

The Discovery Orchestra, Inc.

Financial Statements

June 30, 2020

(With Comparative Totals for the Year Ended 2019)



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The Discovery Orchestra, Inc.
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June 30, 2020 and 2019

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Discovery Orchestra, Inc. ("TDO") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Discovery Orchestra, Inc. as of June 30, 2020, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited The Discovery Orchestra, Inc.'s 2019 financial statements, and our report dated September 6, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of state awards, as required by New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants and State Aid* is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30 2020, on our consideration of TDO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TDO's internal control over financial reporting and compliance.

Nisiroccia LLP

Mt. Arlington, New Jersey
October 30, 2020

The Discovery Orchestra, Inc.
Statement of Financial Position
June 30, 2020 and 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash	\$ 178,050	\$ 85,208
Restricted cash		171,076
Grant receivable		7,002
Prepaid expenses	21,003	5,659
Investments		50,523
Inventory	2,399	2,675
Total current assets	<u>201,452</u>	<u>322,143</u>
Property and equipment, net	<u>2,651</u>	<u>3,975</u>
Total assets	<u>\$ 204,103</u>	<u>\$ 326,118</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 14,261	\$ 12,876
Deferred revenue	7,750	
Refundable advance - Payroll Protection Program	29,360	
Total current liabilities	<u>51,371</u>	<u>12,876</u>
Net assets:		
Without donor restrictions:		
Operating	152,732	111,666
Board designated		23,500
	<u>152,732</u>	<u>135,166</u>
With donor restrictions		178,076
Total net assets	<u>152,732</u>	<u>313,242</u>
Total liabilities and net assets	<u>\$ 204,103</u>	<u>\$ 326,118</u>

See accompanying notes to financial statements

The Discovery Orchestra, Inc.
Statement of Activities
For the Year Ended June 30, 2020
(With Comparative Totals for the Year Ended 2019)

	Without Donor Restrictions	With Donor Restrictions	2020	2019
Revenue and Support:				
Government grants	\$ 30,000		\$ 30,000	\$ 28,006
Contributions	302,968		302,968	393,223
Program admissions	1,720		1,720	9,594
Special events, net				18,668
In-kind contributions	9,204		9,204	
Total revenue and support	343,892		343,892	449,491
Other revenue and gains:				
Interest income	3,559		3,559	3,423
Net investment gain (loss)	7		7	(1,494)
Royalties	11,493		11,493	3,001
Miscellaneous other income	1,156		1,156	1,694
Total other revenue and gains	16,215		16,215	6,624
Net assets released from restrictions	178,076	\$ (178,076)		
Total revenue, gains and support	538,183	(178,076)	360,107	456,115
Expenses:				
Program services:				
Music education	423,905		423,905	194,013
Supporting services:				
General and administrative	64,948		64,948	61,834
Fundraising	31,764		31,764	41,345
Total expenses	520,617		520,617	297,192
Change in net assets	17,566	(178,076)	(160,510)	158,923
Net assets, beginning of year	135,166	178,076	313,242	154,319
Net assets, end of year	\$ 152,732	\$ -	\$ 152,732	\$ 313,242

See accompanying notes to financial statements

The Discovery Orchestra, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2020
(With Comparative Totals for the Year Ended 2019)

