

The Discovery Orchestra, Inc.

Financial Statements

June 30, 2023

(With Summarized Comparative Totals for 2022)



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The Discovery Orchestra, Inc.
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June 30, 2023 and 2022

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Independent Auditors' Report

To the Board of Trustees of
The Discovery Orchestra, Inc.
Summit, NJ 07901

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Discovery Orchestra, Inc. (“TDO”) (a nonprofit organization) which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Discovery Orchestra, Inc. as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Discovery Orchestra, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Notes 2 and 7 to the financial statements, TDO changed its method of accounting for leases as of July 1, 2022 due to the adoption of Accounting Standard Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

To the Board of Trustees of
The Discovery Orchestra, Inc.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Discovery Orchestra, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Discovery Orchestra, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Discovery Orchestra, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

To the Board of Trustees of
The Discovery Orchestra, Inc.

Report on Summarized Comparative Information

We have previously audited The Discovery Orchestra, Inc.'s June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2022. In our opinion, the summarized comparative information presented herein as of for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Nisiroccia LLP

Mt. Arlington, New Jersey
October 24, 2023

The Discovery Orchestra, Inc.
Statement of Financial Position
June 30, 2023 and 2022

<u>ASSETS</u>	<u>2023</u>	<u>2022</u>
Cash	\$ 147,312	\$ 161,940
Restricted cash	213,357	527,580
Grant receivable	12,500	12,500
Employee retention credit receivable	93,509	
Other receivable		400
Prepaid expenses	36,248	29,915
Inventory	1,243	1,846
Operating lease right of use asset	1,491	
Total assets	<u>\$ 505,660</u>	<u>\$ 734,181</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 30,378	\$ 17,712
Operating lease liability	1,491	
Total current liabilities	<u>31,869</u>	<u>17,712</u>
 Net assets:		
Without donor restrictions:		
Operating	249,871	188,889
	<u>249,871</u>	<u>188,889</u>
With donor restrictions	223,920	527,580
Total net assets	<u>473,791</u>	<u>716,469</u>
 Total liabilities and net assets	 <u>\$ 505,660</u>	 <u>\$ 734,181</u>

See accompanying notes to financial statements

The Discovery Orchestra, Inc.
Statement of Activities
For the Year Ended June 30, 2023
(With Summarized Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	2023	2022
Revenue and Support:				
Government grants	\$ 50,000		\$ 50,000	\$ 50,000
Contributions	241,029	\$ 10,563	251,592	230,788
Special events, net	25,542		25,542	25,005
Total revenue and support	316,571	10,563	327,134	305,793
Other revenue and gains:				
Employee retention credit	93,509		93,509	
Interest income	533		533	847
Realized gains on investments				1,021
Royalties	6,355		6,355	5,641
Miscellaneous other income	2,593		2,593	366
Total other revenue and gains	102,990		102,990	7,875
Net assets released from restrictions	314,223	(314,223)		
Total revenue, gains and support	733,784	(303,660)	430,124	313,668
Expenses:				
Program services:				
Music education	512,801		512,801	203,706
Supporting services:				
General and administrative	113,488		113,488	66,086
Fundraising	46,513		46,513	36,190
Total expenses	672,802		672,802	305,982
Change in net assets	60,982	(303,660)	(242,678)	7,686
Net assets, beginning of year	188,889	527,580	716,469	708,783
Net assets, end of year	\$ 249,871	\$ 223,920	\$ 473,791	\$ 716,469

See accompanying notes to financial statements

The Discovery Orchestra, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2023
(With Summarized Comparative Totals for 2022)

