Equipment

	Cost	Accumulated Depreciation	Net
Land	\$ 993,154	\$ -	\$ 993,154
Building	3,799,308	3,775,573	23,735
Building improvements	18,234,334	8,845,844	9,388,490
Furniture, equipment and instruments	<u>2,860,352</u>	<u>2,442,300</u>	<u>418,052</u>
	<u><u>\$ 25,887,148</u></u>	<u><u>\$ 15,063,717</u></u>	<u><u>\$ 10,823,431</u></u>

Note 5: Temporarily Restricted Net Assets

The total amount funded by the City of New York (City) 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.

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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, 2018 are available for:

Future periods	\$ 730,124
Special Music School K-8	24,000
Special Music School H.S.	85,000
Specific purposes - music and arts programs	168,254
Capital building, including undepreciated City of New York capital equipment contributions of \$1,399,097	<u>1,470,585</u>
	<u>\$ 2,477,963</u>

During 2018, 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	\$ 96,217
Capital building	54,876
Music and arts programs	1,185,185
Special Music School K-8	135,487
Special Music School H.S.	110,375
Passage of time	<u>506,350</u>
	<u>\$ 2,088,490</u>

During 2018, the following amounts were added to temporarily restricted net assets:

Music and arts programs	\$ 1,188,759
Special Music School K-8	159,487
Special Music School H.S.	195,375
Future periods	<u>423,592</u>
	<u>\$ 1,967,213</u>

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Note 6: 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	812,639
Special Music School	<u>167,472</u>
Total endowments	6,164,532
Loan fund	<u>25,000</u>
Total permanently restricted net assets	<u><u>\$ 6,189,532</u></u>

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.

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Funds with Deficiencies

The Center does not have any funds with deficiencies.

Changes in Endowment Net Assets for the Year Ended August 31, 2018

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 6,159,532	\$ 6,159,532
Contributions	-	5,000	5,000
Interest and dividends	206,562	-	206,562
Investment gains	129,160	-	129,160
Appropriation for expenditures	<u>(335,722)</u>	<u>-</u>	<u>(335,722)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 6,164,532</u>	<u>\$ 6,164,532</u>

Note 7: Rental Income

On August 31, 2012, the Center signed an extension of the license agreement with The New York City School Construction Authority (Authority) for the Special Music School for ten additional years, expiring September 1, 2022. The Authority has the option to terminate the lease upon providing 30 days' notice.

Future minimum rental income, presuming no election to terminate the lease, is as follows:

2019	\$ 709,104
2020	735,964
2021	735,964
2022	<u>762,824</u>
Total	<u>\$ 2,943,856</u>

Note 8: 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 \$202,206.

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Note 9: 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 amount of cash over the FDIC insurance limits as of August 31, 2018 was \$2,249,566.

The Center invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market 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 change could materially affect the amounts reported in the accompanying consolidated balance sheet.

Special event revenue in the amount of \$1,002,439 was from one event.

Note 10: Subsequent Events

Subsequent events have been evaluated through January 31, 2019, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

The Elaine Kaufman Cultural Center/ Lucy Moses School for Music and Dance and Affiliate

Schedule of Functional Expenses of the Elaine Kaufman Cultural Center/Lucy Moses School for Music and Dance Year Ended August 31, 2018 (With Summarized Financial Information for the Year Ended August 31, 2017)

