

Exploring *the* Arts

**Financial Statements
(Together with Independent Auditors' Report)**

Years Ended June 30, 2019 and 2018

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, 2019 AND 2018

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Basic Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Functional Expenses	5-6
Statements of Cash Flows	7
Notes to Financial Statements	8-13

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in note 2K to the financial statements, during the year ended June 30, 2019, ETA adopted Accounting Standards Update 2016-14, "Not-for-Profit Entities." Our opinion is not modified with respect to this matter.

Marks Paneth LLP

New York, NY
January 20, 2020

EXPLORING THE ARTS, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents (Notes 2C and 9A)	\$ 212,085	\$ 597,703
Investments (Notes 2D and 5)	3,323,677	3,104,566
Contributions receivable, net (Notes 2E and 4)	1,738,636	1,864,098
Other assets	20,252	19,475
Property and equipment, net (Notes 2F and 6)	17,223	5,178
TOTAL ASSETS	\$ 5,311,873	\$ 5,591,020
LIABILITIES		
Accounts payable and accrued expenses	\$ 126,131	\$ 48,130
TOTAL LIABILITIES	126,131	48,130
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET ASSETS (Notes 2B and 7)		
Without Donor Restrictions:		
General operations	825,967	947,991
Board designated funds	2,071,955	2,300,000
Total Without Donor Restrictions	2,897,922	3,247,991
With Donor Restrictions (Note 7)	2,287,820	2,294,899
TOTAL NET ASSETS	5,185,742	5,542,890
TOTAL LIABILITIES AND NET ASSETS	\$ 5,311,873	\$ 5,591,020

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

EXPLORING THE ARTS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>For the Year Ended June 30, 2019</u>			<u>For the Year Ended June 30, 2018</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:						
Special events revenue	\$ 499,253	\$ -	\$ 499,253	\$ 719,400	\$ -	\$ 719,400
Less: Costs of direct benefits to donors (Note 2H)	(275,636)	-	(275,636)	(118,740)	-	(118,740)
Special events, net	223,617	-	223,617	600,660	-	600,660
Foundations, corporations, individuals and other (Notes 2B and 9B)	444,959	856,096	1,301,055	402,216	1,999,818	2,402,034
Investment activity (Notes 2D and 5)	226,932	-	226,932	4,659	-	4,659
Other revenue	1,644	-	1,644	-	-	-
Net assets released from restrictions (Note 8)	863,175	(863,175)	-	874,938	(874,938)	-
TOTAL PUBLIC SUPPORT AND REVENUES	<u>1,760,327</u>	<u>(7,079)</u>	<u>1,753,248</u>	<u>1,882,473</u>	<u>1,124,880</u>	<u>3,007,353</u>
EXPENSES (Note 21):						
Program Services						
Arts Internship Program	627,632	-	627,632	591,245	-	591,245
Four Year Plan	685,867	-	685,867	705,795	-	705,795
Other	249,481	-	249,481	160,327	-	160,327
Total Program Services	<u>1,562,980</u>	<u>-</u>	<u>1,562,980</u>	<u>1,457,367</u>	<u>-</u>	<u>1,457,367</u>
Supporting Services:						
Management and general	165,898	-	165,898	178,805	-	178,805
Fundraising	381,518	-	381,518	341,967	-	341,967
Total Supporting Services	<u>547,416</u>	<u>-</u>	<u>547,416</u>	<u>520,772</u>	<u>-</u>	<u>520,772</u>
TOTAL EXPENSES	<u>2,110,396</u>	<u>-</u>	<u>2,110,396</u>	<u>1,978,139</u>	<u>-</u>	<u>1,978,139</u>
CHANGE IN NET ASSETS	(350,069)	(7,079)	(357,148)	(95,666)	1,124,880	1,029,214
Net assets - beginning of year	3,247,991	2,294,899	5,542,890	3,343,657	1,170,019	4,513,676
NET ASSETS - END OF YEAR	<u>\$ 2,897,922</u>	<u>\$ 2,287,820</u>	<u>\$ 5,185,742</u>	<u>\$ 3,247,991</u>	<u>\$ 2,294,899</u>	<u>\$ 5,542,890</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, 2019
(With Comparative Totals for June 30, 2018)

