

The Discovery Orchestra, Inc.

Financial Statements

June 30, 2022

(With Summarized Comparative Totals for 2021)



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The Discovery Orchestra, Inc.
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June 30, 2022 and 2021

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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, 2022, 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, 2022, 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.

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.

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

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, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 20, 2021. In our opinion, the summarized comparative information presented herein as of for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Nisivoccia LLP

Mt. Arlington, New Jersey
October 28, 2022

The Discovery Orchestra, Inc.
Statement of Financial Position
June 30, 2022 and 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Current assets:		
Cash	\$ 161,940	\$ 202,973
Restricted cash	527,580	498,780
Grant receivable	12,500	6,250
Other receivable	400	
Prepaid expenses	29,915	13,380
Inventory	1,846	1,987
Total current assets	<u>734,181</u>	<u>723,370</u>
Property and equipment, net		<u>1,327</u>
Total assets	<u>\$ 734,181</u>	<u>\$ 724,697</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 17,712	\$ 15,914
Total current liabilities	<u>17,712</u>	<u>15,914</u>
Net assets:		
Without donor restrictions:		
Operating	<u>188,889</u>	<u>210,003</u>
	188,889	210,003
With donor restrictions	<u>527,580</u>	<u>498,780</u>
Total net assets	<u>716,469</u>	<u>708,783</u>
Total liabilities and net assets	<u>\$ 734,181</u>	<u>\$ 724,697</u>

The Discovery Orchestra, Inc.
Statement of Activities
For the Year Ended June 30, 2022
(With Summarized Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022	2021
Revenue and Support:				
Government grants	\$ 50,000		\$ 50,000	\$ 35,036
Contributions	201,988	\$ 28,800	230,788	711,963
Special events, net	25,005		25,005	21,754
Realized gains on investments	1,021		1,021	10,125
In-kind contributions				3,000
Governmental grant - PPP				29,360
Total revenue and support	278,014	28,800	306,814	811,238
Other revenue and gains:				
Interest income	847		847	592
Royalties	5,641		5,641	7,263
Miscellaneous other income	366		366	519
Total other revenue and gains	6,854		6,854	8,374
Total revenue, gains and support	284,868	28,800	313,668	819,612
Expenses:				
Program services:				
Music education	203,706		203,706	172,787
Supporting services:				
General and administrative	66,086		66,086	53,643
Fundraising	36,190		36,190	37,131
Total expenses	305,982		305,982	263,561
Change in net assets	(21,114)	28,800	7,686	556,051
Net assets, beginning of year	210,003	498,780	708,783	152,732
Net assets, end of year	\$ 188,889	\$ 527,580	\$ 716,469	\$ 708,783

See accompanying notes to financial statements

The Discovery Orchestra, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2022
(With Summarized Comparative Totals for 2021)

	Program Services		Supporting Services		Total	
	Music Education	General and Administrative	Fundraising	Total	2022	2021
Salaries - staff and musicians	\$ 118,276	\$ 30,861	\$ 21,875	\$ 52,736	\$ 171,012	\$ 133,323
Payroll taxes	9,324	2,433	1,757	4,190	13,514	10,723
Fringe benefits	19,990	6,279	3,087	9,366	29,356	27,428
Total salaries and related benefits	<u>147,590</u>	<u>39,573</u>	<u>26,719</u>	<u>66,292</u>	<u>213,882</u>	<u>171,474</u>
Rent - office	2,070	540	390	930	3,000	3,000
Rent - program venues	800				800	1,450
Advertising	4,013		425	425	4,438	3,615
Merchant fees	487		163	163	650	598
Insurance	5,429	5,332		5,332	10,761	8,600
Professional services	300	8,900	300	9,200	9,500	8,900
Equipment						1,858
Dues and fees	4,726	2,466	1,822	4,288	9,014	7,236
Printing	2,724	162	1,375	1,537	4,261	2,985
Office expenses	3,100	1,949	813	2,762	5,862	4,941
Postage and mailing house	1,326	1,192	1,316	2,508	3,834	2,985
Graphic design	779	389	1,400	1,789	2,568	945
Consulting	2,305	2,674		2,674	4,979	7,384
Telephone	595	155	112	267	862	729
Travel	1,113				1,113	
Gifts and food		2,161	341	2,502	2,502	246
Instrumental/equipment rental	435		435	435	870	150
Payroll service	1,359	354	256	610	1,969	1,777
Sales tax						15
Cost of goods sold	141				141	412
Distribution fees - Discover the Firebird public television program						8,907
Distribution fee - Public Television Re-Releases	10,073				10,073	
Production fees - Educational Videos/Podcasts	13,426		150	150	13,576	24,030
Total expenses before depreciation	<u>202,791</u>	<u>65,847</u>	<u>36,017</u>	<u>101,864</u>	<u>304,655</u>	<u>262,237</u>
Depreciation expense	<u>915</u>	<u>239</u>	<u>173</u>	<u>412</u>	<u>1,327</u>	<u>1,324</u>
Total expenses	<u>\$ 203,706</u>	<u>\$ 66,086</u>	<u>\$ 36,190</u>	<u>\$ 102,276</u>	<u>\$ 305,982</u>	<u>\$ 263,561</u>

