

**The Wharton Institute for the Performing Arts, Inc.
and Subsidiaries**

Consolidated Financial Statements

June 30, 2023

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Consolidated Financial Statements

June 30, 2023

| TABLE OF CONTENTS | Page |
|---|-------------|
| Independent Auditors' Report | |
| FINANCIAL STATEMENTS | |
| Consolidated Statements of Financial Position | 3 |
| Consolidated Statement of Activities | 4 |
| Consolidated Statement of Functional Expenses | 5 |
| Consolidated Statements of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 7-19 |

Independent Auditors' Report

Board of Trustees

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Opinion

We have audited the accompanying consolidated financial statements of The Wharton Institute for the Performing Arts, Inc. and Subsidiaries (the "Institute") which comprise the consolidated statements of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Wharton Institute for the Performing Arts, Inc. and Subsidiaries as of June 30, 2023, and the consolidated changes in their net assets and their 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 the 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 Consolidated Financial Statements section of our audit. We are required to be independent of The Wharton Institute for Performing Arts, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Policy

As discussed in Note 2 to the consolidated financial statements, the Institute adopted the Financial Accounting Standards Board ("FASB") Topic 842, *Leases*, using the effective date method with July 1, 2022, as the initial adoption. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Wharton Institute for Performing Arts, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date of the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated 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 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 judgement 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 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 Wharton Institute for the Performing Arts, Inc. and Subsidiaries' 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Wharton Institute for the Performing Arts, Inc. and Subsidiaries' 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.

Report on Summarized Comparative Information

We have previously audited The Wharton Institute for the Performing Arts, Inc. and Subsidiaries' 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 10, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent in all material respects, with the audited consolidated financial statements from which it has been derived.

PKF O'Connor Davies, LLP

January 4, 2024

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Consolidated Statements of Financial Position
June 30, 2023
(with comparative amounts at June 30, 2022)

| | 2023 | 2022 |
|--|--------------|--------------|
| ASSETS | | |
| Cash, cash equivalents and restricted cash | \$ 712,874 | \$ 1,439,734 |
| Grant receivable | 20,800 | 48,500 |
| Pledges and contributions receivable, net | 55,683 | 89,776 |
| Accounts receivable, net | 14,459 | 37,579 |
| Prepaid expenses and other assets | 460,885 | 27,836 |
| Investments | 8,872 | 5,876 |
| Property and equipment, net | 147,721 | 131,396 |
| Right of use asset - operating leases, net | 1,377,857 | - |
| Security deposits | 67,130 | 67,130 |
| Total Assets | \$ 2,866,281 | \$ 1,847,827 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 143,864 | \$ 145,233 |
| Deferred revenue | 826,641 | 375,922 |
| Deferred rent | - | 3,484 |
| Security deposits payable | 1,600 | 2,300 |
| Lease liabilities | 1,406,870 | - |
| Line of credit | 99,976 | - |
| Long-term debt | 668,446 | 704,760 |
| Total Liabilities | 3,147,397 | 1,231,699 |
| Net Assets (Deficiency) | | |
| Without donor restrictions | (638,249) | 74,344 |
| With donor restrictions | 357,133 | 541,784 |
| Total Net Assets | (281,116) | 616,128 |
| | \$ 2,866,281 | \$ 1,847,827 |

See notes to consolidated financial statements

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Consolidated Statement of Activities Year Ended June 30, 2023 (with summarized totals for year ended June 30, 2022)

