

Exploring *the* Arts

**Exploring the Arts, Inc.
Financial Statements
(Together with Independent Auditors' Report)**

Years Ended June 30, 2021 and 2020

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

EXPLORING THE ARTS, INC.
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED JUNE 30, 2021 AND 2020

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
of Exploring the Arts, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Exploring the Arts, Inc. ("ETA"), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Exploring the Arts, Inc. as of June 30, 2021 and 2020, 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.

Marks Paneth LLP

New York, NY
February 17, 2022

**EXPLORING THE ARTS, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2021 AND 2020**

	2021	2020
ASSETS		
Cash and cash equivalents (Notes 2C and 11A)	\$ 133,448	\$ 623,569
Investments (Notes 2D and 5)	3,577,852	3,551,911
Accounts Receivable, net (Note 9)	138,877	-
Contributions receivable, net (Notes 2E and 4)	326,997	903,503
Other assets	72,384	70,468
Property and equipment, net (Notes 2F and 6)	10,126	14,628
TOTAL ASSETS	\$ 4,259,684	\$ 5,164,079
LIABILITIES		
Accounts payable and accrued expenses	\$ 119,053	\$ 86,179
Deferred revenue	36,000	36,000
Deferred rent (Note 10A)	3,329	3,973
Paycheck Protection Program loans payable (Note 8)	174,822	168,706
TOTAL LIABILITIES	333,204	294,858
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS (Notes 2B and 7)		
Without Donor Restrictions:		
General operations	936,173	893,335
Board designated funds	1,821,955	2,071,955
Total Without Donor Restrictions	2,758,128	2,965,290
With Donor Restrictions (Note 7)	1,168,352	1,903,931
TOTAL NET ASSETS	3,926,480	4,869,221
TOTAL LIABILITIES AND NET ASSETS	\$ 4,259,684	\$ 5,164,079

The accompanying notes are an integral part of these financial statements.

EXPLORING THE ARTS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>For the Year Ended June 30, 2021</u>			<u>For the Year Ended June 30, 2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>TOTAL</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>TOTAL</u>
REVENUES:						
PUBLIC SUPPORT AND REVENUES:						
Foundations, corporations, individuals and other (Notes 2E, 2J, 8 and 11B) \$	477,182	\$ 211,770	\$ 688,952	\$ 1,222,864	\$ 301,750	\$ 1,524,614
Investment activity (Notes 2D and 5)	32,161	-	32,161	226,273	-	226,273
Gain on forgiveness of Paycheck Protection Program (Note 8)	168,706	-	168,706	-	-	-
Employee Retention Tax Credit (Note 9)	138,877	-	138,877	-	-	-
Other revenue	3,641	-	3,641	45	-	45
Net assets released from restrictions (Note 7)	947,349	(947,349)	-	685,639	(685,639)	-
TOTAL PUBLIC SUPPORT AND REVENUES	<u>1,767,916</u>	<u>(735,579)</u>	<u>1,032,337</u>	<u>2,134,821</u>	<u>(383,889)</u>	<u>1,750,932</u>
EXPENSES (Note 2I):						
Program Services						
Arts Internship Program	521,586	-	521,586	681,749	-	681,749
Four Year Plan	618,289	-	618,289	707,507	-	707,507
Lang Arts Scholars	179,887	-	179,887	-	-	-
Other	123,896	-	123,896	240,896	-	240,896
Total Program Services	<u>1,443,658</u>	<u>-</u>	<u>1,443,658</u>	<u>1,630,152</u>	<u>-</u>	<u>1,630,152</u>
Supporting Services:						
Management and general	440,834	-	440,834	204,021	-	204,021
Fundraising	90,586	-	90,586	233,280	-	233,280
Total Supporting Services	<u>531,420</u>	<u>-</u>	<u>531,420</u>	<u>437,301</u>	<u>-</u>	<u>437,301</u>
TOTAL EXPENSES	<u>1,975,078</u>	<u>-</u>	<u>1,975,078</u>	<u>2,067,453</u>	<u>-</u>	<u>2,067,453</u>
CHANGE IN NET ASSETS	(207,162)	(735,579)	(942,741)	67,368	(383,889)	(316,521)
Net assets - beginning of year	<u>2,965,290</u>	<u>1,903,931</u>	<u>4,869,221</u>	<u>2,897,922</u>	<u>2,287,820</u>	<u>5,185,742</u>
NET ASSETS - END OF YEAR	<u>\$ 2,758,128</u>	<u>\$ 1,168,352</u>	<u>\$ 3,926,480</u>	<u>\$ 2,965,290</u>	<u>\$ 1,903,931</u>	<u>\$ 4,869,221</u>

The accompanying notes are an integral part of these financial statements.