	Program Services		Supporting Services		Total	
	Music Education	General and Administrative	Fundraising	Total	2020	2019
Salaries - staff and musicians	\$ 162,364	\$ 23,001	\$ 18,948	\$ 41,949	\$ 204,313	\$ 150,741
Payroll taxes	13,041	1,981	1,486	3,467	16,508	12,090
Fringe benefits	28,211	5,495	4,341	9,836	38,047	28,858
Total salaries and related benefits	<u>203,616</u>	<u>30,477</u>	<u>24,775</u>	<u>55,252</u>	<u>258,868</u>	<u>191,689</u>
Rent - office	2,588	393	295	688	3,276	6,803
Rent - program venues	14,708				14,708	4,995
Advertising	3,911				3,911	1,521
Merchant fees	189		63	63	252	750
Insurance	5,531	5,667		5,667	11,198	10,078
Professional services	250	8,400	250	8,650	8,900	8,500
Equipment	2,087	317	238	555	2,642	898
Dues and fees	2,100	3,364	100	3,464	5,564	8,450
Printing	3,373	575	1,139	1,714	5,087	3,903
Office expenses	5,427	2,105	692	2,797	8,224	11,374
Postage and mailing house	2,045	293	1,857	2,150	4,195	2,673
Utilities		400		400	400	863
Graphic design	482	323	1,275	1,598	2,080	2,690
Consulting	40,720	11,364	755	12,119	52,839	25,740
Telephone	914	139	105	244	1,158	1,213
Travel						2,883
Gifts and food	3,000	839		839	3,839	768
Instrumental/equipment rental	1,764				1,764	700
Payroll service	1,925	292	220	512	2,437	1,860
Sales tax	27				27	38
Cost of goods sold	1,627				1,627	652
Distribution fees - Fall in Love with Music series						4,750
Distribution fees - Discover the Firebird TV show	1,946				1,946	
Production fees -Discover the Firebird TV show	124,351				124,351	
Production fees - WWFM radio program						450
Production fees - chat videos/other						1,625
Total expenses before depreciation	<u>422,581</u>	<u>64,948</u>	<u>31,764</u>	<u>96,712</u>	<u>519,293</u>	<u>295,866</u>
Depreciation expense	<u>1,324</u>				<u>1,324</u>	<u>1,326</u>
Total expenses	<u>\$ 423,905</u>	<u>\$ 64,948</u>	<u>\$ 31,764</u>	<u>\$ 96,712</u>	<u>\$ 520,617</u>	<u>\$ 297,192</u>

See accompanying notes to financial statements

The Discovery Orchestra, Inc.
Statement of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (160,510)	\$ 158,923
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	1,324	1,326
Realized loss (gain) on investments	(7)	1,494
Donation of investments	(27,057)	(83,156)
Changes in operating assets and liabilities:		
Grant receivable	7,002	
Prepaid expenses	(15,344)	5,083
Inventory	276	652
Accounts payable and accrued expenses	1,385	(1,363)
Deferred revenue	7,750	
Refundable advance	29,360	
Net cash provided by (used in) operating activities	<u>(155,821)</u>	<u>82,959</u>
Cash flows from investing activities:		
Proceeds from sale of investments	27,064	81,662
Proceeds from the redemption of certificate of deposit	50,523	
Purchase of investments		(50,523)
Net cash provided by investing activities	<u>77,587</u>	<u>31,139</u>
Net increase (decrease) in cash and restricted cash	(78,234)	114,098
Cash and restricted cash, beginning of year	<u>256,284</u>	<u>142,186</u>
Cash and restricted cash, end of year	<u>\$ 178,050</u>	<u>\$ 256,284</u>
Supplemental disclosure of noncash activities:		
In-kind Contributions	<u>\$ 9,204</u>	<u>\$ -</u>
Supplemental disclosure of noncash investing activities:		
Donation of investments	<u>\$ 27,057</u>	<u>\$ 83,156</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 over 20 years, Artistic Director George Marriner Maull and The Discovery Orchestra have offered ‘Break Through’ 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. The Orchestra has transformed the listening experience for millions in the U.S. and abroad and has received three Emmy nominations and ten Telly Awards for its five public television productions to date, 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 performance venues have included the Concert Hall at Drew University in Madison, NJ, the Visual Arts Center of New Jersey in Summit, NJ, and Delbarton School in Morristown, NJ. Funding is provided by the New Jersey State Council on the Arts, businesses, foundations and individuals. The Orchestra’s media programs are also distributed to the educational marketplace by Films Media Group and the home video market via Amazon Prime Video with hundreds of thousands of streaming minutes of our public television programs and other educational videos.