| | 2023 | | | 2022 Total |
|---|----------------------------------|-------------------------------|---------------------|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| REVENUE, SUPPORT, AND RECLASSIFICATIONS | | | | |
| Tuition and fees | \$ 2,120,479 | \$ - | \$ 2,120,479 | \$ 1,447,967 |
| Contributions | 205,379 | 175,717 | 381,096 | 465,498 |
| In-kind contributions | 52,684 | - | 52,684 | 122,936 |
| Special events, net of direct costs of \$35,127 and \$18,509, respectively | 241,396 | 80,029 | 321,425 | 300,647 |
| Foundation grants | 27,408 | 147,007 | 174,415 | 309,140 |
| Government grants | 80,000 | - | 80,000 | 680,349 |
| Program service fees | 531,740 | - | 531,740 | 433,734 |
| Performances | 41,302 | - | 41,302 | 19,247 |
| Rental income | 16,087 | - | 16,087 | 17,563 |
| Sales of merchandise and other income | 4,460 | - | 4,460 | 2,775 |
| Investment return | 1,558 | - | 1,558 | 1,066 |
| Net assets released from restrictions | 587,404 | (587,404) | - | - |
| Total Revenue, Support, and Reclassifications | <u>3,909,897</u> | <u>(184,651)</u> | <u>3,725,246</u> | <u>3,800,922</u> |
| OPERATING EXPENSES | | | | |
| Program Services | | | | |
| Music education | <u>3,581,852</u> | <u>-</u> | <u>3,581,852</u> | <u>2,802,975</u> |
| Supporting Services | | | | |
| General and administrative | 796,924 | - | 796,924 | 741,341 |
| Fundraising | <u>203,580</u> | <u>-</u> | <u>203,580</u> | <u>214,687</u> |
| Total Supporting Services | <u>1,000,504</u> | <u>-</u> | <u>1,000,504</u> | <u>956,028</u> |
| Total Operating Expenses Before Depreciation and Amortization | <u>4,582,356</u> | <u>-</u> | <u>4,582,356</u> | <u>3,759,003</u> |
| Change in Net Assets | | | | |
| Before Depreciation and Amortization | (672,459) | (184,651) | (857,110) | 41,919 |
| Depreciation and amortization | <u>40,134</u> | <u>-</u> | <u>40,134</u> | <u>31,852</u> |
| (Deficiency) Excess of Revenue, Support, and Reclassifications Over Operating Expenses | (712,593) | (184,651) | (897,244) | 10,067 |
| NON-OPERATING ACTIVITIES | | | | |
| PPP loan forgiveness | <u>-</u> | <u>-</u> | <u>-</u> | <u>388,172</u> |
| Change in Net Assets | (712,593) | (184,651) | (897,244) | 398,239 |
| NET ASSETS (DEFICIENCY) | | | | |
| Beginning of year | <u>74,344</u> | <u>541,784</u> | <u>616,128</u> | <u>217,889</u> |
| End of year | <u>\$ (638,249)</u> | <u>\$ 357,133</u> | <u>\$ (281,116)</u> | <u>\$ 616,128</u> |

See notes to consolidated financial statements

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses Year Ended June 30, 2023 (with summarized totals for the year ended June 30, 2022)

| | 2023 | | | | | | Total 2022 | |
|---|---------------------|-------------------------------|-------------------|---------------------|---------------------------------|---|---------------------|------|
| | Program Services | Supporting Services | | | Total Supporting Services | Cost of Direct Benefits To Donors | | 2023 |
| | Music Education | General and Administrative | Fundraising | 2023 | | | | |
| Salaries and wages | \$ 2,011,311 | \$ 311,140 | \$ 96,222 | \$ 407,362 | \$ - | \$ 2,418,673 | \$ 1,983,063 | |
| Payroll taxes | 169,572 | 27,059 | 7,232 | 34,291 | - | 203,863 | 167,913 | |
| Employee benefits | 16,992 | 27,725 | 25,460 | 53,185 | - | 70,177 | 52,479 | |
| Total Salaries and Related Expenses | 2,197,875 | 365,924 | 128,914 | 494,838 | - | 2,692,713 | 2,203,455 | |
| Professional fees | 735 | 202,092 | 5,700 | 207,792 | - | 208,527 | 252,818 | |
| Advertising | 91,831 | 6,556 | 16,156 | 22,712 | 16,095 | 130,638 | 93,262 | |
| Insurance | 54,767 | 18,803 | - | 18,803 | - | 73,570 | 64,184 | |
| Performance travel & other expenses | 350,467 | 448 | 37,973 | 38,421 | 4,682 | 393,570 | 124,346 | |
| Dues and subscriptions | 30,010 | - | 1,900 | 1,900 | - | 31,910 | 31,904 | |
| Program supplies, materials and office expense | 144,067 | 43,519 | 5,492 | 49,011 | 8,352 | 201,430 | 207,931 | |
| Postage and printing | 17,480 | 25,242 | 1,949 | 27,191 | - | 44,671 | 37,292 | |
| Bank charges and processing fees | 49,094 | 1,432 | 2,614 | 4,046 | - | 53,140 | 38,242 | |
| Interest | - | 26,296 | - | 26,296 | - | 26,296 | 21,468 | |
| Occupancy | 410,971 | 66,061 | - | 66,061 | - | 477,032 | 448,919 | |
| Repairs and maintenance | 67,203 | 7,813 | 2,070 | 9,883 | - | 77,086 | 77,630 | |
| Equipment lease and rental | 6,148 | 11,425 | - | 11,425 | - | 17,573 | 19,387 | |
| Technology - computer expense | 69,819 | 7,536 | - | 7,536 | - | 77,355 | 69,436 | |
| Licenses and fees | 33,289 | 323 | - | 323 | - | 33,612 | 21,173 | |
| Cost of sales | 19,514 | 31 | 812 | 843 | 5,998 | 26,355 | 4,845 | |
| Outside contractors | 19,194 | - | - | - | - | 19,194 | 26,119 | |
| Telephone | 7,575 | 15,354 | - | 15,354 | - | 22,929 | 13,634 | |
| Conferences and workshops | 11,813 | 534 | - | 534 | - | 12,347 | 12,859 | |
| Bad debt (recovery) | - | (2,465) | - | (2,465) | - | (2,465) | 8,608 | |
| Total Expenses Before Depreciation and Amortization and Costs of Direct Benefits to Donors | 3,581,852 | 796,924 | 203,580 | 1,000,504 | 35,127 | 4,617,483 | 3,777,512 | |
| Less: Costs of Direct Benefits to Donors | - | - | - | - | (35,127) | (35,127) | (18,509) | |
| Total Expenses Before Depreciation and Amortization | 3,581,852 | 796,924 | 203,580 | 1,000,504 | - | 4,582,356 | 3,759,003 | |
| Depreciation and amortization | 20,067 | 20,067 | - | 20,067 | - | 40,134 | 31,852 | |
| Total Expenses | <u>\$ 3,601,919</u> | <u>\$ 816,991</u> | <u>\$ 203,580</u> | <u>\$ 1,020,571</u> | <u>\$ -</u> | <u>\$ 4,622,490</u> | <u>\$ 3,790,855</u> | |

