EDUCATION THROUGH MUSIC, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

LUTZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP
551 FIFTH AVENUE - SUITE 400, NEW YORK, NY 10176
212-697-2299 FAX: 212-949-1768

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Education Through Music, Inc. and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of Education Through Music, Inc. (a nonprofit organization) and Subsidiary (the Organization), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year ended June 30, 2023 and ten months ended June 30, 2022, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Education Through Music, Inc. and Subsidiary as of June 30, 2023 and 2022, and the changes in their net assets and their cash flows for the year ended June 30, 2023 and ten months ended June 30, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted auditing standards 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Organization'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 consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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.

LUTZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Consolidating Schedules of Statement of Financial Position and Statement of Activities are presented for purposes of additional analysis and are presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Lutz + Carr, LLP

New York, New York
May 15, 2024

EDUCATION THROUGH MUSIC, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	2023	2022
Assets		
Cash and cash equivalents (Notes 1b and 12a)	$2,024,717	$2,074,179
Investments (Notes 1c, 1d and 5)	696,945	633,265
Unconditional promises to give (Notes 1e and 4)		
Without donor restrictions	877,426	1,237,328
With donor restrictions	390,000	1,082,613
Accounts receivable	300,633	210,614
Prepaid expenses	21,295	51,196
Operating lease right-of-use asset (Note 1h, 1n and 9)	200,641	-
Property and equipment, at cost, net of accumulated depreciation (Notes 1g and 7)	47,208	87,083
Security deposit	34,562	34,562
Total Assets	$4,593,427	$5,410,840
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 230,986	$ 216,647
Operating lease liability (Notes 1h, 1n and 9)	251,481	-
Deferred rent (Note 1h)	-	28,818
Total Liabilities	482,467	245,465
Commitments and Contingency (Notes 9, 10 and 11)		
Net Assets		
Without Donor Restrictions		
Operating	3,024,015	3,284,497
ETM Special Fund (Note 6)	696,945	633,265
Total Without Donor Restrictions	3,720,960	3,917,762
With Donor Restrictions (Note 3)	390,000	1,247,613
Total Net Assets	4,110,960	5,165,375
Total Liabilities and Net Assets	$4,593,427	$5,410,840

See notes to consolidated financial statements.

EDUCATION THROUGH MUSIC, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2023 AND TEN MONTHS ENDED JUNE 30, 2022

	2023	2022
Changes in Net Assets Without Donor Restrictions		
Revenues and Other Support		
Contributions (Note 12b)	$1,526,878	$1,947,027
Federal relief grant - Employee Retention Tax Credit (Note 13)	-	894,528
Benefit and event income	649,472	953,717
Less: Direct fundraising costs	(113,832)	(138,277)
Program income (Note 1i)	2,115,610	1,712,881
Donated materials and services (Note 14)	163,416	87,456
Interest and dividend income	51,235	20,476
Realized gain (loss) on investments	126,423	(9,404)
Unrealized loss on investments	(78,821)	(170,870)
Loan forgiveness - Paycheck Protection Program (Note 8)	-	803,482
Miscellaneous income	2,215	3,476
	4,442,596	6,104,492
Net assets released from restrictions		
Satisfaction of time and program restrictions	880,000	928,442
Total Revenues and Other Support	5,322,596	7,032,934
Expenses		
Program Services		
New York	4,279,986	2,936,719
National	171,162	207,388
Total Program Services	4,451,148	3,144,107
Supporting Services		
Management and general	239,956	158,270
Fundraising	828,294	786,947
Total Supporting Services	1,068,250	945,217
Total Expenses	5,519,398	4,089,324
Increase (Decrease) in Net Assets Without Donor Restrictions	(196,802)	2,943,610
Changes in Net Assets With Donor Restrictions		
Contributions (Note 12b)	22,387	1,092,613
Net assets released from restrictions	(880,000)	(928,442)
Increase (Decrease) in Net Assets With Donor Restrictions	(857,613)	164,171
Increase (decrease) in net assets	(1,054,415)	3,107,781
Net assets, beginning of year	5,165,375	2,057,594
Net Assets, End of Year	$4,110,960	$5,165,375

See notes to consolidated financial statements.