EXPLORING THE ARTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021
(With Comparative Totals for June 30, 2020)

	Program Services				Total Program Services	Supporting Services			Total 2021	Total 2020
	Arts Internship	Four Year Plan	Lang Arts Scholars	Other		Management and General	Fundraising	Total Supporting Services		
PERSONNEL EXPENSES										
Salaries	\$ 206,957	\$ 299,847	\$ 81,935	\$ 46,346	\$ 635,085	\$ 197,430	\$ 54,271	\$ 251,701	\$ 886,786	\$ 780,370
Payroll taxes and employee benefits	48,538	70,323	19,216	10,870	148,947	46,303	12,728	59,031	207,978	159,355
Total Personnel Costs	255,495	370,170	101,151	57,216	784,032	243,733	66,999	310,732	1,094,764	939,725
OTHER EXPENSES										
Travel and conference	-	-	-	-	-	1,308	-	1,308	1,308	15,618
Rent	38,863	56,306	15,386	8,703	119,258	37,074	10,191	47,265	166,523	111,627
Donated rent (Note 2J)	-	-	-	-	-	-	-	-	-	46,591
Office expenses	2,359	3,418	934	528	7,239	17,350	1,194	18,544	25,783	18,231
Printing	-	-	-	-	-	-	-	-	-	1,545
Postage	-	-	-	-	-	-	-	-	-	2,296
Student development	199,973	-	-	52,068	252,041	-	-	-	252,041	274,283
School support	-	146,729	52,591	-	199,320	-	-	-	199,320	291,822
Professional and consulting fees	20,803	35,735	8,204	4,464	69,206	136,989	11,128	148,117	217,323	331,781
Insurance	1,931	2,798	765	432	5,926	1,842	506	2,348	8,274	7,994
Event expenses	-	-	-	-	-	-	-	-	-	14,859
Depreciation (Note 6)	1,699	2,462	673	381	5,215	1,619	446	2,065	7,280	7,833
Miscellaneous	463	671	183	104	1,421	919	122	1,041	2,462	3,248
TOTAL EXPENSES	\$ 521,586	\$ 618,289	\$ 179,887	\$ 123,896	\$ 1,443,658	\$ 440,834	\$ 90,586	\$ 531,420	\$ 1,975,078	\$ 2,067,453

The accompanying notes are an integral part of these financial statements.

EXPLORING THE ARTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services				Supporting Services			Total 2020
	Arts Internship	Four Year Plan	Other	Total Program Services	Management and General	Fundraising	Total Supporting Services	
PERSONNEL EXPENSES								
Salaries	\$ 273,719	\$ 289,431	\$ 115,772	\$ 678,922	\$ 15,607	\$ 85,841	\$ 101,448	\$ 780,370
Payroll taxes and employee benefits	55,895	59,103	23,641	138,639	3,187	17,529	20,716	159,355
Total Personnel Costs	329,614	348,534	139,413	817,561	18,794	103,370	122,164	939,725
OTHER EXPENSES								
Travel and conference	2,330	2,464	985	5,779	-	9,839	9,839	15,618
Rent	39,154	41,402	16,560	97,116	2,232	12,279	14,511	111,627
Donated rent (Note 2J)	16,342	17,280	6,912	40,534	932	5,125	6,057	46,591
Office expenses	5,148	5,444	2,178	12,770	1,730	3,731	5,461	18,231
Printing	62	66	26	154	77	1,314	1,391	1,545
Postage	-	-	-	-	574	1,722	2,296	2,296
Student development	252,761	-	21,522	274,283	-	-	-	274,283
School support	-	253,893	37,929	291,822	-	-	-	291,822
Professional and consulting fees	29,834	31,546	12,619	73,999	178,781	79,001	257,782	331,781
Insurance	2,804	2,965	1,186	6,955	160	879	1,039	7,994
Event expenses	-	-	-	-	-	14,859	14,859	14,859
Depreciation (Note 6)	2,747	2,905	1,162	6,814	157	862	1,019	7,833
Miscellaneous	953	1,008	404	2,365	584	299	883	3,248
TOTAL EXPENSES	\$ 681,749	\$ 707,507	\$ 240,896	\$ 1,630,152	\$ 204,021	\$ 233,280	\$ 437,301	\$ 2,067,453

The accompanying notes are an integral part of these financial statements.

