

Exploring *the* Arts

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

Years Ended June 30, 2020 and 2019

MARKS PANETH

ACCOUNTANTS & ADVISORS

EXPLORING THE ARTS, INC.
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED JUNE 30, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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
April 9, 2021

**EXPLORING THE ARTS, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2020 AND 2019**

	2020	2019
ASSETS		
Cash and cash equivalents (Notes 2C and 10A)	\$ 623,569	\$ 212,085
Investments (Notes 2D and 5)	3,551,911	3,323,677
Contributions receivable, net (Notes 2E and 4)	903,503	1,738,636
Other assets	70,468	20,252
Property and equipment, net (Notes 2F and 6)	14,628	17,223
TOTAL ASSETS	\$ 5,164,079	\$ 5,311,873
LIABILITIES		
Accounts payable and accrued expenses	\$ 86,179	\$ 122,713
Deferred revenue	36,000	-
Deferred rent	3,973	3,418
Paycheck Protection Program loan payable (Note 8)	168,706	-
TOTAL LIABILITIES	294,858	126,131
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET ASSETS (Notes 2B and 7)		
Without Donor Restrictions:		
General operations	893,335	825,967
Board designated funds	2,071,955	2,071,955
Total Without Donor Restrictions	2,965,290	2,897,922
With Donor Restrictions (Note 7)	1,903,931	2,287,820
TOTAL NET ASSETS	4,869,221	5,185,742
TOTAL LIABILITIES AND NET ASSETS	\$ 5,164,079	\$ 5,311,873

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

EXPLORING THE ARTS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>For the Year Ended June 30, 2020</u>			<u>For the Year Ended June 30, 2019</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
Less: Costs of direct benefits to donors (Note 2H)	-	-	-	(275,636)	-	(275,636)
Special events, net	-	-	-	223,617	-	223,617
Foundations, corporations, individuals and other (Notes 2E and 10B)	1,222,864	301,750	1,524,614	444,959	856,096	1,301,055
Investment activity (Notes 2D and 5)	226,273	-	226,273	219,112	-	219,112
Other revenue	45	-	45	1,644	-	1,644
Net assets released from restrictions (Note 7)	685,639	(685,639)	-	863,175	(863,175)	-
TOTAL PUBLIC SUPPORT AND REVENUES	<u>2,134,821</u>	<u>(383,889)</u>	<u>1,750,932</u>	<u>1,752,507</u>	<u>(7,079)</u>	<u>1,745,428</u>
EXPENSES (Note 2I):						
Program Services						
Arts Internship Program	681,749	-	681,749	627,632	-	627,632
Four Year Plan	707,507	-	707,507	685,867	-	685,867
Other	240,896	-	240,896	249,481	-	249,481
Total Program Services	<u>1,630,152</u>	<u>-</u>	<u>1,630,152</u>	<u>1,562,980</u>	<u>-</u>	<u>1,562,980</u>
Supporting Services:						
Management and general	204,021	-	204,021	158,078	-	158,078
Fundraising	233,280	-	233,280	381,518	-	381,518
Total Supporting Services	<u>437,301</u>	<u>-</u>	<u>437,301</u>	<u>539,596</u>	<u>-</u>	<u>539,596</u>
TOTAL EXPENSES	<u>2,067,453</u>	<u>-</u>	<u>2,067,453</u>	<u>2,102,576</u>	<u>-</u>	<u>2,102,576</u>
CHANGE IN NET ASSETS	67,368	(383,889)	(316,521)	(350,069)	(7,079)	(357,148)
Net assets - beginning 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>
NET ASSETS - END 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>

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
(With Comparative Totals for June 30, 2019)

