

InterSchool Orchestras of New York, Inc.

Financial Statements

**For the Years Ended
June 30, 2014 and 2013**

InterSchool Orchestras of New York, Inc.
Financial Statements
June 30, 2014 and 2013

Table of Contents

	<u>Page No.</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 11
Supplementary Information:	
Statements of Functional Expenses	12

BERNSTEIN ROSEN & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
InterSchool Orchestras of New York, Inc.

We have audited the accompanying financial statements of InterSchool Orchestras of New York, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 of 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of InterSchool Orchestras of New York, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 12 is presented for purpose of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 financial statements as a whole.

Bernstein Rosen & Company, CPAs, PC

NEW YORK, NEW YORK
October 24, 2014

InterSchool Orchestras of New York, Inc.
Statements of Financial Position
June 30,

	<u>2014</u>	<u>2013</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 238,265	\$ 179,108
Investments (Note 3)	188,148	278,607
Pledges receivable	48,259	49,305
Prepaid expenses	187,555	10,520
Total current assets	<u>662,227</u>	<u>517,540</u>
Furniture and equipment, net (Note 4)	<u>12,082</u>	<u>10,006</u>
Other asset		
Security deposit	<u>11,124</u>	<u>10,818</u>
Total other asset	<u>11,124</u>	<u>10,818</u>
Total assets	<u>\$ 685,433</u>	<u>\$ 538,364</u>
Liabilities and Net Assets		
Current liabilities		
Accrued expenses	\$ 841	\$ 746
Deferred revenue	<u>183,745</u>	<u>34,730</u>
Total current liabilities	<u>184,586</u>	<u>35,476</u>
Net assets		
Unrestricted		
Undesignated	35,965	40,962
Board designated (Note 7)	<u>291,600</u>	<u>291,600</u>
Total unrestricted	<u>327,565</u>	<u>332,562</u>
Temporarily restricted (Note 6)	<u>173,282</u>	<u>170,326</u>
Total net assets	<u>500,847</u>	<u>502,888</u>
Total liabilities and net assets	<u>\$ 685,433</u>	<u>\$ 538,364</u>

See Independent Auditors' Report and accompanying notes to financial statements

InterSchool Orchestras of New York, Inc.
 Statements of Activities
 For the years ended June 30,

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and public support:						
Orchestra fees and tuition, net of financial aid of \$188,969 in 2014 and \$187,115 in 2013	252,520	-	\$ 252,520	\$ 241,486	-	\$ 241,486
School memberships	-	-	-	1,500	-	1,500
Concert income	52,415	-	52,415	13,959	-	13,959
Tour fees	-	-	-	8,295	-	8,295
Donated services	11,500	-	11,500	-	-	-
Advertising revenue	5,225	-	5,225	2,400	-	2,400
Total program revenue	321,660	-	321,660	267,640	-	267,640
Individual contributions	78,419	400	78,819	114,037	1,415	115,452
Corporate contributions	8,414	-	8,414	14,290	-	14,290
Foundation grants	63,500	11,000	74,500	49,250	-	49,250
Government grants	82,226	-	82,226	86,665	-	86,665
Total contributions and grants	232,559	11,400	243,959	264,242	1,415	265,657
Benefit income	164,235	-	164,235	100,807	-	100,807
Benefit expenses	(54,033)	-	(54,033)	(50,584)	-	(50,584)
Total benefit income, net	110,202	-	110,202	50,223	-	50,223
Interest and dividends	3,059	-	3,059	5,252	-	5,252
Net realized and unrealized gain on investments	11,223	-	11,223	10,889	-	10,889
Total investment income	14,282	-	14,282	16,141	-	16,141
Net assets released from restrictions	8,444	(8,444)	-	29,787	(29,787)	-
Total revenues and public support	687,147	2,956	690,103	628,033	(28,372)	599,661
Expenses						
Programs	528,826	-	528,826	516,751	-	516,751
Administration	109,594	-	109,594	97,211	-	97,211
Fundraising	53,724	-	53,724	46,277	-	46,277
Total expenses	692,144	-	692,144	660,239	-	660,239
Change in net assets	(4,997)	2,956	(2,041)	(32,206)	(28,372)	(60,578)
Net assets - beginning of year	332,562	170,326	502,888	364,768	198,698	563,466
Net assets - end of year	\$ 327,565	\$ 173,282	\$ 500,847	\$ 332,562	\$ 170,326	\$ 502,888