	Program Services		Supporting Services			Total	
	Music	General and Administrative	Fundraising	Total	2023	2022	
	Education				2023	2022	
Salaries - staff and musicians	\$ 180,796	\$ 62,246	\$ 25,588	\$ 87,834	\$ 268,630	\$ 171,012	
Payroll taxes	15,571	5,345	2,325	7,670	23,241	13,514	
Fringe benefits	41,821	14,634	8,080	22,714	64,535	29,356	
Total salaries and related benefits	<u>238,188</u>	<u>82,225</u>	<u>35,993</u>	<u>118,218</u>	<u>356,406</u>	<u>213,882</u>	
Rent - office	2,010	690	300	990	3,000	3,000	
Rent - program venues	21,500		700	700	22,200	800	
Advertising	17,575		475	475	18,050	4,438	
Merchant fees	604	93	233	326	930	650	
Insurance	9,419	6,337		6,337	15,756	10,761	
Professional services	400	9,650	400	10,050	10,450	9,500	
Dues and fees	2,865	2,910	450	3,360	6,225	9,014	
Printing	739	1,199	2,119	3,318	4,057	4,261	
Office expenses	4,665	4,382	887	5,269	9,934	5,862	
Postage and mailing house	1,112	1,776	1,514	3,290	4,402	3,834	
Graphic design	870	405	1,500	1,905	2,775	2,568	
Consulting	60,060	688		688	60,748	4,979	
Telephone	534	183	80	263	797	862	
Travel	4,477				4,477	1,113	
Gifts and food	222	2,011	375	2,386	2,608	2,502	
Instrumental/equipment rental	6,457		1,079	1,079	7,536	870	
Payroll service	2,736	939	408	1,347	4,083	1,969	
Cost of goods sold	603				603	141	
Public Television Distribution fees - Discover Saint-Saens, Discover The Firebird and Re-Releases	10,608				10,608	10,073	
Production fees - Discover Saint-Saens Program and other Educational Videos/Podcasts	127,157				127,157	13,576	
Total expenses before depreciation	<u>512,801</u>	<u>113,488</u>	<u>46,513</u>	<u>160,001</u>	<u>672,802</u>	<u>304,655</u>	
Depreciation expense						<u>1,327</u>	
Total expenses	<u>\$ 512,801</u>	<u>\$ 113,488</u>	<u>\$ 46,513</u>	<u>\$ 160,001</u>	<u>\$ 672,802</u>	<u>\$ 305,982</u>	

See accompanying notes to financial statements

The Discovery Orchestra, Inc.
Statement of Cash Flows
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ (242,678)	\$ 7,686
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense		1,327
Realized gain on investments		(1,021)
Donation of investments		(20,187)
Changes in operating assets and liabilities:		
Grant receivable		(6,250)
Employee retention credit receivable	(93,509)	
Other receivable	400	(400)
Prepaid expenses	(6,333)	(16,535)
Inventory	603	141
Accounts payable and accrued expenses	12,666	1,798
Net cash used in operating activities	<u>(328,851)</u>	<u>(33,441)</u>
Cash flows from investing activities:		
Proceeds from sale of investments		21,208
Net cash provided by investing activities		<u>21,208</u>
Net decrease in cash and restricted cash	(328,851)	(12,233)
Cash and restricted cash, beginning of year	<u>689,520</u>	<u>701,753</u>
Cash and restricted cash, end of year	<u>\$ 360,669</u>	<u>\$ 689,520</u>
Supplemental disclosure of noncash investing activities:		
Donation of investments	<u>\$ -</u>	<u>\$ 20,187</u>

See accompanying notes to financial statements

1. Nature of Organization

The Discovery Orchestra, Inc. (“TDO”) is a not-for-profit corporation whose mission is teaching the listening skills that help people emotionally connect with classical music. For more than 25 years, Artistic Director George Marriner Maull and The Discovery Orchestra have offered interactive classical music experiences to students, teachers and the public, from classical fans to the classical-curious, to help them “Listen Better.” Live programs in concert halls, schools, community centers, and private homes supplement media programs on public television, radio, DVDs, and the Internet. All programs employ the methodology of noticing musical detail to heighten enjoyment and understanding of the pieces being explored. TDO has transformed the listening experience for millions in the U.S. and abroad and has received three Emmy nominations and eleven Telly Awards for its six public television programs, distributed by American Public Television. Its regular public radio program, *Inside Music*, produced in partnership with WWFM—The Classical Network, is broadcast twice monthly.

Recent New Jersey performance venues have included The Pingry School in Basking Ridge, Patriots Theater at the War Memorial in Trenton, and Princeton Seminary Chapel in Princeton. Funding is provided by the New Jersey State Council on the Arts, businesses, foundations, and individuals. TDO’s media programs are also distributed to the educational marketplace by Films Media Group and to the home streaming market via PBS Passport and Amazon Prime Video.