During fiscal year 2020, national distribution commenced for *Discover The Firebird*, our most recent educational program for public television. Including the program’s premiere on NJTV on April 29, 2020, there have been 188 broadcasts on 122 channels in 70 markets in 30 states to a potential audience of over 49 million households to date. A television viewer of the show recently shared: “I stumbled upon this quite by accident on our Maryland PBS station. What a joy! Firebird is my favorite piece of music and your wonderful program just enhanced my appreciation of Stravinsky’s genius. Thank you and keep up your great work of feeding our souls!”

In conjunction with producing and distributing *Discover The Firebird*, The Discovery Orchestra engaged the public relations firms of The TASC Group (based in New York City) and Cheryl Duncan & Company (based in Montclair, NJ) to help us promote the live concert taping and initial broadcasts of the program. Promotional highlights that resulted included feature print and online placements in The Star-Ledger, Broadway World, New Jersey Stage, That Classical Podcast and Philadelphia Metro.

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. Board designated net assets amounted to \$0 and \$23,500 at June 30, 2020 and 2019, respectively.

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.

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, 2020, and 2019, net assets with donor restrictions amounted to \$0 and \$178,076, respectively.

Adoption of New Accounting Standards

In November 2016, the Financial Accounting Standards Board (FASB) published Accounting Standards Update (ASU) 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash*, which changes the presentation and disclosure of cash, cash equivalents and restricted cash or restricted cash equivalents (Cash) in the statement of cash flows.

The standard requires that change in all Cash when reconciling the beginning and ending cash balances shown on the statement of cash flows. The standard does not change the definitions of restricted cash or restricted cash equivalents. Previous U.S. GAAP allowed changes in restricted cash to be shown as investing activities.

In May 2014, the FASB issued guidance, Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive.

ASC 606 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. TDO adopted ASC 606, as amended with a date of the initial application of July 1, 2019 as management believes the standard improves the usefulness and understandability of TDO’s financial reporting. TDO has applied ASC 606 using the modified retrospective method, with no effect to revenue, net assets without donor restrictions, or net assets with donor restrictions at July 1, 2019. Analysis of various provisions of this standard resulted in no significant changes in the way TDO recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

As part of the adoption of ASC 606, TDO elected to use the following transition practical expedients: (1) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price have been reflected in the aggregate; and (2) ASC 606 is applied only to contracts that are not completed at the initial date of application. Because there are no contract modifications, there is not a significant impact as a result of electing these practical expedients.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Management has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

Revenue and Support Recognition

TDO recognizes revenue from program income when the services are provided.

The Discovery Orchestra, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

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>2020</u>	<u>2019</u>
Performance obligations satisfied at a point in time	<u>\$ 1,720</u>	<u>\$ 36,784</u>

Revenue from performance obligations satisfied at a point in time consists of program income – Intimate Afternoons and Evenings and special event revenue.

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. Deferred revenue amounted to \$7,750 and \$0 as of June 30, 2020 and 2019, respectively. The following table provides information about significant changes in the deferred revenue for the years ended June 30, 2020 and 2019:

	<u>2020</u>
Deferred revenue, beginning of year	
Increase in deferred revenue due to cash received during 2020	<u>\$ 7,750</u>
Deferred revenue, end of year	<u>\$ 7,750</u>

The Discovery Orchestra, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

Refundable Advance

In May 2020, the Organization was approved and received funding in the amount of \$29,360 under The Paycheck Protection Program. Certain amounts will be forgiven if the Organization utilizes these funds in accordance with guidelines outlined under the program. Management is currently evaluating the use of these funds; therefore, the related financial impact and potential amount expected to be repaid cannot be reasonably estimated at this time. At June 30, 2020, the refundable advance amounted to \$29,360.