	Program Services			Total Program Services	Supporting Services		Total Supporting Services	Total 2019	Total 2018
	Arts Internship	Four Year Plan	Other		Management and General	Fundraising			
PERSONNEL EXPENSES									
Salaries	\$ 205,251	\$ 226,857	\$ 121,711	\$ 553,819	\$ 28,401	\$ 127,804	\$ 156,205	\$ 710,024	\$ 605,903
Payroll taxes and employee benefits	37,581	41,537	22,285	101,403	7,747	23,400	31,147	132,550	101,551
Total Personnel Costs	242,832	268,394	143,996	655,222	36,148	151,204	187,352	842,574	707,454
OTHER EXPENSES									
Travel and conference	3,490	3,857	2,070	9,417	170	11,143	11,313	20,730	14,930
Rent	27,175	30,035	16,114	73,324	3,761	16,922	20,683	94,007	66,043
Donated rent (Note 21)	13,285	14,684	7,878	35,847	1,838	8,272	10,110	45,957	27,250
Office expenses	10,257	11,336	6,082	27,675	12,464	10,526	22,990	50,665	49,508
Printing	147	163	87	397	199	3,376	3,575	3,972	1,018
Postage	-	-	-	-	1,015	3,046	4,061	4,061	1,904
Student development	323,493	-	11,407	334,900	-	-	-	334,900	367,622
School support	-	349,312	57,724	407,036	-	-	-	407,036	423,329
Professional and consulting fees	968	1,070	574	2,612	106,265	93,349	199,614	202,226	196,942
Insurance	2,303	2,546	1,366	6,215	319	1,434	1,753	7,968	7,533
Event expenses	-	400	-	400	-	355,590	355,590	355,990	217,469
Depreciation (Note 6)	2,018	2,230	1,196	5,444	279	1,256	1,535	6,979	3,022
Miscellaneous	1,664	1,840	987	4,491	3,440	1,036	4,476	8,967	12,855
Less: direct costs of special events	-	-	-	-	-	(275,636)	(275,636)	(275,636)	(118,740)
TOTAL EXPENSES	\$ 627,632	\$ 685,867	\$ 249,481	\$ 1,562,980	\$ 165,898	\$ 381,518	\$ 823,052	\$ 2,110,396	\$ 1,978,139

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, 2018**

	Program Services				Supporting Services			Total 2018
	Arts Internship	Four Year Plan	Other	Total Program Services	Management and General	Fundraising	Total Supporting Services	
PERSONNEL EXPENSES								
Salaries	\$ 163,291	\$ 233,273	\$ 69,982	\$ 466,546	\$ 36,354	\$ 103,003	\$ 139,357	\$ 605,903
Payroll taxes and employee benefits	26,047	37,210	11,163	74,420	10,701	16,430	27,131	101,551
Total Personnel Costs	189,338	270,483	81,145	540,966	47,055	119,433	166,488	707,454
OTHER EXPENSES								
Travel and conference	5,225	7,465	2,240	14,930	-	-	-	14,930
Rent	17,799	25,426	7,628	50,853	3,963	11,227	15,190	66,043
Donated rent (Note 2I)	7,344	10,491	3,147	20,982	1,635	4,633	6,268	27,250
Office expenses	7,318	10,456	3,138	20,912	18,897	9,699	28,596	49,508
Printing	36	51	15	102	51	865	916	1,018
Postage	167	238	71	476	476	952	1,428	1,904
Student development	358,000	-	9,622	367,622	-	-	-	367,622
School support	-	372,588	50,741	423,329	-	-	-	423,329
Professional and consulting fees	25	36	11	72	104,222	92,648	196,870	196,942
Insurance	2,030	2,900	870	5,800	452	1,281	1,733	7,533
Event expenses	-	-	-	-	-	217,469	217,469	217,469
Depreciation (Note 6)	814	1,163	349	2,326	182	514	696	3,022
Miscellaneous	3,149	4,498	1,350	8,997	1,872	1,986	3,858	12,855
Less: direct costs of special events	-	-	-	-	-	(118,740)	(118,740)	(118,740)
TOTAL EXPENSES	<u>\$ 591,245</u>	<u>\$ 705,795</u>	<u>\$ 160,327</u>	<u>\$ 1,457,367</u>	<u>\$ 178,805</u>	<u>\$ 341,967</u>	<u>\$ 639,512</u>	<u>\$ 1,978,139</u>

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, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (357,148)	\$ 1,029,214
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,979	3,022
Discount on pledges	(65,390)	90,907
Realized/Unrealized loss (gain) on investments	(127,300)	70,097
Subtotal	(542,859)	1,193,240
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Contributions receivable	190,852	(1,218,579)
Other assets	(777)	30,902
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	78,001	4,973
Net Cash Provided by (Used in) Operating Activities	(274,783)	10,536
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(19,024)	(1,253)
Purchases of investments	(91,811)	(66,796)
Proceeds from sale of investments	-	150,000
Net Cash Provided by (Used in) Investing Activities	(110,835)	81,951
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(385,618)	92,487
Cash and cash equivalents - beginning of year	597,703	505,216
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 212,085	\$ 597,703

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

EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 equality of resources and opportunity 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 33 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, and 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 750 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 low-income neighborhoods. 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.
- **Others**, includes the 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.

ETA launched its new Lang Arts Scholars program in 2019. The new program 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.

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.

EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. *Basis of Presentation (Continued)* –

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 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 (1.75%) for the expected term of the promise to give applicable to the years in which the pledges are received. As of June 30, 2019 and 2018, the discount on pledges receivable amounted to \$36,760 and \$101,061, 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. For the years ended June 30, 2019 and 2018, 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.