See notes to consolidated financial statements

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Consolidated Statements of Cash Flows Year Ended June 30, 2023

(with comparative amounts for the year ended June 30, 2022)

| | 2023 | 2022 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (897,244) | \$ 398,239 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Forgiveness of Paycheck Protection Program loan | - | (388,172) |
| Depreciation and amortization | 40,134 | 31,852 |
| Deferred rent | - | (19,994) |
| Amortization of right of use asset | 315,999 | - |
| Net realized and unrealized gain on investments | (887) | (137) |
| Donated securities | (1,974) | (4,719) |
| Bad debt (recovery) expense | (2,465) | 8,608 |
| Discount on pledges and contributions receivable | (377) | (2,568) |
| Change in operating assets and liabilities | | |
| Grant receivable | 27,700 | (24,250) |
| Pledges and contributions receivable | 36,935 | 19,388 |
| Accounts receivable | 23,120 | (13,519) |
| Prepaid expenses and other assets | (433,049) | (4,404) |
| Security deposits | - | (17,008) |
| Accounts payable and accrued expenses | (1,369) | (19,319) |
| Deferred revenue | 450,719 | 99,437 |
| Security deposits payable | (700) | - |
| Lease liabilities | (290,470) | - |
| Net Cash from Operating Activities | (733,928) | 63,434 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (135) | - |
| Purchase of property and equipment | (56,459) | (21,295) |
| Net Cash from Investing Activities | (56,594) | (21,295) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from long-term debt | - | 350,000 |
| Proceeds from line of credit | 100,000 | - |
| Principal repayments of line of credit | (24) | - |
| Principal repayments of long-term debt | (36,314) | (32,173) |
| Net Cash from Financing Activities | 63,662 | 317,827 |
| Change in Cash, Cash Equivalents and Restricted Cash | (726,860) | 359,966 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH | | |
| Beginning of year | 1,439,734 | 1,079,768 |
| End of year | \$ 712,874 | \$ 1,439,734 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for interest | \$ 26,296 | \$ 21,468 |
| NON-CASH FINANCING ACTIVITY | | |
| Forgiveness of Paycheck Protection Program loan | \$ - | \$ 388,172 |

See notes to consolidated financial statements

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

1. Organization and Tax Status

The Wharton Institute for the Performing Arts, Inc. (“Wharton”) was founded on May 3, 1985 to provide music instruction, educational programs and performances to people of all ages, abilities, and backgrounds, so as to inspire them to achieve musical excellence and to use their inherent creativity to its greatest potential. Wharton was formerly known as The Judith G. Wharton Music Center, Inc. until it changed its name effective September 28, 2015. Included as a major program of Wharton is the Paterson Music Project (“PMP”) which is an El Sistema inspired program established by Wharton in January 2013. El Sistema programs include tuition-free or low tuition classes with high frequency, a multi-year continuum, as well as other holistic services provided.