Cash and Restricted Cash

In 2019, restricted cash consisted of monies received for the purpose of supporting TDO's National Classical Music Listening Campaign and *Discover The Firebird* TV Production. This cash was restricted for use and was considered cash for purposes of the statement of cash flows. There was no restricted cash as of June 30, 2020.

The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position to the sum of the corresponding amounts within the statements of cash flows:

	<u>2020</u>	<u>2019</u>
Cash	\$ 178,050	\$ 85,208
Restricted cash		<u>171,076</u>
Total	<u>\$ 178,050</u>	<u>\$ 256,284</u>

Contributions, Grants, and Pledges Receivable and Provision for Uncollectible Accounts

Contributions and pledges are recorded as net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions and pledges receivable due in one year are recorded at their net realizable value. Contributions and pledges due in more than one year are recorded at the present value of their net realizable value using risk free interest rates applicable to the year in which the contributions are received to discount the amounts.

Grants and other receivables are 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, 2020 and 2019.

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, 2020. 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.

Reclassification

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

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.

Advertising

It is TDO's policy to expense advertising costs as incurred. Advertising expense for the years ended June 30, 2020 and 2019 was \$3,911 and \$1,521, respectively.

New Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires all lessees to record a lease liability at lease inception, with a corresponding right of use asset, except for short-term leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance.

ASU 2016-02 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. Management is currently evaluating the impact of the adoption of this guidance on TDO's financial statements.

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* TV Production, 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, 2020 and 2019 was \$- and \$8,522, respectively.

Fair Value Measurements

In accordance with FASB ASC *Fair Value Measurements and Disclosures*, fair value is defined as a market-based measurement, not an entity-specific measurement. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

A fair value measurement assumes that the transaction to sell the asset or transfer the liability either occurs in the principal market (or in its absence, the most advantageous market) for the asset or liability.

The Fair Value Measurements Topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable liquid market price existed (an exit price). An exit price valuation will include margins for risk even if they are not observable. As TDO is released from risk, the margins for risk will also be released through net realized capital gains (losses) in net income. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that TDO has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques:

- Market approach - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach - Amount that would be required to replace the service capacity of an asset (i.e., replacement cost);
- Income approach - Techniques that convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. For some assets and liabilities, observable market transactions or market information may be available. For other assets and liabilities, observable market transactions and market information might not be available.

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or settle or otherwise fulfill a liability is not relevant when measuring fair value.

The following is a description of valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019.

Cash, restricted cash, grant receivable, other assets, accounts payable and accrued expenses: the carrying amounts approximate fair value because of the short-term maturity of these instruments.

Refundable advance: The Paycheck Protection Program advance, a government grant which may be forgiven or converted to a loan at a future point in time and which imputed interest does not apply, is carried at cost. However, management believes TDO will receive full forgiveness of the Paycheck Protection Program advance and, therefore, TDO has determined it approximates fair value.

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.

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, 2020 and 2019, TDO did not record any impairment charge in the statement of activities.

Inventory

Merchandise inventory is valued at the lower of cost or net realizable value. Inventory amounted to \$2,399 and \$2,675 at June 30, 2020 and 2019, 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*.

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.

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, **2019** from which the summarized information was derived.

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:

The Discovery Orchestra, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

	2020	2019
Cash	\$ 178,050	\$ 85,028
Restricted cash		171,256
Grants receivable		7,002
Investments		50,523
Total financial assets	178,050	313,809
Less amounts not available to be used within one year:		
Net assets with purpose restrictions:		
National Classical Music Listening Campaign		4,975
Intimate Afternoons and Evenings		1,000
Fund-a-Need - Buses for Student Groups		6,000
<i>Discover The Firebird</i> TV Production		166,101
Board Designations		23,500
Total funds not available to be used within one year		201,576
Financial assets available to meet		
general expenditures within one year	<u>\$ 178,050</u>	<u>\$ 112,233</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 immediately upon receipt. The certificate of deposit has matured and there were no investments as of June 30, 2020.