See accompanying notes to financial statements

The Discovery Orchestra, Inc.
Statement of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 7,686	\$ 556,051
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	1,327	1,324
Realized gain on investments	(1,021)	(10,125)
Donation of investments	(20,187)	(510,093)
Government grant - PPP		(29,360)
Changes in operating assets and liabilities:		
Grant receivable	(6,250)	(6,250)
Other receivable	(400)	
Prepaid expenses	(16,535)	7,623
Inventory	141	412
Accounts payable and accrued expenses	1,798	1,653
Deferred revenue		(7,750)
Net cash provided by (used in) operating activities	<u>(33,441)</u>	<u>3,485</u>
Cash flows from investing activities:		
Proceeds from sale of investments	21,208	520,218
Net cash provided by investing activities	<u>21,208</u>	<u>520,218</u>
Net increase (decrease) in cash and restricted cash	(12,233)	523,703
Cash and restricted cash, beginning of year	<u>701,753</u>	<u>178,050</u>
Cash and restricted cash, end of year	<u>\$ 689,520</u>	<u>\$ 701,753</u>
Supplemental disclosure of noncash activities:		
In-kind contributions	<u>\$ -</u>	<u>\$ 3,000</u>
Supplemental disclosure of noncash investing activities:		
Donation of investments	<u>\$ 20,187</u>	<u>\$ 510,093</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. TDO 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 programs 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 Visual Arts Center of New Jersey in Summit, NJ, Patriots Theater at the War Memorial in Trenton, NJ, and Delbarton School in Morristown, NJ. 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.

During fiscal year 2022, national distribution continued for *Discover The Firebird*, our most recent educational program for public television. Additionally, re-releases began in May 2022 of two previous programs, *Discover Vivaldi’s Four Seasons* and the *Fall in Love with Music* series. During the fiscal year, there were 333 broadcasts of these three programs nationally on 105 channels in 61 markets in 28 states to a potential audience of over 50 million households. One *Discover Vivaldi’s Four Seasons* viewer recently shared: “I saw your incredible special on public television (New Hampshire). I’m a retired teacher, but still work a lot with students. I promise to share with family and friends too. What an absolutely beautiful, beautiful program. Thank you for all your good work!”. Also, pre-production work commenced for our 6th public television production, *Discover Saint-Saens’ “Organ” Symphony*, to be recorded and released during the 2022-2023 season.

Fiscal year 2022 also featured new episodes of our video/podcast series, *Notes from Under the Piano* and a new 4-part *Discovery Orchestra Chat* series exploring Tchaikovsky’s popular *Romeo & Juliet Overture* on our YouTube channel. There were 23,037 views of these programs on YouTube during the season. Additionally, our outreach to local music student and senior groups continued both live and virtually with 9 sessions for community partners including the Paterson Music Project, the Newark Boys Chorus School, the Newark School of the Arts, the Keys 2 Success piano program in Newark, 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. Board designated net assets amounted to \$0 at June 30, 2022 and 2021.

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, 2022, and 2021, net assets with donor restrictions amounted to \$527,580 and \$498,780, 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>2022</u>	<u>2021</u>
Performance obligations satisfied at a point in time	<u>\$ 36,557</u>	<u>\$ 24,087</u>

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

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, 2022. 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.

Advertising

It is TDO's policy to expense advertising costs as incurred. Advertising expense for the years ended June 30, 2022 and 2021 was \$4,438 and \$3,615, 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* 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, 2022 and 2021 was \$11,552 and \$2,333, 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.

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, 2022 and 2021, TDO did not record any impairment charge in the statement of activities.