American Public Television re-released two of TDO’s television programs, *Discover Vivaldi’s Four Seasons* and the *Fall in Love with Music* series, in May 2022. A year later, TDO’s most recent educational program, *Discover Saint-Saens’ “Organ” Symphony*, was completed and also began national distribution. Collectively throughout fiscal year 2023, there were 633 broadcasts of these three programs on 94 channels in 59 markets in 24 states, to a potential audience of over 115 million households. Two *Discover Saint-Saens’ “Organ” Symphony* viewers recently shared:

“I watched the whole program with genuine admiration. It’s the best you’ve ever done - an almost perfect testament of what The Discovery Orchestra is about and how well it can do it.”

“For life-long learners and art lovers, such a brilliant way to spend an hour. And for those that fall outside those categories, how wonderful (and lucky) to be elucidated!”

Fiscal year 2023 also featured new episodes of TDO’s video/podcast series, *Notes from Under the Piano*. That series, plus TDO’s ever-popular Discovery Chat videos, resulted in 47,800 views of these programs on YouTube. In addition, TDO’s new game app “AHA! Classical,” developed in partnership with Social Impact Studios, launched online in April 2023. This free game allows players of all ages and skill levels to learn about, interact with, and practice listening skills using classical music.

Finally, TDO's outreach to local music student and senior groups continued in both live and virtual settings. Six sessions reaching a total of 297 participants were held with TDO's community partners, including the Newark School of the Arts, the Keys 2 Success piano program in Newark, the Patricia M. Noonan Elementary School (PS #26) in Jersey City, the Rhythms for Life program in Morristown, and Warrenbrook Seniors in Warren Township.

2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies are described below:

Basis of Presentation

TDO prepares its financial statements in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), 605-205-15, *Accounting for Contributions Received and Made*, and FASB ASC 958-10-65, *Presentation of Financial Statements of Not-for-Profit Entities*. FASB ASC 958-10-65, *Presentation of Financial Statements of Not-for-Profit Entities* establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into two net asset categories: net assets with donor restrictions and net assets without donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restriction if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. FASB ASC 605-205-15, *Accounting for Contributions Received and Made* requires that unconditional promises to give be recorded as receivables and revenue and requires the organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions.

Net Assets Without Donor Restrictions are resources representing the portion of expendable funds available for support of the TDO's programs and general operations. These resources are not subject to donor-imposed stipulations. Net assets without donor restrictions are comprised of revenue and expenses related to the operations of TDO, which have no restrictions on the uses of the funds. Net assets without donor restrictions also include those expendable resources which may have been designated for special use by the Board of Trustees. There were no board designated net assets at June 30, 2023 and 2022.

Net Assets With Donor Restrictions are net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of TDO or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions.

The Discovery Orchestra, Inc.
Notes to Financial Statements
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When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. As of June 30, 2023, and 2022, net assets with donor restrictions amounted to \$223,920 and \$527,580, respectively.

Revenue and Support Recognition

TDO recognizes revenue from program income when the services are provided. The performance obligation consists of spreading appreciation for classical music via live events and special programming in the form of program income. TDO records special events revenue equal to the fair value of direct benefits to donors, and contribution revenue for the excess received when the event takes place.

TDO recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been substantially met.

A portion of the TDO's revenue is derived from cost-reimbursable state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when TDO has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position.

Disaggregation of Revenue

In the following table, revenue is disaggregated by timing of satisfaction of performance obligations for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Performance obligations satisfied at a point in time	<u>\$ 46,150</u>	<u>\$ 36,557</u>

Revenue from performance obligations satisfied at a point in time consists of special event revenue and contracted services.

Income Taxes

TDO is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is thereby exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. TDO is also exempt under Title 15 of the State of New Jersey *Corporations and Associations Not for Profit Act*. Accordingly, no provision for federal or state income taxes has been presented in the accompanying financial statements. Management has stated that all required informational tax returns have been filed and registration fees have been paid.

TDO follows the provisions of FASB ASC, *Income Taxes*. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition as they relate to those positions.

TDO does not expect a significant increase or decrease to the total amounts of unrecognized tax positions during the year ended June 30, 2023. However, TDO is subject to regular audit by tax authorities including a review of its nonprofit status, which Management believes would be upheld upon examination.

TDO believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued each year.

As required by law, TDO files informational returns with both federal and New Jersey State governments on an annual basis - Form 990 with the Internal Revenue Service, and Form CRI-300R with the State. TDO is subject to examinations at any time within certain statutorily defined periods from the latest filing date for federal and for New Jersey.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting services benefited. The financial statements report certain categories of expense that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied.