EDUCATION THROUGH MUSIC, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2023 AND
TEN MONTHS ENDED JUNE 30, 2022

	2023						2022					
	Program Services			Supporting Services			Program Services			Supporting Services		
	New York	National	Total	Management and General	Fundraising	Total Expenses	New York	National	Total	Management and General	Fundraising	Total Expenses
Salaries and related costs	$3,188,161	$109,459	$3,297,620	$ 172,863	$ 451,391	$3,921,874	$2,182,343	$ 95,795	$2,278,138	$ 34,033	$ 238,446	$2,550,617
Grants	-	30,000	30,000	-	-	30,000	-	100,000	100,000	-	-	100,000
Contracted services	534,361	10,105	544,466	45,803	264,315	854,584	297,538	5,725	303,263	108,525	417,830	829,618
Non-personnel expenses	216,829	2,425	219,254	4,087	59,838	283,179	125,274	2,152	127,426	2,659	53,794	183,879
Facility and equipment	250,562	-	250,562	12,505	33,256	296,323	248,805	-	248,805	9,892	33,380	292,077
Travel and meetings	10,588	423	11,011	72	3,404	14,487	8,976	3,716	12,692	60	1,640	14,392
Bad debt	-	18,750	18,750	-	-	18,750	-	-	-	-	-	-
Other expenses	47,831	-	47,831	2,939	9,557	60,327	45,798	-	45,798	1,913	37,849	85,560
Total expenses before depreciation	4,248,332	171,162	4,419,494	238,269	821,761	5,479,524	2,908,734	207,388	3,116,122	157,082	782,939	4,056,143
Depreciation	31,654	-	31,654	1,687	6,533	39,874	27,985	-	27,985	1,188	4,008	33,181
Total Expenses	$4,279,986	$171,162	$4,451,148	$ 239,956	$ 828,294	$5,519,398	$2,936,719	$207,388	$3,144,107	$ 158,270	$ 786,947	$4,089,324

See notes to consolidated financial statements.

EDUCATION THROUGH MUSIC, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2023 AND
TEN MONTHS ENDED JUNE 30, 2022

	2023	2022
Cash Flows From Operating Activities		
Increase (decrease) in net assets	$(1,054,415)	$3,107,781
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Non-cash operating lease expense	261,542	-
Depreciation expense	39,875	33,181
Loan forgiveness - Paycheck Protection Program	-	(803,482)
Donated securities	(197,948)	(229,376)
Net realized and unrealized (gains) losses on investments	(47,602)	180,274
(Increase) decrease in:		
Unconditional promises to give	1,052,515	(1,976,641)
Accounts receivable	(90,019)	(196,500)
Prepaid expenses	29,901	11,838
Increase (decrease) in:		
Accounts payable and accrued expenses	14,339	31,118
Deferred revenue	-	-
Operating lease liability	(239,520)	-
Deferred rent	-	(6,750)
Net Cash Provided (Used) By Operating Activities	(231,332)	151,443
Cash Flows From Investing Activities		
Purchase of investments	(370,653)	(19,923)
Sale of investments	552,523	219,972
Net Cash Provided By Investing Activities	181,870	200,049
Net increase (decrease) in cash and cash equivalents	(49,462)	351,492
Cash and cash equivalents, beginning of year	2,074,179	1,722,687
Cash and Cash Equivalents, End of Year	$ 2,024,717	$2,074,179
Supplemental Disclosure of Non-Cash Investing Activities:		
Operating lease right-of-use asset obtained in exchange for operating lease liability	$ 462,183	$ -

See notes to consolidated financial statements.

EDUCATION THROUGH MUSIC, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization

Education Through Music, Inc. (“ETM, Inc.”) partners with under-resourced schools to provide music as a core subject for all children and utilizes music education as a catalyst to improve academic achievement, motivation for school and self-confidence.

Effective September 1, 2021, ETM, Inc. changed its year end from August 31 to June 30.