InterSchool Orchestras of New York, Inc.
Statements of Cash Flows
For the years ended June 30,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Changes in net assets	\$ (2,041)	\$ (60,578)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	9,130	5,635
Donated stock	(9,997)	(8,121)
Net realized and unrealized (gain) on investments	(11,223)	(10,889)
Changes in operating assets:		
Decrease (increase) in:		
Pledges receivable	1,046	(32,876)
Prepaid expenses	(177,035)	(3,983)
Security deposit	(306)	5,555
Changes in operating liabilities:		
(Decrease) increase in:		
Accrued expenses	95	(4,709)
Deferred revenue	149,015	(5,367)
Net cash (used in) operating activities	<u>(41,316)</u>	<u>(115,333)</u>
Cash flows from investing activities:		
Acquisition of furniture and equipment	(11,206)	(1,080)
Purchases of investments	(957)	(273,636)
Proceeds from sale of investments	112,636	278,509
Net cash provided by investing activities	<u>100,473</u>	<u>3,793</u>
Net increase (decrease) in cash and cash equivalents	59,157	(111,540)
Cash and cash equivalents - beginning of year	<u>179,108</u>	<u>290,648</u>
Cash and cash equivalents - end of year	<u>\$ 238,265</u>	<u>\$ 179,108</u>

InterSchool Orchestras of New York, Inc.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

NOTE 1. FORMATION AND DESCRIPTION OF ORGANIZATION

InterSchool Orchestras of New York, Inc. (the "Organization" or "ISO") maintains training orchestras, a symphonic band, and chamber music for students, aged six to nineteen. The Organization creates opportunities for school-aged children in New York City to make music together through a family of ensembles. ISO provides a nurturing environment where all children can realize their personal best, achieve high artistic standards, and share their music with the community. Generous financial aid and scholarships ensure that every child can participate.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND OTHER INFORMATION**

Basis of Accounting and Presentation

The Financial Statements of the Organization are maintained on the accrual basis in accordance with accounting principles generally accepted in the United States of America ("GAAP"), as applicable to not-for-profit organizations.

Financial statement presentation follows the recommendations of ASC 958-205, *Presentation of Financial Statements*. Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based on designation of restriction.

Net Assets

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and money market funds held at major financial institutions. The Organization considers all highly liquid investments with maturities of three months or less when purchased, to be cash equivalents. Money market funds are carried at fair value based on quoted prices in active markets for identical assets. All cash equivalents are classified as Level 1 under the provisions of ASC 820, *Fair Value Measurements* (See Note 3).

Cash Credit Risk Concentration

The Organization maintains balances in banks which may exceed the limits covered by Federal Deposit Insurance Corporation ("FDIC") at certain times during the year.

InterSchool Orchestras of New York, Inc.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND OTHER INFORMATION (CONTINUED)**

Public Support and Revenue

The Organization accounts for contributions in accordance with the provisions of ASC 958, *NPO Entities*. In accordance with ASC 958, contributions received, including unconditional promises to give, are recognized as revenues in the period received at their fair values.

The Organization receives its support from corporations, foundations, individuals and governments. Contributions received from corporations, foundations and individuals are recorded as unrestricted or temporarily restricted support depending on the existence and/or nature of any donor restrictions. Revenues from expense-based government grants are recognized as earned. Donated services are reported at their fair market values, as both revenue and expense, in the accompanying Statement of Activities.

Fees associated with special tours or tuition are recorded as revenue in the period the participant is enrolled.

Investments

Investments are composed of mutual funds investing in debt and equity securities, bank certificates of deposits and corporate stock, all of which are carried at fair value. Donated investments are recorded at their fair market value at the date of donation. Investment securities, in general, are exposed to various risks such as interest rate, credit and overall 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 markets' fluctuations, and that such changes could materially affect the amounts reported in the Organization's Statement of Activities and investment portfolio. Unrealized gains and losses are included in the change in unrestricted net assets.

Furniture and Equipment

Furniture and equipment is recorded at cost or the fair market value of the equipment on the date of purchase or donation. Depreciation has been provided in the financial statements utilizing the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to operations as incurred. Significant renovations and replacements which improve and extend the life of the asset are capitalized on the Statement of Financial Position.

Income Taxes and Uncertainties

The Organization is exempt from federal and state income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax has been recorded in the accompanying financial statements. However, any unrelated business income may be subject to taxation. Currently, the Organization has no obligation for any unrelated business income. Management believes that the Organization will continue to be exempted from tax.

InterSchool Orchestras of New York, Inc.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND OTHER INFORMATION (CONTINUED)**

Income Taxes and Uncertainties (continued)

The Organization follows the provisions of ASC 740, *Accounting for Uncertainty in Income Taxes*, which addresses the accounting for and disclosures of, uncertain tax positions and prescribes a threshold of more likely than not for recognition and de-recognition of tax positions taken or expected to be taken in a tax return.

The Organization's policy is to record interest expense and penalties in operating expenses. For the years ended June 30, 2014 and 2013, there was no interest and penalties expense recorded and no accrued interest and penalties. The Organization's federal and state exempt status tax returns are open for examination for the years 2011, 2012 and 2013.