New Jersey Youth Symphony, LLC (“NJYS”) was organized on February 16, 2012 as a wholly-owned subsidiary of Wharton. On July 10, 2012, it completed the acquisition of the assets of the New Jersey Youth Symphony, Inc. (the “Symphony”) pursuant to a combination agreement between Wharton, NJYS and the Symphony.

NJYC Acquisition, LLC (“NJYC”) was organized on February 28, 2022 as a wholly-owned subsidiary of Wharton. On June 29, 2022, it completed the acquisition of the assets of the New Jersey Youth Chorus, Inc. (the “Chorus”) pursuant to a combination agreement between Wharton, NJYC and the Chorus.

Wharton and its subsidiaries NJYS and NJYC (together, the “Institute”), are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of New Jersey State law. Accordingly, no income tax expense or liability is recorded in the consolidated financial statements.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Wharton, NJYS, and NJYC. All intercompany balances and transactions have been eliminated.

Basis of Accounting and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Recently Adopted Accounting Standards

The Institute adopted FASB Topic 842, *Leases*, using the effective date method with July 1, 2022, as the date of initial adoption, with certain practical expedients available. The Institute elected the available practical expedients to account for its existing operating leases as operating leases, under the new guidance.

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

2. Summary of Significant Accounting Policies *(continued)*

Recently Adopted Accounting Standards (continued)

This completed without reassessing (a) whether contracts contain leases under the new standard, (b) whether classification of capital (now finance) leases or operating leases would be different in accordance with the new guidance, or (c) whether unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, on July 1, 2022, the Institute recognized lease liabilities and right-of-use assets ("ROU assets"). On July 1, 2022 the Institute recognized lease liabilities of \$1,643,727, that represents the present value of the remaining operating lease payments of \$1,801,074, discounted using the Institute's risk-free interest rate using a weighted-average treasury rate of 2.90%, and ROU assets of \$1,640,243, adjusted for deferred rent of \$3,484.

The standard did not have a significant impact on the Institute's consolidated statements of activities, functional expenses or cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for the Institute's operating leases.

Revenue and Revenue Recognition

As shown on the accompanying consolidated statement of activities, the Institute has two primary revenue sources which are tuition and fees and program service fees, and to a lesser degree, ticket sales from performances and special events, merchandise sales, and investment income. Contributions, grants, and investment returns do not have commercial substance and are therefore scoped out of *Revenue from Contracts with Customers* (Topic 606). Consequently, the Institute will continue to follow the guidance in Accounting Standards Codification 958-605, where applicable (including most government grants which are deemed to be contributions under Accounting Standards Update ("ASU") 2018-08 guidance).

The Institute has reviewed its various revenue sources and concluded that each of its contracts with customers (oral or written) include a single performance obligation that are satisfied either 1) at a point in time which include: merchandise sales (which occur at the point of sale); or ticket sales from performances (which occurs on the event date) or 2) over time which include: tuition and fees, program service fees and rental income which are all satisfied over time. Tuition from individual students is recognized monthly as earned based on the timing and duration of classes. Contracts with schools for music programs led by the Institute are entered into based on the timing of classes and service rate for each school. Schools are required to make payments on a quarterly basis and the Institute recognizes revenue over time for the duration of the contract. Tuition and program service revenue typically align with the local schools' academic calendars; accordingly, these performance obligations are satisfied by the Institute's year end (June 30). However, the Institute does require advance payment of tuition deposits for the summer and following school year classes, which amount is included in deferred revenue in the consolidated statements of financial position. When revenue is earned over a period of time that may span beyond the Institute's year end (i.e. summer tuition and fees, and ticket sales), any advance payments are also included in deferred revenue and revenue is recognized in the applicable period in which it is earned or the event takes place.

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

2. Summary of Significant Accounting Policies *(continued)*

Revenue and Revenue Recognition (continued)

Under US GAAP, the Institute must only recognize revenue for the amount expected to be collected. Based on the Institute's strong collection experience, the Institute has concluded that all revenue recognized is probable of collection. As permitted by the guidance, the School has applied a portfolio approach to evaluating the ability to pay of both its students, and the schools included in its contract service programs, rather than evaluating each student's and school's ability to pay separately.