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.

**EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- I. **Functional Expenses** – The costs of program and supporting services have been summarized on a functional basis in the statement of functional expenses. Certain indirect costs have been allocated by management between program 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** – Beginning February 2017, ETA received donated rent from one of the Board members. ETA accounts for the donated rent in the accompanying financial statements as support and expenses at the estimated fair value of \$2,650 per month through January 2018, \$2,600 per month through August 2018, and \$1,283 per month thereafter. Refer to Note 8 for additional information.
- K. **Recent Accounting Pronouncements** – Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-14, “Not-for-profit Entities” was adopted for the year ended June 30, 2019. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquid resources and expense allocation. These changes had no impact on the change in net assets for the year ended June 30, 2019.

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 is 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, 2019, financial assets available for general expenditure within 12 months were as follows:

Cash and cash equivalents	\$ 212,085
Contributions and Accounts Receivable	1,738,636
Investments	<u>3,323,677</u>
Total Financial Assets	5,274,398
Less: Net Assets with Donor Restrictions	<u>(2,287,820)</u>
	<u>\$ 2,986,578</u>

NOTE 4 — CONTRIBUTIONS RECEIVABLE

Contributions receivable amounted to \$1,738,636 and \$1,864,098 as of June 30, and are expected to be collected as follows:

	<u>2019</u>	<u>2018</u>
Contributions due:		
Within one year	\$ 885,396	\$ 635,159
In one to five years	<u>890,000</u>	<u>1,330,000</u>
Gross contributions receivable	1,775,396	1,965,159
Discount for net present value (1.75%)	<u>(36,760)</u>	<u>(101,061)</u>
Net contributions receivable	<u>\$ 1,738,636</u>	<u>\$ 1,864,098</u>

EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 — INVESTMENTS

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, 2019 and 2018, 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:

	2019	2018
Fixed Income:		
AB Intermediate Duration Portfolio	\$ 3,323,677	\$ 3,104,566
	\$ 3,323,677	\$ 3,104,566

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.

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

	2019	2018
Interest and dividends	\$ 99,632	\$ 74,756
Realized/Unrealized (loss)/gain on investments	127,300	(70,097)
	\$ 226,932	\$ 4,659

**EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 6 — PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>	<u>Estimated Useful Lives</u>
Computers	\$ 22,611	\$ 18,207	36 Months
Leasehold Improvements	14,620	-	54-55 Months
Less: Accumulated depreciation	<u>(17,007)</u>	<u>(13,029)</u>	
Net book value	<u>\$ 17,223</u>	<u>\$ 5,178</u>	

Depreciation expense reported in the statement of functional expenses for the years ended June 30, 2019 and 2018, amounted to \$6,979 and \$3,022, respectively.

NOTE 7 — NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
Purpose restricted:		
Tony Bennett sustainability fund	\$ 963,916	\$ 535,939
Four-year plan	598,904	846,678
Arts Internship program (formerly Apprenticeship program)	25,000	25,000
Support for annual gala	-	25,000
Lang Arts Program	700,000	737,282
Time restricted	<u>-</u>	<u>125,000</u>
	<u>\$ 2,287,820</u>	<u>\$ 2,294,899</u>

Net assets of \$863,175 and \$874,938 were released from donor restrictions during the years ended June 30, 2019 and 2018, respectively, by incurring the expenses satisfying the restricted purpose of providing program services or by the passage of time.

NOTE 8 — COMMITMENTS AND CONTINGENCIES

- A. In February 2018, ETA amended its lease agreement for five years for office space in Astoria, NY, which will expire on January 31, 2023 and is subject to annual rent escalations. The monthly fee amounted to \$4,000 through January 2018 and increased to \$4,100 beginning February 2018. 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 2K.

In December 2014, ETA entered into a lease agreement for four years and two months for office space in Los Angeles, CA where ETA pays a monthly fee. The monthly fee for each of the years ended June 30, 2019 and 2018 amounted to \$780.

Future minimum rental commitments under these leases for each of the five years ending subsequent to June 30, 2019 are approximately as follows:

2020	\$ 80,900
2021	82,100
2022	83,300
2023	<u>49,000</u>
	<u>\$ 295,300</u>

Rent expense for the years ended June 30, 2019 and 2018 amounted to \$88,228 and \$58,360, respectively.

EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 8 — COMMITMENTS AND CONTINGENCIES (Continued)

- B. ETA believes it has no uncertain tax positions as of June 30, 2019 and 2018 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.

NOTE 9 — 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, 2019 and 2018, there was approximately \$11,000 and \$74,000, respectively, of cash and cash equivalents held by one bank that exceeded FDIC limits. Such excess includes outstanding checks.
- B. ETA derives a significant proportion of its revenue from contributions associated with its founder’s personal and business contacts.

NOTE 10 — SUBSEQUENT EVENTS

ETA has evaluated events subsequent to the date of the statement of financial position through January 20, 2020, the date the financial statements were available to be issued.