Due to the continued success of ETM, Inc. in New York, along with the success of licensed ETM, Inc. affiliate organizations in Los Angeles, Denver, and Boston, the community of ETM, Inc. affiliate organizations and stakeholders determined that it was in the best interests of the ETM, Inc. mission and work to establish a new national organization to develop and support ETM, Inc. programming and activities, both on the local and national level, and to coordinate local ETM, Inc. activities and operations, in each case in a cohesive, consistent manner that both reflects and builds on ETM, Inc.’s work while simultaneously serving the priorities of local ETM, Inc. affiliate organizations and their communities. To that end, Education Through Music USA, Inc. ("ETM-USA") was formed on February 1, 2022. In this role, ETM-USA plans to develop and manage curricula and other intellectual property for the ETM, Inc. network and to conduct related support and activities that further its mission of promoting musical education in disadvantaged communities throughout the United States. While the founding ETM-USA board is made up of three ETM, Inc. board members, it is ETM-USA's intention to develop a board that is independent of any other ETM, Inc. affiliates as soon as practicable. In January 2023, ETM-USA received an Internal Revenue Service determination letter recognizing it as exempt from federal income tax under Internal Revenue Code Section 501(c)(3), effective February 1, 2022. ETM-USA commenced operations during the year ended June 30, 2023.

b - Principles of Consolidation

The accompanying consolidated financial statements include the accounts of ETM, Inc. and ETM-USA (collectively, the “Organization” or “ETM”). All significant intercompany transactions and accounts have been eliminated in consolidation.

c - Cash and Cash Equivalents

The Organization considers all short-term highly-liquid investments, such as money market funds, to be cash equivalents, except for cash awaiting investment.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

d - Investments
The Organization reflects investments at fair value in the consolidated statements of financial position. Unrealized gains and losses on investments are reflected in the consolidated statements of activities. Interest, gains and losses on investments are reflected in the consolidated statement of activities as increases and decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investment income restricted by the donor is reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the income is recognized.

e - Fair Value Measurements
The Organization is required to use a framework for measuring fair value and make certain disclosures about fair value measurements. Fair value is a market-based measurement, not an entity-specific measurement, and is based on a fair value hierarchy with the highest priority being quoted prices in active markets. Fair value measurement is disclosed by level within that hierarchy.

Unadjusted quoted prices in active markets for identical assets or liabilities are referred to as Level 1 inputs. Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available are referred to as Level 2 inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the assumptions developed by the Organization based on available information about what market participants would use in valuing the asset or liability and are referred to as Level 3.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. Level 3 assets and liabilities involve greater judgment than Level 1 or Level 2 assets or liabilities.

All of the Organization's investments are classified within Level 1 of the fair value hierarchy. Fair value is determined using quoted market values.

The values assigned to these investments and any unrealized gains or losses reported are based on available information and do not necessarily represent amounts that might be realized if a ready market existed and such differences could be material. The ultimate realization of such amounts depends on future events and circumstances and therefore, valuation estimates may differ from the value realized upon disposition of individual positions.

EDUCATION THROUGH MUSIC, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

f - Contributions and Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. Conditional promises to give, that is, those with a measurable performance-related or other barrier and right of return of assets transferred or release of a promisor's obligation to transfer assets in the future, are not recognized until the conditions on which they depend have been met. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions 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 depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

The Organization uses the allowance method to determine uncollectible promises to give. The determination of whether an allowance is necessary is based on prior years' experience and management's analysis of specific promises made.

g - Financial Statement Presentation

The consolidated financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and Board of Directors.

Net Assets With Donor Restrictions

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 the Organization or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

h - Property and Equipment

Property and equipment are capitalized at cost and are being depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized on a straight-line basis over the life of the lease.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

i - Operating Lease Right-of-Use Asset and Operating Lease Liability
For leases with an initial term greater than twelve months, the Organization's operating lease liability is initially recorded at the present value of the unpaid lease payments as of July 1, 2022. The Organization's operating lease right-of-use asset is initially recorded at the carrying amount of the lease liability adjusted for initial direct costs, accruals, deferred rent liability and lease incentives, if any. Operating lease cost is recognized on a straight-line basis over the lease term.

For the ten months ended June 30, 2022, rent expense is recorded on a straight-line basis over the life of the lease. The difference between the straight-line amount and the amount actually paid during the year is recorded as a liability and an expense in the accompanying consolidated financial statements.

j - Revenue Recognition
The Organization's program income is recognized at a point in time when the programs take place. The timing of billings, cash collections and revenue recognition may result in contract assets and contract liabilities reported in the consolidated statements of financial position. Contract assets consist of accounts receivable. Contract liabilities consist of deferred revenue that results when the Organization receives advance payments from customers before revenue is recognized.

k - Estimates
The preparation of the consolidated 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 and disclosures. Accordingly, actual results could differ from those estimates.

l - Tax Status
ETM, Inc. and ETM-USA are not-for-profit organizations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and have been designated as organizations which are not a private foundation.

m - Subsequent Events
The Organization has evaluated subsequent events through May 15, 2024, the date that the consolidated financial statements are considered available to be issued.