	Program Services			Total Program Services	Management and General	Supporting Services		Total Supporting Services	Total 2020	Total 2019
	Arts Internship	Four Year Plan	Other			Fundraising	Supporting Services			
PERSONNEL EXPENSES										
Salaries	\$ 273,719	\$ 289,431	\$ 115,772	\$ 678,922	\$ 15,607	\$ 85,841	\$ 101,448	\$ 780,370	\$ 710,024	
Payroll taxes and employee benefits	55,895	59,103	23,641	138,639	3,187	17,529	20,716	159,355	132,550	
Total Personnel Costs	329,614	348,534	139,413	817,561	18,794	103,370	122,164	939,725	842,574	
OTHER EXPENSES										
Travel and conference	2,330	2,464	985	5,779	-	9,839	9,839	15,618	20,730	
Rent	39,154	41,402	16,560	97,116	2,232	12,279	14,511	111,627	94,007	
Donated rent (Note 2J)	16,342	17,280	6,912	40,534	932	5,125	6,057	46,591	45,957	
Office expenses	5,148	5,444	2,178	12,770	1,730	3,731	5,461	18,231	50,665	
Printing	62	66	26	154	77	1,314	1,391	1,545	3,972	
Postage	-	-	-	-	574	1,722	2,296	2,296	4,061	
Student development	252,761	-	21,522	274,283	-	-	-	274,283	334,900	
School support	-	253,893	37,929	291,822	-	-	-	291,822	407,036	
Professional and consulting fees	29,834	31,546	12,619	73,999	178,781	79,001	257,782	331,781	202,226	
Insurance	2,804	2,965	1,186	6,955	160	879	1,039	7,994	7,968	
Event expenses	-	-	-	-	-	14,859	14,859	14,859	355,990	
Depreciation (Note 6)	2,747	2,905	1,162	6,814	157	862	1,019	7,833	6,979	
Miscellaneous	953	1,008	404	2,365	584	299	883	3,248	8,967	
Less: direct costs of special events	-	-	-	-	-	-	-	-	(275,636)	
TOTAL EXPENSES	\$ 681,749	\$ 707,507	\$ 240,896	\$ 1,630,152	\$ 204,021	\$ 233,280	\$ 437,301	\$ 2,067,453	\$ 2,110,396	

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

	Program Services			Total Program Services	Supporting Services		Total Supporting Services	Total 2019
	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
Payroll taxes and employee benefits	37,581	41,537	22,285	101,403	7,747	23,400	31,147	132,550
Total Personnel Costs	242,832	268,394	143,996	655,222	36,148	151,204	187,352	842,574
OTHER EXPENSES								
Travel and conference	3,490	3,857	2,070	9,417	170	11,143	11,313	20,730
Rent	27,175	30,035	16,114	73,324	3,761	16,922	20,683	94,007
Donated rent (Note 2J)	13,285	14,684	7,878	35,847	1,838	8,272	10,110	45,957
Office expenses	10,257	11,336	6,082	27,675	4,644	10,526	15,170	42,845
Printing	147	163	87	397	199	3,376	3,575	3,972
Postage	-	-	-	-	1,015	3,046	4,061	4,061
Student development	323,493	-	11,407	334,900	-	-	-	334,900
School support	-	349,312	57,724	407,036	-	-	-	407,036
Professional and consulting fees	968	1,070	574	2,612	106,265	93,349	199,614	202,226
Insurance	2,303	2,546	1,366	6,215	319	1,434	1,753	7,968
Event expenses	-	400	-	400	-	355,590	355,590	355,990
Depreciation (Note 6)	2,018	2,230	1,196	5,444	279	1,256	1,535	6,979
Miscellaneous	1,664	1,840	987	4,491	3,440	1,036	4,476	8,967
Less: direct costs of special events	-	-	-	-	-	(275,636)	(275,636)	(275,636)
TOTAL EXPENSES	\$ 627,632	\$ 685,867	\$ 249,481	\$ 1,562,980	\$ 158,078	\$ 381,518	\$ 539,596	\$ 2,102,576

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, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (316,521)	\$ (357,148)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	7,833	6,979
Discount on pledges	(35,235)	(65,390)
Realized/Unrealized gain on investments	(137,333)	(127,300)
Subtotal	(481,256)	(542,859)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Contributions receivable	870,368	190,852
Other assets	(50,216)	(777)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(36,534)	78,001
Deferred revenue	36,000	-
Deferred rent	555	-
Net Cash Provided by (Used in) Operating Activities	338,917	(274,783)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(5,238)	(19,024)
Purchases of investments	(90,901)	(91,811)
Proceeds from loan payable	168,706	-
Net Cash Provided by (Used in) Investing Activities	72,567	(110,835)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	411,484	(385,618)
Cash and cash equivalents - beginning of year	212,085	597,703
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 623,569	\$ 212,085

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

EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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, 2020 AND 2019

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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) (Note 2K). 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 \$1,524,614 and \$1,301,055 as of June 30, 2020 and 2019, 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% and 1.75% for the years ended June 30, 2020 and 2019, respectively) for the expected term of the promise to give applicable to the years in which the pledges are received. As of June 30, 2020 and 2019, the discount on pledges receivable amounted to \$1,525 and \$36,760, 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, 2020 and 2019, 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, 2020 AND 2019**

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 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** – 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 9 for additional information.
- K. **Recent Accounting Pronouncement** – Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958) was adopted by ETA for the year ended June 30, 2020. The core guidance is to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution is conditional. The adoption of ASU 2018-08 did not result in changes as the funding received from contributors are nonreciprocal transactions where the contributors did not receive direct benefit. The adoption of ASU 2018-08 did not have an effect on ETA’s net assets.