In accordance with ASU 2018-08, the Institute recognizes contributions when cash, securities or other assets; or an unconditional promise to give is received. Conditional promises to give, those with a measurable performance or other barrier and right of return, are not recognized until the conditions on which they depend have been met. The Institute receives conditional and unconditional promises to give from the NJ State Council on the Arts, the National Endowment for the Arts, and the Union County Heart Grant each year. These and other federal, state and county contracts and grants may be conditioned upon certain performance requirements. The Institute may also receive conditional promises to give from foundations or other private donors. All conditional promises to give are recognized as revenue when the Institute has incurred expenditures and/or achieved other measurable performance or other barriers in compliance with specific contract or grant provisions.

Net Asset Presentation

The Institute reports information regarding financial position and activities in two classes of net assets: without and with donor restrictions.

Without donor restrictions – consist of resources available for the general support of the Institute's operations. Net assets without donor restrictions may be used at the discretion of the Institute's management and Board of Trustees. The Board has designated a portion of the Institute's net assets for endowment purposes.

With donor restrictions – represent amounts restricted by donors to be used for specific activities or at some future date, or which require the Institute to maintain in perpetuity, including funds that are subject to restrictions or gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash deposited with banks and short term highly liquid investments with maturities of three months or less at the time of purchase.

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

2. Summary of Significant Accounting Policies *(continued)*

Cash, Cash Equivalents and Restricted Cash (continued)

Included in cash and cash equivalents at June 30 is restricted cash for the following purposes:

| | <u>2023</u> | <u>2022</u> |
|------------------|-------------------|-------------------|
| Donor restricted | \$ 210,000 | \$ 350,000 |
| Board designated | <u>235,890</u> | <u>235,610</u> |
| | <u>\$ 445,890</u> | <u>\$ 585,610</u> |

The restricted cash amount above is pending a transfer into an investment account and the establishment of policies required under Uniform Prudent Management of Institutional Funds Act (“UPMIFA”).

Fair Value Measurements

The Institute follows US GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments and Investment Income Recognition

Investments are carried at fair value. Purchases and sales of securities are recorded on a settlement-date basis. Interest and dividend income is recorded when earned. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Grant, Pledge, and Contribution Receivables

Grant, pledge, and contribution receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment 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 grant, pledge, or contribution receivables.

At June 30, 2023 and 2022, the allowance for doubtful pledges amounted to \$6,428 and \$10,258. Grant and contributions receivables are considered fully collectible.

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

2. Summary of Significant Accounting Policies *(continued)*

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are comprised primarily of fees from tuition and program services and are non-interest bearing. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts, in addition to a general allowance based on a percentage of overall accounts receivable. 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 accounts receivable. Uncollectible amounts are determined on a case by case basis. At June 30, 2023 and 2022, the allowance for uncollectible accounts amounted to \$3,918.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Purchases of property and equipment with a unit value of less than \$1,500 are expensed. Leasehold improvements are amortized over the life of the lease using the straight line method. Property and equipment are written down to fair value when considered impaired. No impairment change has been recognized for the years ended June 30, 2023 and 2022.

Contract Assets and Liabilities

Contract assets represent payments due from performance obligations completed, but that are not yet billable. Contract liabilities represent payments received or receivables billed for performance obligations not yet completed. The beginning and ending contract assets and liabilities we as follows:

| | June 30, | | |
|--------------------|------------|------------|------------|
| | 2023 | 2022 | 2021 |
| Tuition receivable | \$ - | \$ 8,207 | \$ 9,844 |
| Deferred tuition | \$ 396,459 | \$ 375,922 | \$ 276,485 |
| Deferred tour fees | \$ 430,182 | \$ - | \$ - |

Deferred Revenue

Deferred revenue consists of amounts received for program events which will be recognized as income in future periods when the services are performed or the event occurs. The Institute's tuition and tour fees received in the current fiscal year for the next semester are deferred until the instruction commences, since the Institute recognizes tuition revenue in the period in which the related instruction is performed.

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

2. Summary of Significant Accounting Policies *(continued)*

In-Kind Contributions and Donated Services

It is the Institute's policy to record non-cash items and in-kind gifts at their fair value on the date they are received. The Board of Trustees makes significant contributions of time relative to general management and operations of the Institute. The value of this contributed time is not reflected in these consolidated financial statements since it does not meet criteria for recognition under US GAAP. The Institute recognizes the fair value of donated services which create or enhance nonfinancial assets, or require specialized skills provided by individuals possessing those skills and would typically be purchased if not provided by donation. Contributed services which do not meet these criteria are not recognized as revenue and are not reported in the accompanying consolidated financial statements. Revenue amounts are reflected in in-kind contributions on the consolidated statement of activities. Expense amounts for donated use of facilities are reflected in occupancy expense and professional fees for pro bono legal services on the consolidated statement of functional expenses.