Expenses are charged to each program based on direct expenditures incurred. Any program expenditures not directly chargeable are allocated equally to each program. Support costs are allocated to a program based on total program costs. Program expenses are those related to the provision of musical educational programs. Management and general relate to administrative expenses related to those programs. Fundraising includes the allocation of employees' salaries and other costs involved in fundraising based on methods considered by management to be reasonable.

Leases

In February 2016, the FASB issued guidance ASC 842, *Leases* to increase transparency and comparability among companies by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

TDO adopted FASB ASC 842, with a date of initial application of July 1, 2022, by applying the modified retrospective transition approach and using the additional (and optional) transition method provided by ASU No. 2018-11, *Leases* (Topic 842): Targeted Improvements. TDO did not restate prior comparative periods as presented under FASB ASC 840 and instead evaluated whether a cumulative effect adjustment to net assets as of July 1, 2022, was necessary for the cumulative impact of adoption of FASB ASC 842. TDO recognized and measured leases existing at, or entered into after, July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

TDO elected the available practical expedients to account for existing operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

ROU assets represent TDO's right to use leased assets over the term of the lease. Lease liabilities represent TDO's contractual obligation to make lease payments and are measured at the present value of the future lease payments over the lease term. ROU assets are calculated as the present value of the future lease payments adjusted by any deferred rent liability and lease incentives. ROU assets and lease liabilities are recognized at the lease commencement date.

TDO has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. TDO has applied the risk-free rate option to the equipment class of assets.

As a result of the adoption of the new lease accounting guidance, TDO recognized on July 1, 2022 a lease liability of \$4,411, which represents the present value of the remaining operating lease payments of \$4,500, discounted using the risk free rate of 2.84%, and a right-of-use asset of \$4,411.

TDO has elected for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less, but greater than 1 month at lease commencement, and do not include an option to purchase the underlying asset that TDO is reasonably certain to exercise. TDO recognizes lease cost associated with its short-term leases on a straight-line basis over the lease term.

The standard had a material impact on TDO's statement of financial position but did not have an impact on TDO's statement of activities, nor statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

Advertising

It is TDO's policy to expense advertising costs as incurred. Advertising expense for the years ended June 30, 2023 and 2022 was \$18,050 and \$4,438, respectively.

Production Fees

FASB ASC Topic 835 generally requires that the costs of producing a television program should be capitalized, and then amortized in a manner that yields a constant rate of profit over the ultimate period for each production before various period expenses. TDO expects minimal revenue from the *Discover the Firebird* public television program, other television/media programs, educational videos/podcasts, and therefore, believes that this accounting standard is not applicable.

Fundraising Expense

It is TDO's policy to net direct fundraising expense with special event revenue. Direct fundraising expense for the years ended June 30, 2023 and 2022 was \$19,308 and \$11,552, respectively.

Investments

TDO records investments in accordance with FASB ASC, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under this standard, securities purchased for investment are carried at market value; those received as gifts are recorded at market value at date of gift and all investments in debt securities are reported at their fair market values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

The Discovery Orchestra, Inc.
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Investment income or loss (including interest and dividends) and gains/losses on sale of investments are included in the statement of activities unless the income or loss is restricted by the donor or law. A decline in the market value of an investment security below its cost that is designated to be other than temporary is recognized through an impairment charge. That impairment charge would be included in the statement of activities and a new cost basis would be established. For the years ended June 30, 2023 and 2022, TDO did not record any impairment charge in the statement of activities.

Cash and Restricted Cash

Cash and restricted cash consist of the following:

	<u>2023</u>	<u>2022</u>
Cash	\$ 147,312	\$ 161,940
Restricted cash	<u>213,357</u>	<u>527,580</u>
Total	<u>\$ 360,669</u>	<u>\$ 689,520</u>

Grants Receivable and Provision for Uncollectible Accounts

Grants receivable is stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivable. Uncollectible amounts are determined on a case by case basis. TDO believes its receivables are collectible; accordingly, there was no provision for uncollectible accounts at June 30, 2023 and 2022.

Inventory

Merchandise inventory is valued at the lower of cost or net realizable value. Inventory amounted to \$1,243 and \$1,846 at June 30, 2023 and 2022, respectively.