Musical Instrument Collection

The collection of instruments, which were acquired through purchases and contributions since the organization's inception, are not recognized as assets on the statement of financial position. Purchases of instruments are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed instruments are not reflected on the financial statements. Proceeds from de-accessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The instrument collection has been valued at more than \$120,000 for insurance purposes.

Functional Expenses

Expenses are charged to programs, administration or fundraising based on direct expenditures incurred. Any expenditure not directly chargeable is allocated based on management's estimates.

NOTE 3. INVESTMENTS

In accordance with ASC 820, *Fair Value Measurements*, the Organization measures its investments at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The three levels in the fair value hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical assets or liabilities.
- *Level 2* – Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.
- *Level 3* – Inputs are unobservable inputs based on the Organization's own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

InterSchool Orchestras of New York, Inc.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

NOTE 3. INVESTMENTS (CONTINUED)

Certificates of Deposits, money market funds, corporate stock and mutual funds were classified as Level 1 and were valued based on original cost plus accrued interest, which approximates fair value. For the purpose of presentation, money market funds are recorded as a component of cash and cash equivalents in the Statements of Financial Position. The remaining Level 1 assets carried at fair value measured on a recurring basis were as follows:

	June 30,	
	<u>2014</u>	<u>2013</u>
Certificates of deposit	\$ 120,580	\$ 223,949
Mutual funds	67,222	54,658
Corporate stock	<u>346</u>	<u>-</u>
	<u>\$ 188,148</u>	<u>\$ 278,607</u>

Fair market value of donated investments, at the time of donation, were \$9,997 and \$8,121 for the years ended June 30, 2014 and 2013, respectively.

NOTE 4. FURNITURE AND EQUIPMENT

The following is a summary of furniture and equipment at cost less accumulated depreciation as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Website and Software	\$ 19,728	\$ 10,328
Computer equipment	11,612	9,806
Furniture and fixtures	1,622	1,622
Telephone system	<u>3,625</u>	<u>3,625</u>
	36,587	25,381
Less: accumulated depreciation	<u>(24,505)</u>	<u>(15,375)</u>
Total furniture and equipment	<u>\$ 12,082</u>	<u>\$ 10,006</u>

Depreciation expense amounted to \$9,130 and \$5,635 for the years ended June 30, 2014 and 2013, respectively.

NOTE 5. EMPLOYEE BENEFIT PLAN

The Organization sponsors a retirement plan for all eligible employees. The plan is funded via a salary reduction from the employees. This plan is intended to qualify for income tax benefits under section 403(b) of the Internal Revenue Code.

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2014 and 2013, respectively, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the designated restricted purposes:

InterSchool Orchestras of New York, Inc.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

	<u>2014</u>	<u>2013</u>
Pauline Bousso Scholarship Fund	\$ -	\$ 625
Janet Wolfe Scholarship Fund	400	1,415
Free & subsidized music lessons	3,044	-
Information technology upgrade	5,000	1,080
Time restricted foundation contributions	-	26,667
Total restrictions released	<u>\$ 8,444</u>	<u>\$ 29,787</u>

As of June 30, 2014 and 2013, respectively, temporarily restricted net assets were available for program purposes by donor as follows:

	<u>2014</u>	<u>2013</u>
Elaine & Edward Altman Fund	\$ 170,326	\$ 170,326
Free & subsidized music lessons	2,956	-
Total	<u>\$ 173,282</u>	<u>\$ 170,326</u>

NOTE 7. BOARD DESIGNATED NET ASSETS

In connection with matching funds received from a foundation in the early 2000's, the Board of Directors established a board-designated endowment (the "Cary Challenge"), specifying that the capital of the Cary Challenge would be retained and invested; that there would be up to ten percent (10%) withdrawal of capital in any given year toward general operations. Any earnings from the endowment's investment may be used towards operations and is considered unrestricted without board designation. Any further withdrawal of capital would have to be explicitly approved by the Board of Directors.

The Board designated an additional \$40,000 in fiscal year 2012 for the office move and program expansion, which was fully expended through the year ended June 30, 2013.

As of June 30, 2014 and 2013, the board-designated net assets for the Cary Challenge remains at \$291,600.

NOTE 8. IN-KIND DONATIONS

Donated services, including in-kind donations meeting the criteria for recognition in the financial statements are reflected as in-kind donations at their estimated fair value at the date of receipt. The Organization is provided a significant amount of practice space at various facilities at low or no cost. These contributed spaces do not meet the criteria for recognition in the financial statements and therefore have not been recognized in the Statement of Activities.

Legal services valued at fair market value were donated to the Organization in the amount of \$11,500 and \$0 for the years ended June 30, 2014 and 2013, respectively.