For the years ended June 30, the Institute received the following in-kind contributions and donated services:

| | 2023 | 2022 | Usage in Program/Activities | Donor Restrictions | Fair Value Techniques |
|-------------------|------------------|-------------------|--------------------------------|-----------------------|---|
| Legal services | \$ 41,769 | \$ 65,700 | General operations | None | Estimated based on current rates of legal services provided by law firm |
| Furniture | 10,915 | - | General operations | None | Estimated based on current market value of similar furniture |
| Use of facilities | - | 57,236 | Paterson Music Project | None | Estimated based on comparable market rate costs of square footage and size of facilities used |
| | <u>\$ 52,684</u> | <u>\$ 122,936</u> | | | |

Leases

As of July 1, 2022, the Institute determines if an arrangement is or contains a lease at inception. The Institute leases buildings and office equipment which make up the ROU assets and lease liabilities on the consolidated statement of financial position. The ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease terms. Operating lease expenses are recognized on a straight-line basis over the lease terms. The Institute does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease terms. The Institute's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Advertising Costs

The Institute uses advertising to promote its programs among the audiences it services. Advertising expense for the years ended June 30, 2023 and 2022 was \$130,638 and \$93,262.

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

2. Summary of Significant Accounting Policies *(continued)*

Functional Allocation of Expenses

Expenses are charged to each program or supporting services if it is directly related to the program or supporting service. Any expenditures not directly chargeable are allocated among program and supporting services on the basis of percentage of time spent by staff on a particular program or task, square footage, and other criteria as determined by the management of the Institute. Program expenses are those related to the provision of musical education programs. General and administrative expenses relate to the overall administration of the Institute. Fundraising expenses include the allocation of employees' salaries and other costs involved in fundraising and special events based on methods as described above.

Prior Year Summarized Comparative Information

The consolidated 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 US GAAP. Accordingly, such information should be read in conjunction with the Institute's consolidated financial statements as of and for the year ended June 30, 2022, from which the summarized comparative information was derived.

Accounting for Uncertainty in Income Taxes

The Institute recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Institute had no uncertain tax positions that would require financial statement recognition or disclosure. The Institute is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to June 30, 2020.

Measure of Operations

Operations include all revenues and expenses that are integral part of the Institute's programs and supporting activities. The measure of operations excludes Paycheck Protection Program ("PPP") forgiveness as a part of the Coronavirus Aid, Relief and Economic Securities Act ("CARES Act").

Reclassification

Certain amounts in the 2022 consolidated financial statements have been reclassified to conform to the 2023 presentation. The change in net assets is unchanged due to these reclassifications.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which is January 4, 2024

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

3. Pledges Receivable

Pledges receivable at June 30 are as follows:

| | 2023 | 2022 |
|--------------------------------|-----------|-----------|
| Less than one year | \$ 26,583 | \$ 55,883 |
| One to five years | 37,700 | 46,700 |
| Discount for present value | (2,172) | (2,549) |
| Allowance for doubtful pledges | (6,428) | (10,258) |
| | \$ 55,683 | \$ 89,776 |

Pledges receivable with due dates extending beyond one year were discounted using a federal discount rate of 4.13% and 3.01% as of June 30, 2023 and 2022. Uncollectible promises are based on the credit worthiness of the donor.

4. Investments

Investments are stated at fair value, based on quoted market prices, and are comprised of the following as of June 30:

| | 2023 | | | 2022 | | |
|----------------------|----------|-------------------------|----------------------------|----------|-------------------------|----------------------------|
| | Cost | Fair Value (Level 1) | Unrealized Appreciation | Cost | Fair Value (Level 1) | Unrealized Appreciation |
| Mutual Funds - other | \$ 7,848 | \$ 8,872 | \$ 1,024 | \$ 5,739 | \$ 5,876 | \$ 137 |

5. Property and Equipment

Property and equipment at June 30 consists of the following:

| | Estimated Useful Lives | 2023 | 2022 |
|-------------------------------|---------------------------|--------------|--------------|
| Leasehold improvements | 3-11 years | \$ 1,141,476 | \$ 1,085,017 |
| Instruments | 10 years | 283,353 | 283,353 |
| Computer and equipment | 5 years | 27,456 | 27,456 |
| Office equipment | 5 years | 165,254 | 165,254 |
| Furniture and fixtures | 7 years | 160,749 | 160,749 |
| Total Property and Equipment | | 1,778,288 | 1,721,829 |
| Less accumulated depreciation | | 1,630,567 | 1,590,433 |
| Total | | \$ 147,721 | \$ 131,396 |

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

6. Long-term Debt

Loan Payable

On December 11, 2020, the Institute entered into a \$250,000 term loan with a bank which carries a fixed 3.875% rate of interest, and requires monthly payments of \$3,409, with a final balloon payment of \$81,974 due January 1, 2026. The loan is secured by a commercial security interest on all assets of the Institute. As of June 30, 2023 and 2022, the Institute has an outstanding balance of \$168,446 and \$204,760.