Property and Equipment

Property and equipment are recorded at cost when purchased or at fair value at date of gift, when donated. Proceeds from the sale of fixed assets, if without restrictions, are transferred to net assets without donor restrictions, or, if restricted, to net assets with donor restrictions for fixed asset acquisitions. Depreciation is provided for by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the term of the lease.

Maintenance, repairs and renewals which neither materially add to the value of property nor appreciably prolong its life are charged to expenses as incurred. TDO continually evaluates whether current events or circumstances warrant adjustments to the carrying value or estimated useful lives of fixed assets in accordance with the provisions of *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Deferred Revenue

Deferred revenue is comprised of amounts for special event tickets received in advance of the event which will be recognized as income in future periods when the event is held. There was no deferred revenue as of June 30, 2023 and 2022.

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 certain reported amounts of assets and liabilities and changes therein and disclosures of contingent assets and contingent liabilities and accompanying notes at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Reclassification

Certain amounts in the prior year financial statements have been reclassified in order to be consistent with the current year presentation.

Summarized Total Columns

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with TDO's financial statements for the year ended June 30, 2022 from which the summarized information was derived.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after June 30, 2023 through the date of the independent auditors' report and the date the financial statements were available to be issued, October 24, 2023. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure.

The Discovery Orchestra, Inc.
Notes to Financial Statements
June 30, 2023 and 2022

3. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions or designations limiting their use, within one year of the statement of financial position date, are comprised of the following:

	2023	2022
Cash	\$ 147,312	\$ 161,940
Restricted cash	213,357	527,580
Grants receivable	12,500	12,500
Employee retention credit receivable	93,509	
Other receivable		400
Total financial assets	<u>466,678</u>	<u>702,420</u>
Less amounts not available to be used within one year:		
Net assets with purpose restrictions:		
Public Television and Other Media Program		
Productions and Promotion	213,357	527,580
Inside Music Radio Series	5,500	
Intern Program	1,313	
Future Programs	3,750	
Total funds not available to be used within one year	<u>223,920</u>	<u>527,580</u>
Financial assets available to meet general expenditures within one year	<u>\$ 242,758</u>	<u>\$ 174,840</u>

TDO has a goal to maintain financial assets on hand to meet 60 days of normal operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments, including a cash reserve (money market account) and from time to time, certificates of deposit. TDO has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event the need arises to utilize the board designated funds for liquidity purposes, the reserves could be drawn upon through board resolution.

In addition to these available financial assets, a significant portion of TDO's annual expenditures will be funded by current year operating revenues including government grants, contributions, and special event revenues. To help manage unrestricted liquidity needs, TDO has a committed line of credit in the amount of \$25,000 which it could draw from.

4. Investments

Investments are stated at fair value, based on quoted market prices. It is TDO's policy to liquidate donated securities in a reasonable time after receipt. There were no investments as of June 30, 2023 and 2022.

The Discovery Orchestra, Inc.
Notes to Financial Statements
June 30, 2023 and 2022

Investment activity for the year ended June 30, 2022 consisted of the following:

Sales	\$ 21,208
Less: sales of donated securities	(20,187)
Realized gains	<u>\$ 1,021</u>

5. Property and Equipment

Property and equipment and their related estimated useful lives at June 30, 2023 and 2022 are as follows:

<u>Assets</u>	<u>Estimated Useful Life (Years)</u>	<u>2023</u>	<u>2022</u>
Furniture and equipment	3-7	\$ 21,989	\$ 21,989
Less: accumulated depreciation		<u>(21,989)</u>	<u>(21,989)</u>
		<u>\$ -</u>	<u>\$ -</u>

Depreciation expense charged to operations for the years ended June 30, 2023 and 2022 totaled \$0 and \$1,327, respectively.

6. Prepaid Expenses

Prepaid expenses at June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Prepaid insurance	\$ 6,826	\$ 5,196
Prepaid gala expenses	2,318	1,000
Prepaid television distribution fees	<u>27,104</u>	<u>23,719</u>
	<u>\$ 36,248</u>	<u>\$ 29,915</u>

7. Leases

On January 1, 2021, TDO entered into a new lease agreement for office space which expires December 31, 2023. Basic rent required under the lease is \$250 per month. Lease expense is recognized on a straight-line basis over the lease term. TDO is currently negotiating an extension for their existing office space lease agreement.