**EXPLORING THE ARTS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (942,741)	\$ (316,521)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	7,280	7,833
Discount on contributions	(1,525)	(35,235)
Forgiveness of loan payable	(168,706)	-
Realized/Unrealized loss (gain) on investments	54,935	(137,333)
Subtotal	(1,050,757)	(481,256)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Contributions receivable	439,154	870,368
Other assets	(1,916)	(50,216)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	32,874	(36,534)
Deferred revenue	-	36,000
Deferred rent	(644)	555
Net Cash Used In (Provided by) Operating Activities	(581,289)	338,917
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(2,778)	(5,238)
Purchases of investments	(80,876)	(90,901)
Net Cash Used in (Provided by) Investing Activities	(83,654)	(96,139)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loan payable	174,822	168,706
Net Cash Provided by Financing Activities	174,822	168,706
NET DECREASE (INCREASE) IN CASH AND CASH EQUIVALENTS	(490,121)	411,484
Cash and cash equivalents - beginning of year	623,569	212,085
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 133,448	\$ 623,569

The accompanying notes are an integral part of these financial statements.

EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 1 — ORGANIZATION AND NATURE OF ACTIVITIES

Founded in 1999 by Tony Bennett and Susan Benedetto, Exploring the Arts (“ETA”) is a 501(c)(3) nonprofit organization whose mission is to transform the lives of young people through arts education. At the heart of ETA’s work is a vision to provide greater equity of resources and opportunities in the arts to traditionally underserved teens in New York City and Los Angeles County. ETA offers its programs and support to designated ETA Partner Schools. Currently, ETA serves 52 Partner Schools in New York City and Los Angeles County.

ETA’s original Partner School is Frank Sinatra School of the Arts (“FSSA”), founded by Tony Bennett and Susan Benedetto in partnership with the NYC Department of Education. FSSA serves grades 9-12 and all students major in one of the following disciplines: Theatre, Film & Media Arts, Fine Art, Vocal Music, Instrumental Music, or Dance. Exploring the Arts completed a successful capital campaign to help support the construction of a new, award-winning building for Frank Sinatra School of the Arts. FSSA moved into its state-of-the-art new home at the start of the 2009-10 school year in Mr. Bennett’s hometown of Astoria, Queens at the Kaufman Astoria Studios Complex.

ETA achieves its mission through the following major programs:

- **Arts Internship Program (formerly known as Apprenticeship Program)**, which places 11th and 12th graders from predominantly Title 1, public high schools in NYC and LA as paid interns in one-to-one mentorship with professionals at arts and culture organizations after-school and on weekends from October to May. ETA also runs a shorter version of the program in the summer months. It is on average 70 hours in the program for the school-year. Students receive arts training, assist on office projects, engage with master works, and form transformative relationships with trusted, caring adults working in their field of interest. More than 1,000 teens have been served by the Arts Internship Program to date.
- **Four Year Plan**, which is to create sustainable arts programming during the school day in middle and high schools in NY and LA, most of which have Title 1 classification. Through its core initiative, ETA provides strategic planning, funding, and assessment support over the course of four years to help principals and teachers build rigorous and sustainable, school-day arts programs. Although the focus of each Partner School’s Four Year Plan is unique, their goals must align with one of ETA’s three identified priorities: 1) to develop a new, sequenced arts curriculum; 2) to increase the rigor of already-established arts courses; 3) to integrate the arts into academic courses.
- **Arts Access Program**, which provides arts and academic subject teachers from ETA Partner Schools with critical resources and funding to help support the arts in their classrooms. Awarded grants may be used for arts supplies and equipment, cultural field trips, and work with teaching artists.
- **Turnaround Arts: NYC**, which is in partnership with the Kennedy Center in DC’s national program. ETA leverages the unique power of the arts in education to accelerate transformation in high-poverty, low performing schools. ETA implements this program in four Bronx middle schools, creating a pipeline of students to equitably compete for seats in the City’s arts high schools.
- **Lang Arts Scholars**, which launched in 2019 and provides select teens from ETA’s NYC Partner Schools with fully-funded, intensive training in the performing arts, coupled with a wrap-around, college and career preparatory curriculum. Students will participate during after-school, weekend, and summer hours for three consecutive years.
- **Network Programming**, which helps to increase teacher capacity through professional development opportunities and peer learning communities.

EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. **Basis of Accounting** – ETA's financial statements have been prepared on the accrual basis of accounting. ETA adheres to accounting principles generally accepted in the United States of America ("U.S. GAAP").
- B. **Basis of Presentation** – ETA reports gifts of cash and other assets as support without donor restrictions unless they are received with donor restrictions and stipulations that limit the use of the donated assets in which case they are reported as net assets with donor restrictions.

ETA maintains its net assets under the following two classes:

- Net Assets without Donor Restrictions – represents resources available for support of ETA's operations over which the Board of Directors has discretionary control. Board designated reserve funds consist of funds generated from past operating surplus, and designated for ETA's future expansion projects.
 - Net Assets with Donor Restrictions – net assets resulting from contributions and other inflows of assets whose use by ETA is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of ETA pursuant to those stipulations. When such stipulations end or are fulfilled, such donor restricted net assets are reported in the statements of activities as net assets released from restrictions.
- C. **Cash and Cash Equivalents** – Cash equivalents consist of all highly liquid instruments purchased with maturities of three months or less.
- D. **Investments** – Investments are stated at fair value. Realized and unrealized gains and losses are recognized as changes in net assets in the period in which they occur, and interest and dividends are recognized as revenue in the period earned. Fair value measurements are 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 5.
- E. **Unconditional Promises to Give** – Contributions are nonexchange transactions and accounted for under Financial Accounting Standards Board ("FASB") ASU 2018-08, Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made (Topic 958). Contributions are recognized as revenue when barriers within the contract are overcome, and there is no right of return/ release from obligation. Contributions amounted to \$688,952 and \$1,524,614 for the years ended June 30, 2021 and 2020, respectively.

Contributions of assets other than cash are recorded at their estimated fair values. Pledge payments scheduled to be received after one year are discounted at a discount rate commensurate with the risks involved. ETA discounts long-term pledges using a risk-adjusted interest rate (0.18% for the year ended June 30, 2020) for the expected term of the promise to give applicable to the years in which the pledges are received. As of June 30, 2021 and 2020, the discount on contributions receivable amounted to \$0 and \$1,525, respectively. Conditional promises to give, such as those requiring matching funds, are recognized as revenue in the period in which the conditions are substantially met.

Historically, ETA has not experienced significant bad debt losses. As of June 30, 2021 and 2020, ETA determined that an allowance for uncollectible accounts was not necessary. The determination is based on ETA's historical loss experience, creditworthiness of the donors and considering the use of the receivables.

- F. **Property and Equipment** – Property and equipment is stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. ETA capitalizes all property and equipment having a cost of \$1,000 or more and a useful life of at least one year. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

**EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- G. **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 disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
- H. **Special Events** – The direct costs of special events include expenses incurred for the benefit of the donor. Such direct costs include meals and facilities rental.
- I. **Functional Expenses** – The costs of program and supporting services have been summarized on a functional basis in the statements of functional expenses. Certain indirect costs have been allocated by management between programs and supporting services based on a percentage of direct program expenses. The expenses that are allocated include rent, office expenses, printing, postage, professional and consulting fees, insurance and miscellaneous, which are allocated on the basis of estimates of time and effort.
- J. **Donated Rent** – ETA rents space at the Kaufman Astoria Studios (the “Studios”) that has a fair market value of approximately \$11,000 a month. The President of the Studios is an ETA Board member and through January 31, 2022, donates a portion of the rent at its estimated fair value of \$4,100 per month. ETA accounts for the donated rent in the accompanying financial statements as support and as an expense. the difference of the donated portion and the fair market value is recognized as rent expense. See Note 9A for additional information.