Note 1 - <u>Organization and Summary of Significant Accounting Policies</u> (continued)

n - <u>Functional Allocation of Expenses</u>
The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Expenses are applied directly to programs where applicable or allocated on a reasonable and consistent basis. A substantial portion of the Organization’s expenses are directly related to program activities, which are made up of educational and music programs. The expenses that are allocated include depreciation, interest, insurance, general office expenses, and occupancy costs, which are allocated on a basis of time and effort.

o - <u>New Accounting Standard</u>
During 2023, the Organization adopted Accounting Standards Update (ASU) 2016-02, *Leases (“Topic 842”)*. The core principles of ASU 2016-02 (the “ASU”) change the way organizations account for their leases by recognizing lease assets and related liabilities on the statement of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. As such, results for 2023 are presented under the ASU, while results for 2022 continue to be reported in accordance with historical accounting practices. The adoption of the ASU did not have a significant impact on the Organization's net assets as of July 1, 2022.

As part of the adoption of the ASU, the Organization elected to apply the modified retrospective transition approach as of the date of initial application without restating comparative period financial statements, to use a risk-free rate, equal to the two-year Treasury Bill rate for the discount of the operating lease and to apply the practical expedients which allows the Organization to not reassess (i) whether any expired or existing contracts are leases or contain leases (ii) the lease classification for any expired or existing leases (iii) initial direct costs for any existing leases.

Note 2 - <u>Information Regarding Liquidity and Availability</u>

The Organization operates with a balanced budget for each fiscal year based on the revenues expected to be available to fund anticipated expenses. A substantial portion of annual revenue is comprised of program revenue and contribution revenue raised during the current year. The Organization considers general expenditures to consist of all expenses related to its ongoing program activities, and the expenses related to general and administrative and fundraising activities undertaken to support those services.

Note 2 - Information Regarding Liquidity and Availability (continued)

The Organization regularly monitors liquidity to meet its operating needs and other commitments and obligations, while seeking to maximize the investment of its available funds. Management prepares regular cash flow projections to determine liquidity needs, and maintains liquid financial assets on an ongoing basis sufficient to cover ninety days of general expenditures. Financial assets in excess of daily cash requirements are invested in cash, money market funds, or other short-term investments.

The Organization's financial assets as of June 30, 2023 and 2022 available to meet cash needs for general expenditures within one year are summarized as follows:

	2023	2022
Financial Assets at Year End:		
Cash and cash equivalents	$2,024,717	$2,074,179
Investments	696,945	633,265
Unconditional promises to give	1,267,426	2,319,941
Accounts receivable	300,633	210,614
Total Financial Assets	4,289,721	5,237,999
Less: Amounts not Available to be Used within One Year:		
Net assets with donor restrictions, subject to expenditure for specific purposes or passage of time	(390,000)	(1,247,613)
Plus: Net assets with donor restrictions expected to be met in less than one year	390,000	880,000
Less: ETM, Inc. Special Fund	(696,945)	(633,265)
Financial Assets Available to Meet General Expenditures within One Year	$3,592,776	$4,237,121

In addition to these financial assets available within one year, the Organization maintains the ETM, Inc. Special Fund of $696,945 to promote its financial stability. These amounts could be made available to meet cash needs at the discretion of the Board (Note 6).

Note 3 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for future programs and periods.

Note 4 - Unconditional Promises to Give

Unconditional promises to give as are due as follows as of June 30:

	2023	2022
Due in less than one year	$1,267,426	$1,952,328
Due in one to five years	-	390,000
	1,267,426	2,342,328
Less: Discount to present value	-	(22,387)
	$1,267,426	$2,319,941

As of June 30, 2023 and 2022, approximately 72% and 74%, respectively, of unconditional promises to give were due from a government agency and a foundation.

Uncollectible promises to give are expected to be insignificant. Unconditional promises to give due after one year are discounted to present value using a discount rate of 3%.