The Discovery Orchestra, Inc.
Notes to Financial Statements
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The total lease costs under FASB, ASC 842 for the year ended June 30, 2023 amounted to \$3,000.

The future minimum lease liabilities under this noncancellable operating lease as of June 30, 2023 are as follows:

Year Ending June 30,	
2024	\$ 1,500
Total future payments	1,500
Less: present value discount of future payments	(9)
Total lease liabilities	<u>\$ 1,491</u>

Other information related to TDO's operating lease as of and for the year ended June 30, 2023 are as follows:

Operating cash flows from operating leases	\$ 3,000
ROU assets obtained in exchange for new operating lease liabilities	\$ 4,411
Weighted-average remaining lease term in years for operating leases	0.50
Weighted-average discount rate for operating leases	2.84%

The total lease costs under FASB ASC, 840 (pre adoption of the new standards) for the year ended June 30, 2022 amounted to \$3,000.

The following is a schedule of future minimum lease payments at June 30, 2022:

Year Ending June 30,	Amount
2023	\$ 3,000
2024	1,500
	<u>\$ 4,500</u>

8. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of June 30, 2023 and 2022:

	2023	2022
Future Media Programs	\$ 213,357	\$ 527,580
Intern Program	1,313	
Future Programs	3,750	
Inside Music Radio Series	5,500	
	<u>\$ 223,920</u>	<u>\$ 527,580</u>

The Discovery Orchestra, Inc.
Notes to Financial Statements
June 30, 2023 and 2022

Net assets released from time and donor restrictions specified by donors for the year ended June 30, 2023 are as follows:

Satisfactions of purpose restrictions:

Program expenses of media programs	<u>\$ 314,223</u>
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Program expenses of media programs was for the Discover Saint-Saens' "Organ" Symphony television show production and initial distribution, as well as TDO's promotion campaign during the year ended June 30, 2023.

9. Pension Plan

TDO offers its employees the opportunity to participate in a simple IRA plan for employees who have received or are reasonably expected to receive at least \$5,000 in compensation during the current or preceding calendar year. TDO elected to make matching contributions up to 3% of eligible employees' compensation for the year. Pension expense for the years ended June 30, 2023 and 2022, was \$5,207 and \$3,540, respectively.

10. Related Parties

During the years ended June 30, 2023 and 2022, TDO's Executive Director, Finance Director, and Artistic Director made contributions to TDO totaling \$25,750 and \$15,100, respectively.

11. Commitments and Contingencies

In May 2020, TDO received \$29,360 under the United States Small Business Administration's (SBA) Paycheck Protection Program (PPP). In April 2021, TDO received full forgiveness of the PPP funding of \$29,360 and recognized the government grant – PPP as revenue.

The Small Business Administration ("SBA") reserves the right to audit PPP funding forgiveness for ten years from the date that forgiveness was awarded.

12. Line of Credit

During the years ended June 30, 2023 and 2022, TDO has available an unsecured line of credit with a bank in the amount of \$25,000 which expires on December 1, 2024. Interest is charged on the outstanding balance at 2% above the bank's prime rate. The effective interest rate at June 30, 2023 and 2022 was 10.25% and 6.00%, respectively. There was no outstanding balance at June 30, 2023 and 2022.

13. Employee Retention Credit

For the year ended June 30, 2023, TDO recognized \$93,509 in refundable tax credits through the Employee Retention Credit under the CARES Act for payroll tax expenses, decline in gross receipts, and/or partial or full suspensions of operations experienced during all four quarters of 2020 and the first two quarters of 2021. Through the date of the independent auditors' report and the date the financial statements were available to be issued, October 24, 2023, TDO has collected \$47,868 of the employee retention credit receivable balance of \$93,509 that was outstanding on the statement of financial position at June 30, 2023.

14. Risks and Uncertainties and Funding Dependency

TDO charges for concert and other performances and receives support from a government grant, contributions from interested individuals (including board and committee members), corporations and foundation grants. TDO receives a substantial amount of its support from these sources.

Accordingly, there is no guarantee that such support would continue and thus a significant reduction in the level of support, if this were to occur, would have an adverse effect on TDO's programs and activities. From time to time TDO produces public television programs for music education purposes, which can result in significant fluctuations in net assets and expenses due to production and distribution costs.