Investments at June 30, 2019 are comprised of the following:

	2019	
	Fair Market	Unrealized
Cost Basis	Value (Level 2)	Gains (Losses)
Certificates of Deposits	<u>\$ 50,000</u>	<u>\$ 523</u>
Total investments	<u>\$ 50,000</u>	<u>\$ 523</u>

The Discovery Orchestra, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

Investment activity at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 50,523	
Donated securities	27,057	\$ 83,156
Sales	(27,064)	(81,662)
Redemption of certificate of deposit	(51,378)	
Purchases	855	50,523
Realized gains (loss)	7	(1,494)
	<u>\$ -</u>	<u>\$ 50,523</u>

Investment return at June 30, 2020 and 2019 is comprised of the following:

	<u>2020</u>	<u>2019</u>
Interest income on certificate of deposit	\$ 855	\$ 523
Realized gain (loss)	7	(1,494)
	<u>\$ 862</u>	<u>\$ (971)</u>

5. Property and Equipment

Property and equipment and their related estimated useful lives at June 30, 2020 and 2019 are as follows:

<u>Assets</u>	<u>Estimated Useful Life (Years)</u>	<u>2020</u>	<u>2019</u>
Furniture and equipment	3-7	\$ 21,989	\$ 21,989
Less: accumulated depreciation		<u>(19,338)</u>	<u>(18,014)</u>
		<u>\$ 2,651</u>	<u>\$ 3,975</u>

Depreciation expense charged to operations for the years ended June 30, 2020 and 2019 totaled \$1,324 and \$1,326, respectively.

6. Prepaid Expenses

Prepaid expenses at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Prepaid insurance	\$ 5,476	\$ 4,579
Prepaid gala expenses	1,333	
Prepaid television distribution fees	14,194	1,080
	<u>\$ 21,003</u>	<u>\$ 5,659</u>

The Discovery Orchestra, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

7. Leases

On September 16, 2018, TDO entered into a lease agreement for new office space which expired January 2020. Basic rent required under the lease was \$420 per month.

On February 20, 2020, TDO entered into a lease agreement for new office space which renews on a monthly basis. Basic rent required under the lease is \$250 per month. Total rent expense charged to operations for the year ended June 30, 2020 and 2019 was \$3,276 and \$6,803, respectively.

8. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
National Classical Music Listening Campaign		\$ 4,795
Intimate Afternoons and Evenings		1,000
Fund-a-Need - Buses for Student Groups		6,000
<i>Discover The Firebird</i> TV Production		166,281
	<u>\$ -</u>	<u>\$ 178,076</u>

Net assets were released from donor and program restrictions during the years ended June 30, 2020 and 2019 by satisfying the specified purpose restrictions placed by donors as follows:

	<u>2020</u>	<u>2019</u>
National Classical Music Listening Campaign	\$ 4,795	
Intimate Afternoons and Evenings	1,000	\$ 1,500
Video Production		5,000
Fund-a-Need - Buses for Student Groups	6,000	10,850
<i>Discover The Firebird</i> TV Production	166,281	41,080
	<u>\$ 178,076</u>	<u>\$ 58,430</u>

9. Board Designated Funds

At June 30, 2019, TDO's Board of Trustees had designated \$23,500 for their *Discover The Firebird* TV Production. There were no board designated net assets at June 30, 2020.

10. In-kind Contributions

In-kind contributions include donated services that are recorded at fair value (or the excess of fair market value over amounts paid for these services) and recognized as revenues and expenses in the period received. Donated services recognized are only for services that would typically need to be purchased by TDO if not provided by contribution, require specialized skills, and are provided by individuals with those skills (such as accounting, finance, construction, educational, legal, medical, counseling, and other professionals).

TDO received donated services valued at \$9,204 for the year ended June 30, 2020. There were no donated services for the year ended June 30, 2019.

11. Related Parties

During the years ended June 30, 2020 and 2019, TDO's Executive Director and Artistic Director made contributions to TDO totaling \$20,000 and \$29,675, respectively.