InterSchool Orchestras of New York, Inc.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

NOTE 9. COMMITMENTS AND CONTINGENCIES

Concentration of Support and Revenue

The New York City Department of Cultural Affairs (the "DCA") contributed 26% and 19% of the total contributions for the years ended June 30, 2014 and 2013, respectively. The outstanding pledges receivable from the DCA represented 28% and 20% of the total pledges receivable for the years ended June 30, 2014 and 2013, respectively.

Operating Lease

The Organization conducts its administrative activities from facilities that are leased under a five-year noncancelable operating lease expiring on May 31, 2017. The lease provides for minimum annual rental payments with a 3% escalation clause.

Future minimum rental payments due under the lease are as follows:

For the year ending June 30,

2015	42,170
2016	43,435
2017	<u>40,908</u>
	<u>\$ 126,513</u>

Rent expense for the years ended June 30, 2014 and 2013 was \$42,536 and \$36,101, respectively. For the fiscal year ended June 30, 2013, the lessor abated one month rent upon signing the lease.

NOTE 10. DEPARTMENT OF LABOR RULING

During the year ended June 30, 2014 the New York State Department of Labor (NYS DOL) started an investigation over certain independent contractors (coaches) and whether these contractors should be on the Organization's payroll. The use of the coaches have always been treated as independent contractors and the Organization has provided the appropriate tax forms to these individuals and the government. Further, as a not-for-profit, the Organization elected the legal option to reimburse the DOL for any unemployment claims rather than pay premiums into a fund. There were no claims for fiscal years ended June 30, 2014 and 2013, respectively. The Organization sent an appeal to the State Unemployment Appeal Board in June 2014 to reverse the NYS DOL original request on payment of back premiums from fiscal year 2011 and reclassification of coaches as payroll employees. In July 2014 the Organization received the ruling that coaches must be treated as employees going forward. Although a restatement of unemployment quarterly reports back to January 1, 2011, was required, no back premiums were owed. To satisfy this ruling, the Organization has placed these individuals on the payroll in fiscal year 2015.

NOTE 11. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events and transactions for potential recognition of disclosure in the financial statements through October 24, 2014, the day the financial statements were available to be issued. Other than disclosed in Note 10, no material subsequent events were identified.

InterSchool Orchestras of New York, Inc.
 Statements of Functional Expenses
 For the years ended June 30,

	2014				2013			
	Program	Administration	Fundraising	Total	Program	Administration	Fundraising	Total
Conductors salaries	\$ 129,535	-	-	\$ 129,535	\$ 127,867	-	-	\$ 127,867
Other salaries	113,131	66,425	34,106	213,662	103,400	61,444	31,556	196,400
Payroll taxes and employee benefits	31,453	12,650	6,494	50,597	37,498	7,381	3,769	48,648
Coaches, orchestra managers, substitutes and interns	86,981	-	-	86,981	82,643	-	-	82,643
Donated legal services	-	11,500	-	11,500	-	-	-	-
Consultants and professional fees	6,416	1,761	898	9,075	6,765	1,803	920	9,488
Concerts	37,992	-	-	37,992	11,975	-	-	11,975
Tour	-	-	-	-	23,274	-	-	23,274
Subsidized music lessons	8,582	-	-	8,582	14,140	-	-	14,140
Teaching intern project	3,719	-	-	3,719	7,863	-	-	7,863
Instrument purchases and repairs	509	-	-	509	200	-	-	200
Rehearsal space rent	18,640	-	-	18,640	17,976	-	-	17,976
Other orchestra and music expenses	11,983	-	-	11,983	9,834	-	-	9,834
Transportation	6,183	-	-	6,183	6,779	-	-	6,779
Advertising and promotion	-	-	-	-	1,012	-	-	1,012
Stationery and printing	7,226	1,295	226	8,747	9,118	677	652	10,447
Postage	3,358	796	406	4,560	2,746	538	517	3,801
Rent and utilities	31,405	8,617	4,398	44,420	27,046	7,207	3,680	37,933
Telephone	3,104	851	435	4,390	2,869	764	390	4,023
Office equipment and expense	8,941	2,454	1,252	12,647	10,429	2,779	1,419	14,627
Insurance	3,325	912	465	4,702	3,522	939	479	4,940
Bank and credit card charges	9,475	180	4,060	13,715	5,465	265	2,342	8,072
Moving expense	-	-	-	-	-	11,403	-	11,403
Miscellaneous	413	382	80	875	312	941	6	1,259
Depreciation	6,455	1,771	904	9,130	4,018	1,070	547	5,635
Total expenses	\$ 528,826	\$ 109,594	\$ 53,724	\$ 692,144	\$ 516,751	\$ 97,211	\$ 46,277	\$ 660,239