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, 2020 and 2019, financial assets available for general expenditure within 12 months were as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 623,569	\$ 212,085
Contributions	903,503	1,738,636
Investments	<u>3,551,911</u>	<u>3,323,677</u>
Total Financial Assets	5,078,983	5,274,398
Less: Net assets with donor restrictions	(1,903,931)	(2,287,820)
Less: Board designated	<u>(2,071,955)</u>	<u>(2,071,955)</u>
	<u>\$ 1,103,097</u>	<u>\$ 914,623</u>

EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 — CONTRIBUTIONS RECEIVABLE

Contributions receivable amounted to \$909,503 and \$1,738,636 as of June 30, and are expected to be collected as follows:

	<u>2020</u>	<u>2019</u>
Contributions due:		
Within one year	\$ 555,028	\$ 885,396
In one to five years	<u>350,000</u>	<u>890,000</u>
Gross contributions receivable	905,028	1,775,396
Discount for net present value (0.18% and 1.75%)	<u>(1,525)</u>	<u>(36,760)</u>
Net contributions receivable	<u>\$ 903,503</u>	<u>\$ 1,738,636</u>

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, 2020 and 2019, 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>2020</u>	<u>2019</u>
Fixed Income:		
AB Intermediate Duration Portfolio	\$ <u>3,551,911</u>	\$ <u>3,323,677</u>
	<u>\$ 3,551,911</u>	<u>\$ 3,323,677</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, 2020 AND 2019**

NOTE 5 — INVESTMENTS (continued)

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

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 94,818	\$ 99,632
Unrealized and realized gain on investments	137,333	127,300
Investment fees	<u>(5,878)</u>	<u>(7,820)</u>
	<u>\$ 226,273</u>	<u>\$ 219,112</u>

NOTE 6 — PROPERTY AND EQUIPMENT, NET

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

	<u>2020</u>	<u>2019</u>	<u>Estimated Useful Lives</u>
Computers	\$ 27,849	\$ 22,611	36 Months
Leasehold Improvements	14,620	14,620	54-55 Months
Less: Accumulated depreciation	<u>(27,841)</u>	<u>(20,008)</u>	
Net book value	<u>\$ 14,628</u>	<u>\$ 17,223</u>	

Depreciation expense reported in the statements of functional expenses for the years ended June 30, 2020 and 2019, amounted to \$7,833 and \$6,979, respectively.

NOTE 7 — NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Purpose restricted:		
Tony Bennett sustainability fund	\$ 965,280	\$ 963,916
Four-year plan	27,831	598,904
Arts Internship program (formerly Apprenticeship program)	-	25,000
LIHSA Restricted Fund	95,088	-
Lang Arts Program	575,820	700,000
Time restricted	<u>239,912</u>	<u>-</u>
	<u>\$ 1,903,931</u>	<u>\$ 2,287,820</u>

Net assets of \$685,639 and \$863,175 were released from donor restrictions during the years ended June 30, 2020 and 2019, 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
JUNE 30, 2020 AND 2019

NOTE 8 — PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

On March 27, 2020, in response to COVID-19, the federal government passed the Coronavirus Aid, Relief, and Economic Stability 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.

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 FASB ASC 470 Debt, until the loan is, in part or wholly, forgiven and ETA has been “legally released.”

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.

NOTE 9 — 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 2J.

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 the years ended June 30, 2020 and 2019 amounted to \$780.

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 year ended June 30, 2020 amounted to \$2,263.

Future minimum rental commitments under these leases for the remaining three years ending subsequent to June 30, 2020 are approximately as follows:

2021	\$ 82,100
2022	83,300
2023	<u>49,000</u>
	<u>\$ 214,400</u>

Rent expense for the years ended June 30, 2020 and 2019 amounted to \$102,376 and \$88,228, respectively.

- B. ETA believes it has no uncertain tax positions as of June 30, 2020 and 2019 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.
- 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 currently unable to fully determine the extent of COVID-19’s impact on it’s 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. We continue to monitor evolving economic and general business conditions and the actual and potential impacts on ETA’s financial position and results

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NOTE 10 — 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, 2020 and 2019, there was approximately \$451,000 and \$11,000, respectively, of cash and cash equivalents held by one bank that exceeded FDIC limits. Such excess includes outstanding checks.

- B. ETA derived 35% and 31% of its revenue from contributions associated with its founder's personal and business contacts for the years ended June 30, 2020 and 2019, respectively.

NOTE 11 — SUBSEQUENT EVENTS

ETA has evaluated events subsequent to the date of the statement of financial position through April 9, 2021, the date the financial statements were available to be issued.