12. 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.

13. Line of Credit

During the years ended June 30, 2020 and 2019, TDO has available an unsecured line of credit with a bank in the amount of \$25,000 which expires on December 1, 2021. Interest is charged on the outstanding balance at 1% above the bank's prime rate, which shall be no less than 5.50%. The effective interest rate at June 30, 2020 and 2019 was 6.00% and 6.50%, respectively. There was no outstanding balance at June 30, 2020 and 2019.

14. Subsequent Events

Management has reviewed subsequent events and transactions that occurred after June 30, 2020 through the date of the independent auditor's report and the date the financial statements were available to be issued, October 30, 2020. 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. However, the COVID-19 coronavirus outbreak has caused business disruption through government mandated and voluntary closings and has contributed to significant declines and volatility in financial markets. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, TDO expects this matter may have an impact on its future operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Supplementary Information

The Discovery Orchestra, Inc.
Schedule of Expenditures of State Awards
June 30, 2020

State Grantor/ Pass-Through Grantor/Program Title	Grantor's Number	State Account Number	Grant Period	Award Amount	Cumulative Program Disbursements	Program Disbursements	Current Year Cash Received
<u>New Jersey Department of State</u>							
State Council on the Arts GOS General Operating Support	N/A	20-100-074-2530-032-6130	7/1/19-6/30/2020	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
Total State of New Jersey Awards				<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 30,000</u>

See Independent Auditors' Report and Accompanying Notes to the Schedule of Expenditures of State Awards

The Discovery Orchestra, Inc.
Notes to the Schedule of Expenditures of State Awards
June 30, 2020

1. Basis of Presentation

The accompanying schedule of expenditures of state awards present the activity of all state financial assistance programs of The Discovery Orchestra, Inc. The information in this schedule is presented in accordance with the requirements of New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. All state financial assistance received directly from state agencies is included on the schedule of expenditures of state awards. Because this schedule presents only a selected portion of the operations of TDO, it is not intended to and does not present the financial position, changes in net assets, or cash flows of TDO.

2. Summary of Significant Accounting Principles

The accompanying schedule of expenditures of state awards is presented using the accrual basis of accounting which is described in Note 2 to the financial statements. Such expenditures are recognized following the cost principles contained in the New Jersey State Circular 15-08-OMB, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. TDO has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. Sub-Recipients

No state awards were provided to subrecipients.

4. Relationship to State Financial Reports

Amounts reported in the accompanying schedule agrees with the amounts reported in the related state financial reports.



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Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Discovery Orchestra, Inc., which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise The Discovery Orchestra, Inc.'s basic financial statements, and have issued our report thereon dated October 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Discovery Orchestra, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Discovery Orchestra, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Discovery Orchestra, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

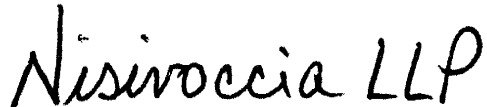
To the Board of Trustees of
The Discovery Orchestra, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Discovery Orchestra, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Nisivoccia LLP". The signature is written in a cursive, flowing style.

October 30, 2020
Mt. Arlington, New Jersey

**The Discovery Orchestra, Inc.
Schedule of Findings and Responses
Year Ended June 30, 2020**

Summary of Auditors' Results:

- An unmodified report was issued on The Discovery Orchestra, Inc.'s financial statements.
- The audit did not disclose any material weaknesses or significant deficiencies in the internal controls of The Discovery Orchestra, Inc.
- The audit did not disclose any noncompliance which is material in relation to the financial statements of The Discovery Orchestra, Inc.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

Findings and Response for State Awards:

- None Noted.

The Discovery Orchestra, Inc.
Schedule of Prior Year Audit Findings
Year Ended June 30, 2020

Status of Prior Year Findings

There were no audit findings in the prior year as there was no requirement for a *Government Auditing Standards* in the prior year.