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 34,894 |
| 2025 | 36,305 |
| 2026 | 97,247 |
| | <u>\$ 168,446</u> |

Line of Credit

Effective October 18, 2019, the Institute established a \$100,000 line of credit with Peapack-Gladstone Bank, which it can draw upon as needed for general operating purposes. The line of credit has a maturity date of January 18, 2024 and an interest rate equal to the higher of the U.S. prime rate plus 0.500 percentage points, or 5.25% per annum. The interest rate as of June 30, 2023 was 9%. As of June 30, 2023, the Institute has an outstanding balance of \$99,976. There was no outstanding balance on the line at June 30, 2022.

Paycheck Protection Program Loan Payable

On January 31, 2021 the Institute received loan proceeds in the amount of \$388,172 under the Paycheck Protection Program (“PPP”). The PPP was established as part of the Coronavirus Aid, Relief and Economic Securities Act (“CARES Act”). The loan and accrued interest is forgivable after two years as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of forgiveness will be reduced if the borrower terminates employees or reduces salaries during the forgivable loan period. In May 2022, the Small Business Administration (“SBA”) authorized the full forgiveness of the PPP loan and as such, the bank applied the forgiveness to the Institute’s loan account and offset all interest accrued. In accordance with ASC 470, Debt, the income was recognized upon forgiveness with the forgiveness amount recorded as revenue in the 2022 consolidated statement of activities.

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

6. Long-term Debt (continued)

Economic Injury Disaster Loan Payable

On May 28, 2020, the Institute received a \$150,000 Economic Injury Disaster Loan (“EIDL”) authorized by the SBA. EIDL is to be used solely as working capital to alleviate economic injury caused by the coronavirus disaster occurring in January 2020 and still ongoing. Interest accrues at 2.75% annually, and the loan is secured by a lien on all assets of the Institute. Monthly installment payments of \$641, including interest and principal, will begin twenty-four months from the date of the loan, and the balance of interest and principal is payable thirty years from the date of the loan. On August 10, 2021 the loan amount was increased to \$500,000 and remains outstanding as of June 30, 2023 and 2022.

Principal payments on the EIDL Loan are payable as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 17,241 |
| 2025 | 17,241 |
| 2026 | 17,241 |
| 2027 | 17,241 |
| 2028 | 17,241 |
| Thereafter | <u>413,795</u> |
| | <u>\$ 500,000</u> |

7. Net Assets With Donor Restrictions

Net assets with donor restrictions were available for the following purposes at June 30:

| | <u>2023</u> | <u>2022</u> |
|-----------------------------------|-------------------|-------------------|
| Endowment fund | \$ 210,000 | \$ 350,000 |
| Scholarships | 91,691 | 74,711 |
| Time restriction | 42,111 | 73,774 |
| Instruments | 7,484 | 1,507 |
| Outreach - Paterson Music Project | 5,847 | - |
| Capital expenditures | - | 38,000 |
| NJYS | - | 3,292 |
| Performing Arts School | - | 500 |
| | <u>\$ 357,133</u> | <u>\$ 541,784</u> |

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

7. Net Assets With Donor Restrictions (continued)

Net assets released from donor restrictions consisted of following for the years ended June 30:

| | <u>2023</u> | <u>2022</u> |
|-----------------------------------|-------------------|-------------------|
| Outreach - Paterson Music Project | \$ 251,759 | \$ 129,472 |
| General operations | 100,000 | - |
| NJYS | 80,660 | 104,218 |
| Scholarships | 45,000 | 5,000 |
| Capital expenditures | 39,370 | - |
| Time restriction | 33,040 | 52,767 |
| Instruments | 15,653 | 11,419 |
| NJYC | 15,647 | - |
| Performing Arts School | 6,275 | 4,300 |
| Day of Clarity Retreat | - | 3,500 |
| | <u>\$ 587,404</u> | <u>\$ 310,676</u> |

During the fiscal year ended June 30, 2023, a donor informed the Institute that they have re-designated a portion of their contribution to the endowment fund with \$100,000 towards general operations and \$40,000 to scholarships. Accordingly, \$140,000 has been released from the endowment fund during 2023 and is included in the releases above.