NOTE 3 — LIQUIDITY AND AVAILABILITY OF ETA RESOURCES FOR GENERAL EXPENDITURES

ETA regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment return within acceptable levels of risk. ETA has various sources of liquidity at its disposal, including cash and investments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, ETA considers all expenditures related to its ongoing program activities as well as the supporting services to be general expenditures.

As of June 30, 2021 and 2020, financial assets available for general expenditure within 12 months were as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 133,448	\$ 623,569
Accounts and contributions receivable	465,874	903,503
Investments	<u>3,577,852</u>	<u>3,551,911</u>
Total Financial Assets	4,177,174	5,078,983
Less: Net assets with donor restrictions	(1,168,352)	(1,903,931)
Less: Board designated	<u>(1,821,955)</u>	<u>(2,071,955)</u>
Total	<u>\$ 1,186,867</u>	<u>\$ 1,103,097</u>

**EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 4 — CONTRIBUTIONS RECEIVABLE

Contributions receivable amounted to \$326,997 and \$903,503 as of June 30, and are expected to be collected as follows:

	<u>2021</u>	<u>2020</u>
Contributions due:		
Within one year	\$ 176,997	\$ 555,028
In one to five years	<u>150,000</u>	<u>350,000</u>
Gross contributions receivable	326,997	905,028
Discount for net present value (0.18%)	<u>-</u>	<u>(1,525)</u>
Net contributions receivable	<u>\$ 326,997</u>	<u>\$ 903,503</u>

NOTE 5 — INVESTMENTS AND FAIR VALUE MEASUREMENTS

In determining fair value, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs, to the extent possible, in its assessment of fair value.

The fair value hierarchy defines three levels as follows:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. It also includes mutual funds which are valued at the net asset value (“NAV”) of shares. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for similar assets or liabilities.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models or similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

We evaluated the significance of transfers between levels based upon the nature of the financial instruments. For the years ended June 30, 2021 and 2020, there were no such transfers.

Investments, measured at fair value on a recurring basis, are classified as Level 1 and consisted of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Fixed Income:		
AB Intermediate Duration Portfolio	\$ <u>3,577,852</u>	\$ <u>3,551,911</u>
Total	<u>\$ 3,577,852</u>	<u>\$ 3,551,911</u>

Investments are subject to market volatility that could substantially change their carrying value in the near term. The AB funds are managed by professional investment advisors within the scope of ETA’s Board-approved investment policy.

**EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 5 — INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Return on investment consisted of the following for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 93,316	\$ 94,818
Unrealized and realized (loss) gain on investments	(54,935)	137,333
Investment fees	<u>(6,220)</u>	<u>(5,878)</u>
Total	<u>\$ 32,161</u>	<u>\$ 226,273</u>

NOTE 6 — PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following as of June 30:

	<u>2021</u>	<u>2020</u>	<u>Estimated Useful Lives</u>
Computers	\$ 30,627	\$ 27,849	36 Months
Leasehold Improvements	14,620	14,620	54-55 Months
Less: Accumulated depreciation	<u>(35,121)</u>	<u>(27,841)</u>	
Net book value	<u>\$ 10,126</u>	<u>\$ 14,628</u>	

Depreciation expense reported in the statements of functional expenses for the years ended June 30, 2021 and 2020, amounted to \$7,280 and \$7,833, respectively.

NOTE 7 — NET ASSETS WITH DONOR RESTRICTIONS

Net Assets with donor restrictions consisted of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Purpose restricted:		
Tony Bennett sustainability fund	\$ 715,280	\$ 965,280
Four-year plan	-	27,831
LIHSA Restricted Fund	56,200	95,088
Lang Arts Program	396,872	575,820
Time restricted	<u>-</u>	<u>239,912</u>
Total	<u>\$ 1,168,352</u>	<u>\$ 1,903,931</u>

Net assets of \$947,349 and \$685,639 were released from donor restrictions during the years ended June 30, 2021 and 2020, respectively, by incurring the expenses satisfying the restricted purpose of providing program services or by the passage of time.

EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 — PAYCHECK PROTECTION PROGRAM LOANS PAYABLE

On March 27, 2020, in response to COVID-19, the federal government passed the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). Among many other provisions, to help businesses retain employees, the CARES Act provides relief to qualifying businesses through a program called the Paycheck Protection Program (“PPP”). Participating in the PPP enables the business to obtain a loan from the Small Business Administration (“SBA”) sector of the government. If the proceeds from the loan are used for specified purposes, some or all of the loan can be forgiven.

On March 30, 2020, ETA applied for this loan through JPMorgan Chase Bank, N.A., an SBA authorized lender. The loan, amounting to \$168,706, was approved and received in April 2020. ETA has opted to account for the proceeds as a loan under Topic FASB ASC 470 *Debt*, until the loan is, in part or wholly, forgiven and ETA has been “legally released.” On June 17, 2021, ETA received full forgiveness of the loan and recognized the revenue during the year ended June 30, 2021.

On February 7, 2021, ETA was approved for a second-draw PPP loan amounting to \$174,822. The terms and conditions of the second-draw loan are the same as in the first loan. ETA recorded a loan payable of \$174,822 on the statement of financial position as of June 30, 2021.

NOTE 9 — EMPLOYEE RETENTION TAX CREDIT

During the year ended June 30, 2021, ETA benefited from credits related to the passage of the CARES Act on March 27, 2020, in response to the COVID-19 crisis. Under the CARES Act, ETA qualified for an Employee Retention Credit for revenue loss due to the COVID-19 crisis. As a result of the CARES Act, ETA recorded a total income of \$138,877 which is included in the accompanying statements of activities. There is no assurance that regulatory authorities will not challenge ETA’s claim to the ERC, and it is not possible to determine (if any) this would have upon ETA.

NOTE 10 — COMMITMENTS AND CONTINGENCIES

- A. ETA has a lease agreement for five years for office space at the Kaufman Astoria Studios, which will expire on January 31, 2023 and is subject to annual rent escalations. The monthly rent for the year ended June 30, 2021 was approximately \$11,000. The office is located in a building owned by an entity controlled by a member of the Board of Directors. A portion is recorded as donated rent, see Note 2J.

In January 2020, ETA entered into a lease agreement for two years for office space in Pasadena, CA where ETA pays a monthly fee. The monthly fee for each of the years ended June 30, 2021 and 2020 amounted to \$2,357.

Future minimum rental commitments under these leases for the remaining years ending subsequent to June 30, 2021 are approximately as follows:

2022	\$ 83,300
2023	<u>49,000</u>
	<u>\$ 132,300</u>

Rent expense for the years ended June 30, 2021 and 2020 amounted to \$112,051 and \$102,376, respectively.

- B. ETA believes it has no uncertain tax positions as of June 30, 2021 and 2020 in accordance with Accounting Standards Codification (“ASC”) Topic 740, *Income Taxes*, which provides standards for establishing and classifying any tax provision for uncertain tax positions.

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NOTE 10 — COMMITMENTS AND CONTINGENCIES (Continued)

- C. The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on ETA's business and financial results will depend on future developments, including the duration and spread of the outbreak. Due to the rapidly changing business environment, unprecedented market volatility, and other circumstances resulting from the COVID-19 pandemic, ETA is currently unable to fully determine the extent of COVID-19's impact on its business in future periods. ETA's performance in future periods will be heavily influenced by the timing, length, and intensity of the economic recoveries in the United States. ETA continues to monitor evolving economic and general business conditions and the actual and potential impacts on its financial position and results of operations.

NOTE 11 — CONCENTRATION

- A. Cash and cash equivalents that potentially subject ETA to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation's ("FDIC") insurance limits. Cash accounts are insured up to \$250,000 per depositor. As of June 30, 2021 and 2020, there was approximately \$0 and \$451,000, respectively, of cash and cash equivalents held by one bank that exceeded FDIC limits. Such excess includes outstanding checks.
- B. For the year ended June 30, 2021, ETA derived 47% of its public support revenue from two donors. For the year ended June 30, 2020 ETA derived 35% of its revenue from contributions associated with its founder's personal and business contacts.

NOTE 12 — SUBSEQUENT EVENTS

ETA has evaluated events subsequent to the date of the statement of financial position through February 17, 2022, the date the financial statements were available to be issued.