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:

The Discovery Orchestra, Inc.
Notes to Financial Statements
June 30, 2022 and 2021

- 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, 2022 and 2021.

Cash, restricted cash, grant receivable, other receivable, prepaid expenses, 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. TDO has received full forgiveness of the Paycheck Protection Program advance (see Note 10).

Cash and Restricted Cash

Cash and restricted cash consist of the following:

	<u>2022</u>	<u>2021</u>
Cash	\$ 161,940	\$ 202,973
Restricted cash	<u>527,580</u>	<u>498,780</u>
Total	<u>\$ 689,520</u>	<u>\$ 701,753</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, 2022 and 2021.

Inventory

Merchandise inventory is valued at the lower of cost or net realizable value. Inventory amounted to \$1,846 and \$1,987 at June 30, 2022 and 2021, 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, 2022 and 2021.

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, 2021 from which the summarized information was derived.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after June 30, 2022 through the date of the independent auditor's report and the date the financial statements were available to be issued, October 28, 2022. 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.

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:

	<u>2022</u>	<u>2021</u>
Cash	\$ 161,940	\$ 202,973
Restricted cash	527,580	498,780
Grants receivable	12,500	6,250
Other receivable	400	
Total financial assets	<u>702,420</u>	<u>708,003</u>
Less amounts not available to be used within one year:		
Net assets with purpose restrictions:		
Public Television Program Production	<u>527,580</u>	<u>498,780</u>
Total funds not available to be used within one year	527,580	498,780
Financial assets available to meet		
general expenditures within one year	<u>\$ 174,840</u>	<u>\$ 209,223</u>

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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, 2022 and 2021.

Investment activity for the years ended June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Sales	\$ 21,208	\$ 520,218
Less: sales of donated securities	<u>(20,187)</u>	<u>(510,093)</u>
Realized gains	<u>\$ 1,021</u>	<u>\$ 10,125</u>

Property and Equipment

Property and equipment and their related estimated useful lives at June 30, 2022 and 2021 are as follows:

<u>Assets</u>	<u>Estimated Useful Life (Years)</u>	<u>2022</u>	<u>2021</u>
Furniture and equipment	3-7	\$ 21,989	\$ 21,989
Less: accumulated depreciation		<u>(21,989)</u>	<u>(20,662)</u>
		<u>\$ -</u>	<u>\$ 1,327</u>

Depreciation expense charged to operations for the years ended June 30, 2022 and 2021 totaled \$1,327 and \$1,324, respectively.

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5. Prepaid Expenses

Prepaid expenses at June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Prepaid insurance	\$ 5,196	\$ 4,843
Prepaid gala expenses	1,000	
Prepaid television distribution fees	<u>23,719</u>	<u>8,537</u>
	<u>\$ 29,915</u>	<u>\$ 13,380</u>

6. 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. For the year ended June 30, 2021, rent was suspended due to the pandemic.

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

<u>Year Ending</u> <u>June 30,</u> <u>2023</u>	<u>Amount</u>
	<u>\$ 1,500</u>
	<u>\$ 1,500</u>

Total rent expense charged to operations for the year ended June 30, 2022 and 2021 was \$3,000 and \$3,000, respectively.

7. Net Assets with Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Future Media Programs	\$ 527,580	\$ 498,780
	<u>\$ 527,580</u>	<u>\$ 498,780</u>

8. 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 rent valued at \$3,000 for the year ended June 30, 2021.

9. Related Parties

During the years ended June 30, 2022 and 2021, TDO's Executive Director and Artistic Director made contributions to TDO totaling \$15,100 and \$8,850, respectively.

10. Refundable Advance

In May 2020, TDO received \$29,360 under the United States Small Business Administration's (SBA) Paycheck Protection Program (PPP). The PPP funding is legally structured as a forgivable loan by the SBA. In order to achieve forgiveness of the loan, TDO should have spent the funding for eligible expenses, and also must have generally maintained its full-time equivalent level of staffing over a defined time period. TDO has accounted for the PPP funding as a conditional contribution in the financial statements by applying ASC Topic 958 - 605, *Revenue Recognition*. In April 2021, TDO received full forgiveness of the PPP funding of \$29,360 and recognized the government grant – PPP as revenue in the accompanying statement of activities.

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

11. Line of Credit

During the years ended June 30, 2022 and 2021, 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, 2022 and 2021 was 6.00% for both years ended. There was no outstanding balance at June 30, 2022 and 2021.

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.