	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	2018	2017
Salaries	\$ 2,322,908	\$ 909,244	\$ 509,122	\$ 296,302	\$ 873,203	\$ 172,248	\$ 13,525	\$ 22,989	\$ 5,119,541	\$ 45,980	\$ 742,214	\$ -	\$ 788,194	\$ 5,907,735	\$ 5,784,933
Payroll taxes and employee benefits	378,981	193,645	94,407	55,654	211,362	31,310	2,209	11,880	979,448	11,876	146,155	-	158,031	1,137,479	1,052,055
Total salaries and related expenses	2,701,889	1,102,889	603,529	351,956	1,084,565	203,558	15,734	34,869	6,098,989	57,856	888,369	-	946,225	7,045,214	6,836,988
Supplies and printing	49,546	6,124	7,240	23,918	73,451	6,007	1,170	2,414	169,870	2,711	42,818	-	45,529	215,399	211,580
Telephone and Internet	8,102	2,485	236	325	7,805	504	74	-	19,531	1,478	4,731	-	6,209	25,740	25,737
Equipment rental and maintenance	31,112	15,045	2,118	1,416	25,816	1,491	202	-	77,200	7,802	16,698	-	24,500	101,700	102,682
Postage	8,727	180	57	4,469	13,989	737	-	-	28,159	564	7,805	-	8,369	36,528	42,619
Outside services	66,320	12,392	28,823	51,238	67,162	9,636	970	43,560	280,101	197,842	41,009	-	238,851	518,952	323,230
Legal fees	-	-	-	-	-	-	-	-	-	42,294	-	-	42,294	42,294	147,290
Advertising	-	-	-	-	-	-	-	-	-	56,975	-	-	56,975	56,975	55,386
Cultivation expenses	9,045	699	299	410	1,933	2,456	-	9,507	24,349	5,234	25,358	-	30,592	54,941	59,277
Fares and messengers	1,550	111	446	4,718	75	3,062	-	6,877	16,839	1,998	2,090	-	4,088	20,927	15,901
Piano tuning and instrumental	22,803	11,228	9,713	3,490	43,797	4,415	-	190	95,636	-	-	-	-	95,636	76,599
Graphic artist	5,400	-	-	-	-	-	-	-	5,400	-	-	-	-	5,400	7,645
Artists' fees	-	-	-	111,425	96,600	15,460	-	-	223,485	-	-	-	-	223,485	212,905
Promotional materials	-	-	-	-	-	350	-	-	350	-	-	-	-	350	2,638
Publication and conventions	7,659	-	-	-	499	-	616	-	8,774	3,815	9,693	-	13,508	22,282	19,091
Computerization	10,841	970	-	870	2,041	39	-	-	14,761	3,937	4,114	-	8,051	22,812	23,245
Concession expense	-	-	-	-	10,120	-	-	-	10,120	-	-	-	-	10,120	12,764
Investment advisory fees	-	-	-	-	-	-	-	-	-	51,487	-	-	51,487	51,487	49,096
Audit fees	-	-	-	-	-	-	-	-	-	31,668	-	-	31,668	31,668	30,800
Service charges	56,943	1,222	376	7,819	9,297	597	-	-	76,254	-	12,382	-	12,382	88,636	80,623
Other fees	-	-	-	-	-	-	-	-	-	25	-	-	25	25	25
Space rental	-	785	-	10,342	-	918	-	100	12,145	-	-	-	-	12,145	12,050
Liability insurance - licensees	-	-	-	-	5,600	-	-	-	5,600	-	-	-	-	5,600	5,600
Marketing expenses	67,223	19,918	4,979	4,979	95,855	3,735	-	-	196,689	-	52,284	-	52,284	248,973	202,997
Building expense	125,995	191,045	1,590	20,828	129,048	1,513	3,848	-	473,867	15,390	23,752	-	39,142	513,009	533,879
Depreciation	240,643	364,883	3,037	39,781	246,473	2,890	7,349	-	905,056	29,394	45,365	-	74,759	979,815	1,046,836
Charitable contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,500
Bad debt	-	-	-	-	-	-	-	-	-	7,559	-	-	7,559	7,559	5,235
Sundry	1,535	80	2,843	-	230	1,313	-	-	6,001	-	665	-	665	6,666	4,400
Catering and event planning	-	-	-	-	-	-	-	-	-	-	-	161,395	161,395	161,395	137,354
Total expenses	3,415,333	1,730,056	665,286	637,984	1,914,356	258,681	29,963	97,517	8,749,176	518,029	1,177,133	161,395	1,856,557	10,605,733	10,292,972
Less expenses deducted directly from revenues on the statement of activities	-	-	-	-	-	-	-	-	-	(51,487)	-	-	(51,487)	(51,487)	(49,096)
Investment advisory fees	-	-	-	-	-	-	-	-	-	-	-	(161,395)	(161,395)	(161,395)	(137,354)
Direct costs of special events	-	-	-	-	-	-	-	-	-	-	-	(161,395)	(161,395)	(161,395)	(137,354)
Total expenses	\$ 3,415,333	\$ 1,730,056	\$ 665,286	\$ 637,984	\$ 1,914,356	\$ 258,681	\$ 29,963	\$ 97,517	\$ 8,749,176	\$ 466,542	\$ 1,177,133	\$ -	\$ 1,643,675	\$ 10,392,851	\$ 10,106,522

**The Elaine Kaufman Cultural Center/
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Schedule of Functional Expenses of Opus 118 Harlem School of Music
Year Ended August 31, 2018
(With Summarized Financial Information for the Year Ended August 31, 2017)**

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total</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>2018</u>	<u>2017</u>
Salaries	\$ 96,156	\$ 73,642	\$ 169,798	\$ 77,769	\$ 21,935	\$ 99,704	\$ 269,502	\$ 226,544
Payroll taxes and employee benefits	10,874	8,328	19,202	8,795	2,481	11,276	30,478	27,798
Total salaries and related expenses	107,030	81,970	189,000	86,564	24,416	110,980	299,980	254,342
Supplies and printing	579	443	1,022	468	5,375	5,843	6,865	6,945
Telephone	119	91	210	97	27	124	334	327
Equipment rental and maintenance	2,068	160	2,228	-	-	-	2,228	1,523
Postage	-	-	-	84	500	584	584	483
Outside services	-	-	-	50,263	-	50,263	50,263	72,049
Audit fees	-	-	-	2,282	-	2,282	2,282	9,525
Graphic artist fees	-	-	-	406	3,250	3,656	3,656	2,600
Space rental	-	3,828	3,828	5,455	1,538	6,993	10,821	13,075
Other insurance	4,934	3,779	8,713	3,990	1,126	5,116	13,829	14,108
Interest	-	-	-	1,500	-	1,500	1,500	1,500
Depreciation	6,668	5,107	11,775	-	-	-	11,775	11,170
Bad debt	-	-	-	-	-	-	-	6,000
Other expenses	89	3,890	3,979	800	50	850	4,829	5,479
Total expenses	<u>\$ 121,487</u>	<u>\$ 99,268</u>	<u>\$ 220,755</u>	<u>\$ 151,909</u>	<u>\$ 36,282</u>	<u>\$ 188,191</u>	<u>\$ 408,946</u>	<u>\$ 399,126</u>