Note 5 - Investments

Investments, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following as of June 30:

	2023	2022
Mutual Funds:		
Fixed funds	$169,362	$202,406
Equity funds	165,363	172,605
Exchange traded funds	194,596	211,965
Cash awaiting investment	167,624	46,289
	$696,945	$633,265

The cost of investments at June 30, 2023 and 2022 was $684,499 and $541,998, respectively.

EDUCATION THROUGH MUSIC, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 6 - ETM, Inc. Special Fund

The Organization established the ETM, Inc. Special Fund (the "Fund") to promote its financial stability. The Fund consists of money allocated by the Board of Directors (the "Board") together with contributions and any net earnings from the Fund. Any withdrawals must be authorized by a supermajority vote of the Board if in excess of 5% of the average value of the Fund as of December 31 of the previous three years. Short-term borrowings by the Organization from the Fund may be made with the approval of the Executive Committee to meet unanticipated financial emergencies.

Note 7 - Property and Equipment

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

	Life	2023	2022
Musical instruments	5 years	$111,646	$111,646
Furniture and equipment	3-5 years	54,225	54,225
Leasehold improvements	Life of lease	63,689	63,689
Logo design/website upgrades	5 years	71,000	71,000
Salesforce software development	5 years	178,857	178,857
		479,417	479,417
Less: Accumulated depreciation		(432,209)	(392,334)
		$ 47,208	$ 87,083

Note 8 - Loan Forgiveness - Paycheck Protection Program

On March 9, 2021, the Organization received a loan totaling $803,482 under the Paycheck Protection Program ("PPP") administered by the U.S. Small Business Administration. The loan included provisions for forgiveness if the Organization met certain employee retention requirements and the funds were used for eligible expenses. The loan was fully forgiven in January 2022.

EDUCATION THROUGH MUSIC, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 9 - Operating Lease Liability

The Organization occupies office space under a lease agreement expiring March 31, 2024. There were no variable lease costs incurred. As of June 30, 2023, the remaining term of the Organization's operating lease is nine months, and the discount rate is 2.84%.

Maturities of the Organization's operating lease liability through March 31, 2024 total $254,466 less $2,985 attributable to interest.

In July 2023, the Organization entered into an amended lease agreement with the landlord to relocate to new office space within the same building commencing November 2023 and through June 2032. Under the terms of the amended agreement, the Organization received rent credits totaling $84,823 for the period of April through June 2023.

Future minimum annual rent payments are as follows:

Year ending June 30,	
2024	$ 135,093
2025	205,342
2026	209,449
2027	213,638
2028	217,910
Thereafter, through June 2032	993,983
	$1,975,415

Operating lease expense for the year ended June 30, 2023 and ten months ended June 30, 2022 was $271,502 and $266,643, respectively.

Note 10 - Contingency

Government supported projects are subject to audit by the granting agency.

Note 11 - Retirement Plan

The Organization has a voluntary salary reduction tax deferred annuity plan for the benefit of all qualifying employees. The Organization can make a discretionary matching contribution. The Organization did not make a matching contribution to the plan in 2023 or 2022.

Note 12 - Concentrations

a - The Organization maintains its cash and cash equivalent balances in three financial institutions located in New York. From time to time, balances may exceed the Federal Depository Insurance Corporation limit.

b - The Organization received 21% of its total contributions from a government agency during the year ended June 30, 2023, and 46% of its total contributions from a foundation during the ten months ended June 30, 2022.

Note 13 - Employee Retention Tax Credit

The Coronavirus Aid, Relief and Economic Security ("CARES") Act enacted in 2020 allowed eligible employers to claim employee retention tax credits for qualified wages paid after March 12, 2020, through the first three quarters of 2021. The Organization qualified for the credit based on partial suspension of operations due to government COVID-related orders and a decrease in gross receipts.

Note 14 - Donated Materials and Services

During the year ended June 30, 2023 and ten months ended June 30, 2022, the Organization received the following donated materials and services:

	2023	2022
Legal services	$149,416	$87,456
Computers	14,000	-
Total	$163,416	$87,456

Donated legal services are utilized in connection with the Organization's program and administrative supporting services and were valued by the service provider based on current rates of similar legal services. Donated computers are utilized in the Organization's program service activities and were valued by the donor based on current selling prices for similar computers.