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

8. Liquidity and Availability of Resources

The following reflects the Institute's available financial assets, reduced by amounts not available for general use within one year. Amounts not available for use within one year include financial assets received with donor restrictions or Board designations that are designated for a specific purpose, timeline or contractual obligation, and have been earmarked as resources available for future years. Total financial assets available to meet cash needs for general expenditures within one year at June 30 are as follows:

| | <u>2023</u> | <u>2022</u> |
|--|-------------------|-------------------|
| Cash and cash equivalents | \$ 712,874 | 1,439,734 |
| Grant receivable | 20,800 | 48,500 |
| Pledges receivable, net | 55,683 | 89,776 |
| Accounts receivable, net | 14,459 | 37,579 |
| Investments | <u>8,872</u> | <u>5,876</u> |
| Total financial assets | 812,688 | 1,621,465 |
| Less amounts unavailable for general expenditure within one year due: | | |
| Restricted cash - endowment fund | 210,000 | 350,000 |
| Board designated - endowment fund | 235,890 | 235,610 |
| Net assets with donor restrictions | 147,133 | 191,784 |
| Less net assets with time restrictions to be met in less than one year | <u>(24,411)</u> | <u>(53,334)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 244,076</u> | <u>\$ 897,405</u> |

The Institute monitors the availability of resources to meet its operating needs and contractual commitments. As part of its liquidity management, the Institute has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Institute considers all expenditures related to its ongoing missions related activities, as well as services undertaken to support these activities, to be general expenditures.

The Institute is substantially supported by tuition and fees, special events, grants and contracts, and contributions with and without donor restrictions. The timing of cash receipts related to this support significantly impacts the Institute's cash flows. The Institute generally maintains cash available to meet 30 to 60 days' operating expenses. Effective October 18, 2019, the Institute established a \$100,000 line of credit (see Note 6), which serves to provide working capital as needed.

9. Retirement Plan

Employees of the Institute who meet the eligibility requirements may participate in an Internal Revenue Code Section 403(b) retirement savings plan. The plan is funded solely by employee contributions to the plan, pursuant to a salary reduction agreement.

The Wharton Institute for the Performing Arts, Inc. and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2023 and 2022

10. Lease Commitments

As of June 30, 2023, the Institute has numerous operating leases for buildings and office equipment through June 2030. The weighted average remaining lease term for the Institute's operating leases was 5 years and the weighted average discount rate was 2.90%. The ROU assets as of June 30, 2023 was \$1,377,857, net of accumulated amortization of \$272,182. Cash paid for operating leases for the year ended June 30, 2023 was \$290,470.

Future minimum lease payments under non-cancelable leases as of June 30, 2023 are as follows:

| | Operating Leases |
|-------------------------------|---------------------|
| 2024 | \$ 304,653 |
| 2025 | 315,365 |
| 2026 | 322,406 |
| 2027 | 258,729 |
| 2028 | 242,252 |
| Thereafter | 67,200 |
| Total future minimum payments | 1,510,604 |
| Less: imputed interest | (103,735) |
| Total lease liabilities | <u>\$ 1,406,870</u> |

Rental expense was \$315,999 in 2023 and \$328,443 in 2022, exclusive of in-kind contributions.

11. Concentrations

Financial instruments, that potentially subject the Institute to concentrations of credit risk and market risk consist primarily of cash, cash equivalents and restricted cash, and receivables. Deposits held at financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") are insured up to \$250,000. Investment holdings at financial institutions insured by the Securities Investor Protection Corporation ("SIPC") are insured up to \$500,000 (\$250,000 for cash holdings). The Institute maintains cash, cash equivalents and restricted cash at financial institutions which at times during the year may exceed federally insured limits. The Institute has not experienced any losses on its deposits.

As of June 30, 2023, two donors individually represent 31%, and one donor individually represents 16%, of the Institute's total pledges receivable. As of June 30, 2022, one donor individually represents 30%, one donor individually represents 24%, and one additional donor individually represents 32% of total pledges receivable. In 2023, one donor individually represents 11%, and one donor individually represents 10%, and in 2022, one donor individually represents 30% and one donor individually represents 13% of the Institute's total support, which includes contributions, in-kind contributions, special events, and foundation and government grants.

* * * * *